1998-SE-007101

Christopher M. Long
Director
Federal Government Affairs

Enron Corp.
1775 Eye Street, NW, Suite 800
Washington, DC 20006
(202) 466-9158
Fax (202) 828-3372
clong@enron.com

June 9, 1998

The Honorable Lawrence H. Summers
Deputy Secretary of the Treasury
US Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3326
Washington, DC 20220

Dear Mr. Summers:

Enron recently sponsored a BCIU lunch with HE John Evans Atta Mills, Vice President of Ghana, and held a private meeting with the Honorable Fred Ohene Kena, the Minister for Mines and Energy. During these meetings Enron shared its proposal to address the ongoing energy crisis in Ghana.

Enron has been working to establish a gas and power infrastructure project in Ghana in conjunction with the Ghana National Petroleum Corporation (GNPC). Enron has negotiated a letter of intent (LOI) with the Government of Ghana and the GNPC that is ready for immediate signature. Our proposal holds special appeal because it will be internationally financed without resorting to finance guarantees from the Government of Ghana.

It is our understanding that the Government of Ghana is planning to meet this week to review U.S. involvement in correcting the energy shortage. We request your assistance in communicating the importance of U.S. involvement in the Ghana energy sector as part of this review, while also encouraging the Government of Ghana to immediately sign the LOI. The Enron project would provide relief very quickly, and is ready to progress with no financial risk to the Government of Ghana.

Please contact me if you need additional information on the Enron project or our involvement in Ghana. I look forward to working with you on this issue.

Sincerely,

Christopher M. Long

cc: Shannon Ballard, DOC
David Pumphrey, DOE
Steve Lawrence, Enron
Terry Thorn, Enron
Tony Way, Enron
Michelle Whitaker, DOC

Natural gas. Electricity. Endless possibilities.™

1775 Eye Street, N.W., Suite 800
Washington, D.C. 20006

409-5887 (10/97)

Mr. Lawrence H. Summers
Deputy Secretary of the Treasury
Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3326
Washington, DC 20220

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 23, 1998

Christopher M. Long
Director, Federal Government Affairs
Enron Corporation
1775 Eye Street, NW, Suite 800
Washington, DC 20006

Dear Mr. Long:

Deputy Secretary Summers asked me to respond and thank you for your recent letter concerning the energy crisis in Ghana. I agree with you that the US can play a supportive role in ending the shortages as quickly as possible.

Our ambassador in Accra has stressed to the Ghanaian government that they should move forward with energy sector project negotiations or risk losing the interest of US businesses. Furthermore, an Interagency Task Force consisting of staff from the US Department of Energy and US Agency for International Development has been created to coordinate an active US strategy.

The Task Force arrived in Ghana on July 15. They will investigate options for addressing the energy crisis, provide assistance wherever possible, and make recommendations for further collaborative solutions. They will emphasize options that maximize private sector participation, and will recommend expanding and diversifying Ghana's energy resources in a cost-effective and environmentally sustainable way.

Be assured that the Treasury will do everything it can to help improve the investment climate in Ghana and throughout Africa, in the spirit of the President's Africa Initiative.

Sincerely,

DMZelikow

Daniel M. Zelikow
Deputy Assistant Secretary
(Asia, the Americas, and Africa)

1998-SE-013737

Kenneth L. Lay
Chairman and
Chief Executive Officer

Enron Corp.
P. O. Box 1188
Houston, TX 77251-1188
(713) 853-6773
Fax (713) 853-5313
klay@enron.com

December 3, 1998

The Honorable Robert E. Rubin
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Rubin:

The City of Houston was designated as an Enhanced Enterprise Community in 1994 with an emphasis on delivering social services and affordable housing. We have done a good job with this designation and now we would like to be named as an Empowerment Zone.

With the increase in business in the Central Business District (CBD), Houston is making progress in improving its unemployment rates and raising its education levels. Enron has been very active in helping to create jobs in our inner city and we have worked to improve our educational system. We strongly supported the construction of a new baseball stadium and the bond election for our local school district for badly needed facilities. As one of the largest employers in Houston, we support the City's efforts to provide job creation, capital formation, and business assistance.

An Empowerment Zone would be extremely helpful in our efforts to diversify our economic base and to recover from a decline in oil and energy-related industries.

I urge you to approve Houston's application for an Empowerment Zone.

Sincerely,

Ken Lay

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 9, 1999

Mr. Kenneth L. Lay
Chairman and Chief Executive Officer
Enron Corporation
P. O. Box 1188
Houston, TX 77251

Dear Ken:

Thank you for your letter endorsing the City of Houston's Empowerment Zone application. I am pleased to see that private sector businesses are taking such an active role in their community's economic health. Participation of companies such as yours is critical for the economic vitality of our cities.

Once again, thank you for taking the time to write.

Sincerely,

Bob

Robert E. Rubin

Facsimile Cover Sheet

To: The Honorable Lawrence H. Summers
Company: U.S. Department of Treasury
Phone: 202/622-1100
Fax: 202/622-0073

From: Rosalee Fleming for Kenneth L. Lay
Company: Enron Corp.
Phone: 713/853-6088
Fax: 713/853-5313

Date: 10/08/99
Pages including this cover page: 2

Comments:

ENRON

Kenneth L. Lay
Chairman and
Chief Executive Officer

Enron Corp.
P. O. Box 1188
Houston, TX 77251-1188
(713) 853-6773
Fax (713) 853-5313
klay@enron.com

October 8, 1999

The Honorable Lawrence H. Summers
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, D.C. 20220

Dear Larry:

I apologize that we have not been able to connect by telephone over the last 2 or 3 days. It appears that our respective schedules are totally out of sync.

The reason I was calling has to do with a matter that just recently came to my attention. Apparently at a conference of the National Economic Research Association held the week of July 5th this year, Treasury Department assistant general counsel John Yeutter made some comments concerning over-the-counter (OTC) derivatives regulation and Enron which were troubling. He apparently stated that the President's Working Group on Financial Markets in its pending study on Hedge Funds and Derivatives considered OTC derivatives regulation an "open issue", and it may recommend regulation of "otherwise unregulated entities, such as Enron".

As you would expect, we are troubled by being singled out, but even more troubled by the notion that financial regulators may be considering any regulation of OTC dealers, particularly in the energy field, where we believe derivatives are truly customer based risk management tools. Enron believes there is no need for any additional regulation of OTC derivatives dealers in as much as the OTC derivatives markets are functioning very smoothly today and, based on any information we have, there have been no problems in the energy derivatives market that warrant regulation. In fact, we believe that derivative products provide a useful and important risk management tool for our customers and the customers of many other dealers in the energy industry and many other business areas.

Larry, hopefully the comments made by John Yeutter were just a misunderstanding. However, if there is any serious thought of imposing regulation of OTC dealers, we would certainly like to have an opportunity to make our case as to why we think this is not warranted. I would very much appreciate receiving a call or note from you if in fact there is any reason that we should be concerned about this occurring.

I spent some time with Bob Ruben in Shanghai last week and he appears to be doing very well. I must say he looked more relaxed than I have seen him in years.

Warm regards,

Ken

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 22, 1999

Mr. Kenneth L. Lay
Chairman and Chief Executive Officer
Enron Corp.
P.O. Box 1188
Houston, TX 77251-1188

Dear Ken:

Thank you for your letter regarding remarks made by John Yetter, a Treasury Department attorney, at a conference sponsored by National Economic Research Associates, Inc. in July.

I understand that Mr. Yetter's remarks at the conference reflected language contained in the Report of the President's Working Group on Financial Markets, Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management, which was published in April. I am enclosing a copy of the report; the discussion concerning derivatives dealers unaffiliated with a federally regulated entity is found at pages 42 and 43.

Lee Sachs, the Assistant Secretary for Financial Markets, and Mr. Yetter met with several of your colleagues on October 6 at Enron's request to discuss the concerns that you subsequently raised in your letter. I understand that there was some discussion of the fact that the Working Group's report on over-the-counter derivatives would be completed shortly. Mr. Sachs has also informed me that he recently spoke with you on the telephone about your concerns.

The new report, Over-the-Counter Derivatives Markets and the Commodity Exchange Act, was released on November 9. A copy of this report is also enclosed. As discussed at pages 34 and 35 of the report, the Working Group is not recommending legislative action with respect to derivatives dealers that are unaffiliated with a federally regulated entity at this time.

If you have any further questions or concerns, please do not hesitate to contact us.

Sincerely,

Lawrence H. Summers

Enclosure

1999-SE-004434

ENRON, WASHINGTON
TRANSMITTAL SHEET

1775 Eye Street, NW
Suite 800
Washington, DC 20006
202-466-9145
202-827-3372 (fax)
jhillin@enron.com

TO:	The Honorable Robert E. Rubin
FROM:	Joe Hillings
DATE:	5/3/99
RE:	**Enron International Statement on: US-Japan Enhanced Initiative on Deregulation And Competition Policy**

I thought the attached statement from Enron International on US-Japan Enhanced Initiative on Deregulation and Competition Policy would be of interest.

Best regards.

Encl.

FROM: JOE HILLINGS
ENRON CORP.
WASHINGTON, D.C.

Enron International Statement on

US-Japan Enhanced Initiative on Deregulation and Competition Policy

Enron saluted today the government of Japan and the office of the United States trade representative for their progress in their dialogue to deregulate and open the Japanese energy sector to constructive competition. These reforms being discussed should reduce electricity prices, which are among the world's highest, and provide a fundamental boost to Japan's economic recovery. "We regularly see demonstrations of how free and open markets provide lower cost and more innovative services to consumers," said Joseph W. Sutton, chairman and CEO of Enron International. "We applaud this initiative by the governments of Japan and the United States. Clear, transparent, non-discriminatory rules and regulations in the power sector will increase competition to the benefit of all consumers."

Enron is one of the world's leading integrated electricity and natural gas companies. The company, which owns approximately $30 billion in energy related assets, produces electricity and natural gas, develops, constructs and operates energy and water facilities worldwide and delivers physical commodities and risk management and financial services to customers around the world. Enron's Internet address is www.enron.com, and the stock is traded under the ticker symbol, "ENE."

ENRON

1775 Eye Street, N.W., Suite 800
Washington, D.C. 20006

LASER COURIER™

The Honorable Robert E. Rubin
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220

00100000000257

1998-SE-007965

ENRON, WASHINGTON
TRANSMITTAL SHEET

TO:	Enron European Distribution List
FROM:	Joe Hillings
DATE:	July1, 1998
RE:	**Electricity**
cc:	

Please see enclosed information from CNBC "Street Signs" – Interview with Jeff Skilling.

Encl.

Joe Hillings

FROM: JOE HILLINGS
ENRON CORP.
WASHINGTON, D.C.

CNBC- STREET SIGNS
ENRON PRESIDENT AND COO JEFF SKILLING
JUNE 26, 1998

Ron: On the corner of "Wall & Main," power failures across the country. As Mother Nature turns up the heat, several industrial companies have been forced to close their doors because of power shortages and this may just be the beginning. Following years of industry warnings, power suppliers are falling short of energy demands and utilities in the Midwest and now New England are telling customers to cool it on their summer power needs. So what is a power company to do in the face of anticipated heat waves this summer? Joining us now from Enron headquarters is Jeff Skilling, the president and COO at Enron, one of the country's major power suppliers. Mr. Skilling, good to see you, thank you for being with us today.

Skilling: Glad to be here.

Ron: I was in Chicago just a day or so ago, when it was 95 degrees. The heat index was at 105 and the local utility and municipality were both asking consumers to cut down on their air conditioning. Something that seemed like not an unreasonable demand, given what they are facing, but one that was likely to go unheeded. What is happening right now?

Skilling: I think you got it right when you were giving the lead-in a little bit earlier. We have had very hot temperatures in the Midwest. We have a number of big generation facilities that are down right now. And we are coming off of 8 years of high economic growth. All that means that supply is stretched right now.

Ron: Now explain what that means. I mean, people may have a tough time understanding the notion that you are running out of power when there are power plants all over the country. Electricity is not something that just goes away over time. There is more of it somewhere. How come the capacity constraints are bothering the industry right now.

Skilling: You are limited to the capacity of the generation facilities that are in place. There are some regional opportunities and we, and everybody else in the industry, is working very hard right now to get electrons from where there are some left into those markets that really need them. But the grid is not real exact effective, it is hard to move electrons around and we are all trying the best we can to keep the power flowing.

Ron: Where do you find more power?

Skilling: There are parts of the country right now where the temperatures are not real high and where there is surplus generating capacity. The trick, or the challenge, is using our existing transmission grid to get that power from those areas into areas that need it.

Ron: Now you know, were these promises by authorities, you know regulators and others, who suggested that as the utility business became deregulated, it would be far more efficient. Mergers and acquisitions and all kinds of different arrangements and combination would lead to a free flow around the country. We are not there yet, right?

Skilling: Not yet. We are working on it. I would make the argument in the absence of all of these market reforms and deregulation of the wholesale power markets, we would have a lot worse problem than we have right now. The fundamental issue is we have a lot of demand and we have some supply constraints right now and everybody is using these new market mechanisms to try to get electrons into those areas but is a new market. It just takes time to build the capability to do that.

Ron: Is it, in fact, required that power companies in the United States are just going to have to, at some point, engage in a heavy dose of capital spending and expand capacity rather radically here?

Skilling: That's one solution. And I'm sure there will be more of that in the future. The other thing that I think would be very helpful is, if we could open the retail markets to competition so that customers could get a price signal. Right now, all you can really do with the consumer is ask them to shut down or involuntarily curtail them. If on the other hand, they were able to see some of the prices in the marketplace, there are a number of consumers that are right now seeing the very high prices of power in the Midwest, would voluntarily and on good economic justification, reduce consumption or shut down. Right now, we just don't have that ability because the markets are not open to price signals, not open to actual competition.

Ron: All right. Let's talk about how the consumer gets hit by all this. Obviously, reduced availability of power means you have to cut back on air conditioning and other things as the summer remains hot. What about prices though. Are people going to kind of open their eyes a little wider when they see their bill in this environment?

Skilling: Anytime you have this shortfall of supply that you're starting to bring on very expensive facilities to meet the demand, so I would expect that, yes, prices will be a little bit higher as we move through the summer.

Ron: Can you quantify that in any way, shape, or form?

Skilling: It's hard to say right now. It will depend a lot on how this plays out over the next couple of months.

Ron: I know are you not in the business of weather forecasting but there has been so much discussion of El Nino and the coming La Nina, that people are trying to figure out whether this indeed will be a very hot, very humid, very difficult summer around the country. What is the intelligence that you folks are getting on that?

Skilling: We've looked at the weather patterns and I'm not a weather forecaster so I'm going a little out on a limb here. But the pattern so far this year, with the extremely warm winter, suggests that we are in an El Nino cycle. And what is typical is, after a warm winter like we had last year, you tend to have a very hot summer, particularly July and August.

Ron: Any advice for consumers on how to conserve power and use it most effectively while they are waiting for electrons from somewhere else?

Skilling: That's up to everybody to decide for themselves, but fundamentally, what we would like to see or what I think the industry would like to see is, more open competition and more price signals getting through to consumers so that they can make that choice rationally. They can look at what the price is and decide if they want to use electricity or not.

Ron: Under the best of all circumstances, how long will this process take?

Skilling: The deregulation process?

Ron: Yeah.

Skilling: The wholesale markets are pretty much open. And that is a federal jurisdiction, so the federal government has pretty much opened the wholesale markets. When you move to the retail side, that is actual consumption by consumers, that is regulated by the states. And each individual state is on its own timetable. California is open right now. A number of states in the Northeast are in the process of opening up. But we are probably looking at another 3 to 4 years to make that process complete.

Ron: Mr. Skilling, a pleasure. Thank you for joining us today.

ENRON

1775 Eye Street, N. W., Suite 800
Washington, D. C. 20006

Mr. Larry Sommers
Department of State
1500 Pennsylvania Ave., NW
Room 3326
Washington, DC 20220

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Cuban Assets Control Regulations **License No. CU-** [(b)(2)]

LICENSE

(Granted under the authority of 50 U S.C. App. 5(b), 22 U.S.C. 2370(a), 22 U.S.C. 6001-10, Executive Order 9193, Executive Order 9989, Proclamation 3447, and 31 CFR Parts 501 and 515)

To: **Enron Corp.** (the "Licensee")
333 Clay Street
Suite 1600
Houston, TX 77002-7361
Attn: Orlando Puig
Commercial Manager

1. Pursuant to your letter of July 11, 2000, the following transaction(s) is hereby licensed:

* * * * * **SEE REVERSE** * * * * *

2. This license is granted upon the statements and representations made in your application, or otherwise filed with or made to the Treasury Department as a supplement to your application, and is subject to the conditions, among others, that you comply in all respects with all regulations, rulings, orders and instructions issued by the Secretary of the Treasury under the authority cited above and the terms of this license.

3. The licensee shall furnish and make available for inspection any relevant information, records or reports requested by the Secretary of the Treasury or any duly authorized officer or agency of the Secretary.

4. This license expires on **October 31, 2001**, is not transferable, is subject to the provisions of 31 C.F.R. Parts 501 and 515, and any regulations and rulings issued pursuant thereto and may be revoked or modified at any time at the discretion of the Secretary of the Treasury acting directly or through the agency through which the license was issued, or any other agency designated by the Secretary of the Treasury. If this license was issued as a result of willful misrepresentation on the part of the applicant or his duly authorized agent, it may, in the discretion of the Secretary of the Treasury, be declared void from the date of its issuance, or from any other date.

5. This license does not excuse compliance with any law or regulation administered by the Office of Foreign Assets Control or another agency (including reporting requirement) applicable to the transaction(s) herein licensed, nor does it release the Licensee(s) or third parties from civil or criminal liability for violation of any law or regulation.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By [signature] 8/9/00
(Acting) Chief of Licensing

(Attention is directed to 19 U.S.C. 1592 and 1595a, 18 U.S.C. 545, 18 U.S.C. 1001, 50 U.S.C. App. 16, and 31 CFR 515.701 et seq. for provisions relating to penalties.)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Cuban Assets Control Regulations **License No. CU-** [(b)(2)]

LICENSE

(Granted under the authority of 50 U.S.C. App. 5(b), 22 U.S.C. 2370(a), 22 U.S.C. 6001-10, Executive Order 9193, Executive Order 9989, Proclamation 3447, and 31 CFR Parts 501 and 515)

To: **Enron Corp.** (the "Licensee")
333 Clay Street
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3. The licensee shall furnish and make available for inspection any relevant information, records or reports requested by the Secretary of the Treasury or any duly authorized officer or agency of the Secretary.

4. This license expires on **October 31, 2001**, is not transferable, is subject to the provisions of 31 C.F.R. Parts 501 and 515, and any regulations and rulings issued pursuant thereto and may be revoked or modified at any time at the discretion of the Secretary of the Treasury acting directly or through the agency through which the license was issued, or any other agency designated by the Secretary of the Treasury. If this license was issued as a result of willful misrepresentation on the part of the applicant or his duly authorized agent, it may, in the discretion of the Secretary of the Treasury, be declared void from the date of its issuance, or from any other date.

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Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By ______ 8/9/00
(Acting) Chief of Licensing

(Attention is directed to 19 U.S.C. 1592 and 1595a, 18 U.S.C. 545, 18 U.S.C. 1001, 50 U.S.C. App. 16, and 31 CFR 515.701 et seq. for provisions relating to penalties.)

License No. CU-[(b)(2)]
Licensee: Enron Corp.

SECTION 1 - AUTHORIZATIONS: [(b)(4)]

Authority: 31 CFR §§ 515. [(b)(4)] 515.801.

SECTION 2 - CONDITIONS: [(b)(4)]

SECTION 3 - RECORDKEEPING AND REPORTING REQUIREMENTS: [(b)(4)]

SECTION 4 - WARNINGS: (a) Except as authorized in Section 1 above, nothing in this license authorizes persons subject to the jurisdiction of the United States to engage in any transaction or activity prohibited by the regulations.

(b) This license does not authorize any person or entity subject to the jurisdiction of the United States to enter into any binding contract or agreement involving transactions in which Cuba or a national of Cuba has an interest, nor does it imply approval of any future contract or agreement that may result from the travel activities authorized herein. A separate application to the Office of Foreign Assets Control for a specific license is required for this purpose.
xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JUL 19 2000

OFFICE OF FOREIGN ASSETS CONTROL

CORRESPONDENCE ACKNOWLEDGEMENT

Orlando Puig
Enron Caribean Basin
333 Clay Street
Suite 1600
Houston, TX 77002-7361

Tel. 713-345-6336
Fax

LICENSING DIVISION
OFFICE OF FOREIGN ASSETS CONTROL ("OFAC")
U.S. DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, DC 20220

Fax: (202) 622-1657

RE: FAC No. CU- [(b)(2), (b)(7)(c)]

This is to acknowledge receipt of your correspondence dated 07/11/00. Please refer to the FAC number cited above and the date of your original correspondence if you need to contact us or send supplemental information.

Please note that filing an application for a license or requesting information about the transaction prohibitions contained in Executive orders or regulations administered by OFAC does not suspend or excuse compliance with the prohibitions or requirements contained therein.

We look forward to serving you.

Note: Information on sanctions programs administered by OFAC can be retrieved at any time from our automated fax-on-demand system by dialing (202) 622-0077, or from our World Wide Web home page on the internet at www.treas.gov/ofac.

Fax to:

OFFICE OF FOREIGN ASSETS CONTROL
CORRESPONDENCE COVER SHEET

FAC No.: CU- [(b)(2)] Other ref:
Dated: 07/11/00
Received: 07/17/00
Due date:

From: Orlando Puig
Org.: Enron Caribean Basin
Address: 333 Clay Street
Suite 1600
Houston, TX 77002-7361

Cu - [(b)(2)]

Actual Party:
Subject: [(b)(4)]

DISPOSITION	CC	Special: Control	Copy to Director
Initial assignment		Reassign 2	Reassign 3
Director			
Blocked Assets			
Civil Penalties			
Compliance			
Enforcement			
Int'l Programs			
Licensing		[(b)(2)]	
Plans & Policy			
Chief Counsel			
Sr. Advisor			
Stevenson			

Notes:
[(b)(5)]

Disposition: File name/location:	Initials:	Date:

00400000000012

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. IA- [(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE AMENDMENT

(Granted under the authority of 50 U.S.C. §§ 1701-06, 22 U.S.C. § 2349aa-9, Executive Orders 12613, 12957, 12959 and 13059, and 31 C.F.R. Parts 501 and 560.)

To: Enron North America Corp.
(formerly known as Enron Capital & Trade Resources Corp.)
c/o: Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, N.W.
Washington, DC 20004-2415
Attn: Beverly J. Rudy, Esquire

1. Based on the March 31, 2000 letter from Sutherland Asbill & Brennan LLP, on behalf of Enron North America Corp., to the Office of Foreign Assets Control, the expiration date of License No. IA-[(b)(2)] as amended by License No. IA- [(b)(2)] , is hereby extended to May 31, 2001.

2. All other terms, conditions, provisions and limitations of License No. IA- [(b)(2)] as amended by License No. IA- [(b)(2)] are unaffected by the foregoing and remain in force.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By Richard Newcomb 5/16/00
R. Richard Newcomb
Director

Attention is directed to 18 U.S.C. § 1001, 50 U.S.C. § 1705, and 31 C.F.R. § 560.701 for provisions relating to penalties.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. IA- [(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE AMENDMENT

(Granted under the authority of 50 U.S.C. §§ 1701-06, 22 U.S.C. § 2349aa-9, Executive Orders 12613, 12957, 12959 and 13059, and 31 C.F.R. Parts 501 and 560.)

To: Enron North America Corp.
(formerly known as Enron Capital & Trade Resources Corp.)
c/o: Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, N.W.
Washington, DC 20004-2415
Attn: Beverly J. Rudy, Esquire

1. Based on the March 31, 2000 letter from Sutherland Asbill & Brennan LLP, on behalf of Enron North America Corp., to the Office of Foreign Assets Control, the expiration date of License No. IA-[(b)(2)] as amended by License No. IA- [(b)(2)] is hereby extended to May 31, 2001.

2. All other terms, conditions, provisions and limitations of License No. IA-[(b)(2)] as amended by License No. IA- [(b)(2)] are unaffected by the foregoing and remain in force.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

R. RICHARD NEWCOMB

MAY 16 2000

By______________________________
R. Richard Newcomb
Director

Attention is directed to 18 U.S.C. § 1001, 50 U.S.C. § 1705, and 31 C.F.R. § 560.701 for provisions relating to penalties.

[(b)(5)]

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

APR - 5 2000

OFFICE OF FOREIGN ASSETS CONTROL

CORRESPONDENCE ACKNOWLEDGEMENT

Beverly J. Rudy
Sutherland Asbill & Brennan, LLP
1275 Pennsylvania Ave, N.W.

Washington, DC 20004-2415

Tel. 202-383-0100
Fax 202-637-3593

LICENSING DIVISION
OFFICE OF FOREIGN ASSETS CONTROL ("OFAC")
U.S. DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, DC 20220

Fax: (202) 622-1657

RE: FAC No. IA- [(b)(2), (b)(7)]

This is to acknowledge receipt of your correspondence dated 03/31/00. Please refer to the FAC number cited above and the date of your original correspondence if you need to contact us or send supplemental information.

Please note that filing an application for a license or requesting information about the transaction prohibitions contained in Executive orders or regulations administered by OFAC does not suspend or excuse compliance with the prohibitions or requirements contained therein.

We look forward to serving you.

Note: Information on sanctions programs administered by OFAC can be retrieved at any time from our automated fax-on-demand system by dialing (202) 622-0077, or from our World Wide Web home page on the internet at www.treas.gov/ofac.

Fax to:

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. IA- [(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE AMENDMENT

(Granted under the authority of 50 U.S.C. §§ 1701-06, 22 U.S.C. § 2349aa-9, Executive Orders 12613, 12957, 12959, 13059, and 31 C.F.R. Parts 501 and 560.)

To: Enron Capital and Trade Resources Corp.
c/o: Sutherland, Asbill and Brennan, LLP
1725 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2404 Attn: Beverly J. Rudy, Esq.

1. Based on the May 4, 1999 application of Sutherland, Asbill and Brennan, LLP to the Office of Foreign Assets Control and OFAC License No. IA- [(b)(2)] the expiration date of License No. IA- [(b)(2)] is hereby extended to May 31, 2000.

2. All other terms, conditions, limitations, and provisions of License No. IA- [(b)(2)] are unaffected by the foregoing and remain in force.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By Richard Newcomb 5/10/99
R. Richard Newcomb
Director

Attention is directed to 18 U.S.C. § 1001, 50 U.S.C. § 1705, and 31 C.F.R. § 560.701 for provisions relating to penalties.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MAY - 5 1999

OFFICE OF FOREIGN ASSETS CONTROL

CORRESPONDENCE ACKNOWLEDGEMENT

Beverly Rudy
Sutherland, Asbill & Brennan LLP
1275 Pennsylvania Avenue, N.W.

Washington, DC 20004-2415

Tel. 202-383-0100
Fax 202-637-3593

LICENSING DIVISION
OFFICE OF FOREIGN ASSETS CONTROL ("OFAC")
U.S. DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, DC 20220

Fax: (202) 622-1657

RE: FAC No. IR- [(b)(2), (b)(7)(c)] Your ref: [(b)(4)]

This is to acknowledge receipt of your correspondence dated 05/04/99. Please refer to the FAC number cited above and the date of your original correspondence if you need to contact us or send supplemental information.

Please note that filing an application for a license or requesting information about the transaction prohibitions contained in Executive orders or regulations administered by OFAC does not suspend or excuse compliance with the prohibitions or requirements contained therein.

We look forward to serving you.

Note: Information on sanctions programs administered by OFAC can be retrieved at any time from our automated fax-on-demand system by dialing (202) 622-0077, or from our World Wide Web home page on the internet at www.treas.gov/ofac.

Fax to:

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. IA-[(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE

(Granted under the authority of Section 505 of the International Security and Development Cooperation Act of 1985 (22 U.S.C. § 2349aa-9), Section 203 of the U.S. International Emergency Economic Powers Act (50 U.S.C. § 1702), the National Emergencies Act (50 U.S.C. § 1601 et seq.) Executive Orders 12613, 12957, 12959, and 13059, and 31 C.F.R. Parts 501 and 560.)

To: Enron Capital and Trade Resources Corp.
c/o: Sutherland, Asbill and Brennan, LLP
1725 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2404

1. Based on the April 17, 1998 letter to the Office of Foreign Assets Control by Sutherland, Asbill and Brennan, LLP on behalf of Enron Capital and Trade Resources Corp. (the "Application"), 31 C.F.R. § 560 [(b)(4)] and information otherwise available to the Office of Foreign Assets Control regarding the subject thereof, the transaction(s) and activity(ies) delineated on the reverse hereof are hereby authorized.

2. This License is granted upon the statements and representations made in the Application, otherwise filed with or made to the Treasury Department as a supplement to the Application, or based on information available to the Treasury Department, and is subject to the condition, among others, that the Licensee(s) comply in all respects with all regulations, rulings, orders, and instructions issued by the Secretary of the Treasury under the authority of Section 505 of the International Security and Development Cooperation Act of 1985, Section 203 of the U.S. International Emergency Economic Powers Act (50 U.S.C. § 1702), the National Emergencies Act (50 U.S.C. § 1702), and the terms of this License.

3. The Licensee(s) shall furnish and make available for inspection any relevant information, records, or reports requested by the Secretary of the Treasury, or any other duly authorized officer or agency.

4. This License is not transferable, and is subject to the provisions of Executive Orders 12613, 12957, 12959, and any regulations and rulings issued pursuant thereto. It may be revoked or modified at any time at the discretion of the Secretary of the Treasury. If this License was issued as a result of willful misrepresentation on the part of the applicant, it may, at the discretion of the Secretary of the Treasury, be declared void from the date of its issuance, or from any other date.

5. **This License expires May 31, 1999.** it does not excuse compliance with any law or regulation administered by the Office of Foreign Assets Control or another agency (including reporting requirements) applicable to the transaction(s) herein licensed, nor does it release Licensee(s) or third parties from civil or criminal liability for violation of any law or regulation.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By R. Richard Newcomb 5/28/98

R. Richard Newcomb
Director

Attention is directed to, inter alia, 18 U.S.C. § 545, 18 U.S.C. 1001, 19 U.S.C. 1592, and 19 U.S.C. 1595a, 50 U.S.C. § 1705, and 31 C.F.R. Part 560 for provisions relating to penalties.

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

License No. IA- [(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE

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Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

5/28/98

By ____________________
R. Richard Newcomb
Director

Attention is directed to, inter alia, 18 U.S.C. § 545, 18 U.S.C. 1001, 19 U.S.C. 1592, and 19 U.S.C. 1595a, 50 U.S.C. § 1705, and 31 C.F.R. Part 560 for provisions relating to penalties.

00400000000052

SECTION 1 - AUTHORIZATION: Subject to the limitations and conditions herein, this license hereby authorizes Enron Capital and Trade Resources Corp. and all U.S. persons involved in the transactions for which this license has been sought pursuant to the Application to engage in only those transactions necessary to assist or enable [(b)(4)]

SECTION 2 - WARNING: Except as authorized above, nothing in this license authorizes a U.S. person to engage in any transaction prohibited by the Iranian Transactions Regulations, 31 C.F.R. Part 560, or Executive Orders 12613, 12957, 12959, and 13059.

SECTION 3 - RECORDKEEPING REQUIREMENT: In accordance with § 501.601 of 31 C.F.R. Part 501, the licensee(s) hereunder is/are required to keep full and accurate records of all transactions engaged in under this license. Such records shall be made available for examination upon demand for at least 5 years from the date of each transaction. Such records shall clearly demonstrate the applicability of the authorization set forth in § 1 hereof.

SECTION 4 - PRECEDENCE: This license is issued on a nonprecedential basis.
****

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. IA- [(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE

(Granted under the authority of Section 505 of the International Security and Development Cooperation Act of 1985 (22 U.S.C. § 2349aa-9), Section 203 of the U.S. International Emergency Economic Powers Act (50 U.S.C. § 1702), the National Emergencies Act (50 U.S.C. § 1601 et seq.) Executive Orders 12613, 12957, 12959, and 13059, and 31 C.F.R. Parts 501 and 560.)

To: Enron Capital and Trade Resources Corp.
c/o: Sutherland, Asbill and Brennan, L.L.P.
1725 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2404 Attn: Beverly J. Rudy, Esq.

1. Based on the February 20, 1998, letter to the Office of Foreign Assets Control from or on behalf of Enron Capital and Trade Resources Corp. (the "Application"), 31 C.F.R. § 560[(b)(4)]and information otherwise available to the Office of Foreign Assets Control, the transaction(s) and activity(ies) on the reverse hereof are hereby authorized.

2. This license is granted upon the statements and representations made in the Application, otherwise filed with or made to the Treasury Department as a supplement to the Application, or based on information available to the Treasury Department, and is subject to the condition, among others, that the licensee(s) hereunder comply in all respects with all regulations, rulings, orders, and instructions issued by the Secretary of the Treasury under the authority of Section 505 of the International Security and Development Cooperation Act of 1985, Section 203 of the U.S. International Emergency Economic Powers Act (50 U.S.C. § 1702), the National Emergencies Act (50 U.S.C. § 1702), and the terms of this license.

3. The licensee(s) shall furnish and make available for inspection any relevant information, records, or reports requested by the Secretary of the Treasury, or any other duly authorized officer or agency.

4. This license is not transferable, and is subject to the provisions of Executive Orders 12613, 12957, 12959, 13059 and any regulations and rulings issued pursuant thereto. It may be revoked or modified at any time at the discretion of the Secretary of the Treasury. If this License was issued as a result of willful misrepresentation on the part of the applicant, it may, at the discretion of the Secretary of the Treasury, be declared void from the date of its issuance, or from any other date.

5. This license does not excuse compliance with any law or regulation administered by the Office of Foreign Assets Control or another agency (including reporting requirements) applicable to the transaction(s) herein licensed, nor does it release Licensee(s) or third parties from civil or criminal liability for violation of any law or regulation.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By [signature] 2/23/98
R. Richard Newcomb
Director

Attention is directed to, inter alia, 18 U.S.C. § 545, 18 U.S.C. 1001, 19 U.S.C. 1592, and 19 U.S.C. 1595a, 50 U.S.C. § 1705, and 31 C.F.R. Part 560 for provisions relating to penalties.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. IA- [(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE

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Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By [signature] 2/23/98
R. Richard Newcomb
Director

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. IA- [(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE

(Granted under the authority of Section 505 of the International Security and Development Cooperation Act of 1985 (22 U.S.C. § 2349aa-9), Section 203 of the U.S. International Emergency Economic Powers Act (50 U.S.C. § 1702), the National Emergencies Act (50 U.S.C. § 1601 et seq.) Executive Orders 12613, 12957, 12959, and 13059, and 31 C.F.R. Parts 501 and 560.)

To: Enron Capital and Trade Resources Corp.
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1725 Pennsylvania Avenue, N.W.
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5. This license does not excuse compliance with any law or regulation administered by the Office of Foreign Assets Control or another agency (including reporting requirements) applicable to the transaction(s) herein licensed, nor does it release Licensee(s) or third parties from civil or criminal liability for violation of any law or regulation.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By_______________________________
R. Richard Newcomb
Director

Attention is directed to, inter alia, 18 U.S.C. § 545, 18 U.S.C. 1001, 19 U.S.C. 1592, and 19 U.S.C. 1595a, 50 U.S.C. § 1705, and 31 C.F.R. Part 560 for provisions relating to penalties.

[(b)(5)]

SECTION 1 - AUTHORIZATION: This license authorizes Enron Capital and Trade Resources Corporation and all other U.S. persons involved in the transactions for which this license is sought (collectively, "Enron"), to engage in all transactions necessary to enable [(b)(4)]

SECTION 2 - WARNING: Except as authorized above, nothing in this license authorizes a U.S. person to engage in any transaction prohibited by the Iranian Transactions Regulations, 31 C.F.R. Part 560, or Executive Orders 12613, 12957, 12959, and 13059.

SECTION 3 - RECORDKEEPING REQUIREMENT: In accordance with § 560.601 of 31 C.F.R. Part 560, the licensee(s) hereunder is/are required to keep full and accurate records of all transactions engaged in under this license. Such records shall be made available for examination upon demand for at least 5 years from the date of each transaction. Such records shall clearly demonstrate the applicability of the authorization set forth in § 1 hereof.

SECTION 4 - PRECEDENCE: This license is issued on a nonprecedential basis.
****

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. IA-[(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE

(Granted under the authority of 50 U.S.C. §§ 1701-06, 22 U.S.C. § 2349aa-9, Executive Orders 12613, 12957, 12959, 31 C.F.R. parts 501 and 560, and Executive Order 13059.)

To: Enron Capital and Trade Resources Corporation
c/o: Sutherland, Asbill and Brennan, LLP
1725 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2404 Attn: Beverly J. Rudy, Esq.

1. Based on a November 17, 1998 letter to the Office of Foreign Assets Control from the firm of Sutherland, Asbill, and Brennan, LLP (the "Application"), and information otherwise available to the Office of Foreign Assets Control regarding the subject of the Application, the transactions delineated on the reverse hereof, and if any, the page(s) attached hereto are hereby authorized.

2. This License is granted upon the statements and representations made in the Application, otherwise filed with or made to the Treasury Department as a supplement to the Application, or based on information available to the Treasury Department, and is subject to the condition, among others, that the Licensee(s) comply in all respects with all regulations, rulings, orders, and instructions issued by the Secretary of the Treasury under the authority of Section 505 of the International Security and Development Cooperation Act of 1985, Section 203 of the U.S. International Emergency Economic Powers Act (50 U.S.C. § 1702), the National Emergencies Act (50 U.S.C. § 1702), and the terms of this License.

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5. This License does not excuse compliance with any law or regulation administered by the Office of Foreign Assets Control or another agency (including reporting requirements) applicable to the transaction(s) herein licensed, nor does it release Licensee(s) or third parties from civil or criminal liability for violation of any law or regulation.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By Richard Newcomb 3/26/99
R. Richard Newcomb
Director

Attention is directed to 18 U.S.C. § 1001, 50 U.S.C. § 1705, and 31 C.F.R. § 560.701 for provisions relating to penalties.

SECTION 1 - AUTHORIZATION: Subject to the limitations and conditions herein, this license hereby authorizes Enron Capital and Trade Resources Corporation and all U.S. persons involved in the transactions for which this license has been sought pursuant to the Application to engage in only those transactions necessary to assist or enable [(b)(4)]

SECTION 2 - WARNING: Except as authorized above, nothing in this license authorizes a U.S. person to engage in any transaction prohibited by the Iranian Transactions Regulations, 31 C.F.R. Part 560, or Executive Orders 12613, 12957, 12959, and 13059.

SECTION 3 - RECORDKEEPING REQUIREMENT: As a condition of this license and in accordance with 31 C.F.R. Part 501, the licensee(s) hereunder is/are required to keep full and accurate records of all transactions engaged in under this license. Such records shall be made available for examination upon demand for at least 5 years from the date of each transaction. Such records shall clearly demonstrate the applicability of the authorization set forth in § 1 hereof.

SECTION 4 - PRECEDENCE: This license is issued on a nonprecedential basis.
****

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

NOV 20 1998

OFFICE OF FOREIGN ASSETS CONTROL
CORRESPONDENCE ACKNOWLEDGEMENT, Page 1 of 1

Rudy, Beverly J.
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue,

Washington, DC 20004-2415

Tel.
Fax 202/637/3593

LICENSING DIVISION
OFFICE OF FOREIGN ASSETS CONTROL ("OFAC")
U.S. DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, DC 20220

Fax: (202) 622-1657

RE: FAC No. IA-[(b)(2), (b)(7)(c)]

This is to acknowledge receipt of your correspondence dated 11/17/98 . Generally, it is the practice of this Office to process all similar applications and inquiries in the order of their receipt.

Please refer to the date of your original correspondence and FAC No. cited above if you need to contact us or send supplemental information. We look forward to serving you.

Note: Information on sanctions programs administered by OFAC can be retrieved from our automated fax-on-demand system by dialing (202) 622-0077, 24 hours a day, or through our World Wide Web home page, www.ustreas.gov/treasury/services/fac/fac.html.

Fax to: 202/637/3593

OFFICE OF FOREIGN ASSETS CONTROL

CORRESPONDENCE COVER SHEET

FAC No.: IA- [(b)(2)]　　Other ref:
Dated: 11/17/98
Received: 11/20/98
Due date:

From: Rudy, Beverly J.
Org.: Sutherland Asbill & Brennan LLP
Address: 1275 Pennsylvania Ave.

Washington, DC 20004
Actual Party: Enron Capital & Trade Resources Corp
Subject: [(b)(4)]

DISPOSITION	CC	Special: Control	Copy to Director
Initial assignment		Reassign 2	Reassign 3
Director			
Blocked Assets			
Civil Penalties			
Compliance			
Enforcement			
Int'l Programs			
Licensing		[(b)(7)(c)]	
Plans & Policy			
Chief Counsel			
Erhard			
Stevenson			

Notes:

Disposition:	File name/location:	Initials:	Date:

00400000000093

Exhibit 1

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. IA- [(b)(2)]

IRANIAN TRANSACTIONS REGULATIONS

LICENSE

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To: Enron Capital and Trade Resources Corp.
c/o: Sutherland, Asbill and Brennan, LLP
1725 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2404

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5. **This License expires May 31, 1999**, it does not excuse compliance with any law or regulation administered by the Office of Foreign Assets Control or another agency (including reporting requirements) applicable to the transaction(s) herein licensed, nor does it release Licensee(s) or third parties from civil or criminal liability for violation of any law or regulation.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By R. Richard Newcomb 5/28/98

R. Richard Newcomb
Director

Attention is directed to, inter alia, 18 U.S.C. § 545, 18 U.S.C. 1001, 19 U.S.C. 1592, and 19 U.S.C. 1595a, 50 U.S.C. § 1705, and 31 C.F.R. Part 560 for provisions relating to penalties.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFAC No. YK- [(b)(2)]

Enron Corporation
Suite 800
1775 Eye Street, NW
Washington, DC 20006

Att: Thomas C. Briggs
Vice President, Government Affairs

Dear Mr. Briggs:

This is with regard to your letter of December 4, 2000 to the Office of Foreign Assets Control ("OFAC"), in which you requested clarification of the scope of OFAC License No. YK-[(b)(2)] In your letter you advised that Enron Corporation also sought OFAC authorization to provide [(b)(4)] to the Federal Republic of Yugoslavia (Serbia and Montenegro) (the "FRY(S&M)").

Please be advised that Executive Order 13192 of January 17, 2001, which became effective on January 19, 2001, amended Executive Order 13088 of June 9, 1998 to lift in most situations and modify in others the economic sanctions imposed against the FRY(S&M). Consequently, an OFAC license is not presently required for Enron Corporation to engage in the activities described in OFAC License No. YK-[(b)(2)] or in those activities described above.

Please note, however, that Executive Order 13192 imposes restrictions on transactions with certain persons described in Section 1(a) of the order. It also requires the continued blocking of property or interests in property blocked prior to the order's effective date. Consequently, OFAC licenses are required for any transactions Enron Corporation may undertake involving any blocked persons or blocked property as described in Executive Order 13192 and for any transactions involving previously blocked property. If you have any questions concerning the scope of these restrictions please contact OFAC Licensing Division at (202)622-2480. In addition, you should consult with other agencies of the U.S. Government, such as the Department of Commerce, Bureau of Export Administration, and the Department of State, Office of Defense Trade Controls concerning any remaining restrictions that might apply to exports to the FRY(S&M).

A summary of OFAC restrictions concerning the FRY(S&M), which includes the text of Executive Order 13192, is enclosed.

Sincerely,

FEB 20 2001

(Acting) Chief of Licensing
Office of Foreign Assets Control

Enclosure

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. YK- [(b)(2)]

FEDERAL REPUBLIC OF YUGOSLAVIA (SERBIA AND MONTENEGRO) KOSOVO SANCTIONS REGULATIONS
LICENSE

(Granted under the authority of § 203 of the International Emergency Economic Powers Act [50 U.S.C. § 1702], Executive Order 13088, 31 C.F.R. Parts 501 and 586, and Executive Order 13121.

To: **Enron Corporation (the "Licensee")**
1775 I Street NW
Suite 800
Washington, DC 20006 Att: Thomas C. Briggs VP, Government Affairs

1. Based on your letter of November 10, 2000 (the "Application") and on information otherwise available to the Office of Foreign Assets Control, the transactions and activities delineated on the reverse hereof are hereby authorized.

2. This License is granted upon the statements and representations made in the Application, otherwise filed with or made to the Treasury Department as a supplement to the Application, or based on information available to the Treasury Department, and is subject to the condition, among others, that the Licensee comply in all respects with all regulations, rulings, orders, and instructions issued by the Secretary of the Treasury under the authority of Section 203 of the International Emergency Economic Powers Act, 50 U.S.C. § 1702, and the terms of this License.

3. The Licensee shall furnish and make available for inspection any relevant information, records, or reports requested by the Secretary of the Treasury, or any other duly authorized officer or agency.

4. This License is not transferable, and is subject to the provisions of Executive Order 13088 of June 9, 1998, 31 C.F.R. Parts 501 and 586, Executive Order 13121 of April 30, 1999, and rulings issued pursuant thereto. It may be revoked or modified at any time at the discretion of the Secretary of the Treasury. If this License was issued as a result of willful misrepresentation on the part of the applicant, it may, at the discretion of the Secretary of the Treasury, be declared void from the date of its issuance, or from any other date.

5. This License does not excuse compliance with any law or regulation administered by the Office of Foreign Assets Control or another agency (including reporting requirements) applicable to the transaction(s) herein licensed, nor does it release Licensee or third parties from civil or criminal liability for violation of any law or regulation.

Issued by direction and on behalf of the Secretary of the Treasury:

OFFICE OF FOREIGN ASSETS CONTROL

By Richard Newcomb 12/1/00

R. Richard Newcomb
Director

Attention is directed to, inter alia, 50 U.S.C. § 1705, 18 U.S.C. § 545, 18 U.S.C. § 1001, 18 U.S.C. § 3571, 19 U.S.C. § 1592, 19 U.S.C. § 1595a, 28 U.S.C. § 2461 note, and 31 C.F.R. § 586.701 for provisions relating to penalties.

SECTION 1 - AUTHORIZATION: The Licensee and its U.S. affiliates, as well as U.S. persons who are employed by the Licensee, Enron Capital & Trade Resources, Ltd. ("ECTRL"), or other affiliates of Licensee, are hereby authorized to [(b)(4)]

SECTION 2 - REPORTING AND RECORDKEEPING REQUIREMENTS: The Licensee is subject to the recordkeeping and reporting requirements of, *inter alia*, 31 C.F.R. §§ 501.601 and 501.602, including the requirement to maintain records concerning the transactions undertaken pursuant to this License for a period of at least five years.

SECTION 3 - PRECEDENCE: This license is issued on a non-precedential basis.

....

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

License No. YK- [(b)(2)]

FEDERAL REPUBLIC OF YUGOSLAVIA (SERBIA AND MONTENEGRO) KOSOVO SANCTIONS REGULATIONS
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To: Enron Corporation (the "Licensee")
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Suite 800
Washington, DC 20006 Att: Thomas C. Briggs VP, Government Affairs

1. Based on your letter of October 18, 2000 (the "Application") and on information otherwise available to the Office of Foreign Assets Control, the transactions and activities delineated on the reverse hereof are hereby authorized.

2. This License is granted upon the statements and representations made in the Application, otherwise filed with or made to the Treasury Department as a supplement to the Application, or based on information available to the Treasury Department, and is subject to the condition, among others, that the Licensee comply in all respects with all regulations, rulings, orders, and instructions issued by the Secretary of the Treasury under the authority of Section 203 of the International Emergency Economic Powers Act, 50 U.S.C. § 1702, and the terms of this License.

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5. This License does not excuse compliance with any law or regulation administered by the Office of Foreign Assets Control or another agency (including reporting requirements) applicable to the transaction(s) herein licensed, nor does it release Licensee or third parties from civil or criminal liability for violation of any law or regulation.

Issued by direction and on behalf of the Secretary of the Treasury:
OFFICE OF FOREIGN ASSETS CONTROL

By [signature] 10/24/00
R. Richard Newcomb
Director

Attention is directed to, <u>inter alia</u>, 50 U.S.C. § 1705, 18 U.S.C. § 545, 18 U.S.C. § 1001, 18 U.S.C. § 3571, 19 U.S.C. § 1592, 19 U.S.C. § 1595a, 28 U.S.C. § 2461 note, and 31 C.F.R. § 586.701 for provisions relating to penalties.

SECTION 1 - AUTHORIZATION: All transactions are hereby authorized to enable the Licensee and its U.S. affiliates, including certain employees who are U.S. persons, to participate in transactions by Enron Capital & Trade Resources, Ltd. relating to [(b)(4)]

SECTION 2 - REPORTING AND RECORDKEEPING REQUIREMENTS: The Licensee is subject to the recordkeeping and reporting requirements of, *inter alia*, 31 C.F.R. §§ 501.601 and 501.602, including the requirement to maintain records concerning the transactions undertaken pursuant to this License for a period of at least five years.

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[(b)(2)]

DEPARTMENT OF THE TREASURY
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FEDERAL REPUBLIC OF YUGOSLAVIA (SERBIA AND MONTENEGRO) KOSOVO SANCTIONS REGULATIONS

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By [signature] 10/24/00
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YK-[(b)(2)](FAC No. YK-[(b)(2)])

NOTE TO FILE: ***THE APPLICANT HAS ASKED FOR A RESPONSE NO LATER THAT OCTOBER 24, 2000.***

This is a request for a license authorizing U.S. employees and U.S. affiliates of Enron Corp. to assist Enron's UK subsidiary in the purchase and sale of [(b)(4)]

No license would be required if the work was to be done entirely by the UK subsidiary and its staff. It is represented, however, that the assistance of the U.S. personnel and the U.S. affiliates is required.

[(b)(5)]

.1

BRIEFING

MEMORANDUM FOR DEPUTY SECRETARY EIZENSTAT

FROM: Timothy F. Geithner
Under Secretary (International Affairs)

SUBJECT: Talking Points For Call From OPIC President Munoz
(September 14, 2000)

[(b)(5); outside scope]

[(b)(5); outside scope]

[(b)(5); outside scope]

Drafted By Gchristopulos/ITI

Reviewed By: DLucich/IT
JWallace/ITI
GSampliner/GCI

Rao, Geetha

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

Dabhol PPA - DC Talking Points ...

Geetha,

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

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

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

We look forward to meeting you tomorrow.

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

Dabhol Power Company
January 10, 2001

Events

- The State of Maharashtra Chief Minister Deshmukh announced during the winter session of the State Legislature that Phase II of the Dabhol Project was to be reviewed. Allegations were made that the high Dabhol tariff was the cause of the Maharashtra State Electricity Board's (MSEB) financial difficulties.

- The Government of Maharashtra (GOM) will appoint a committee of experts to reexamine the Dabhol Power Purchase Agreement, a 20-year PPA to the single buyer MSEB.

- MSEB is currently in arrears for the Dabhol November bill in the amount of Rs 148 Crores (1,480,000,000 Rupees).

- Phase II of the Dabhol project is 80% complete, with 95% of the equipment on site and $400 MM remaining to be disbursed out of $2.6 billion.

Facts About Dabhol

- By providing 2184 MW gas fired power plant, built to international standards with related gas facilities, DPC is creating substantial opportunities for the development of a modern industrial corridor in south central Maharashtra

- So far, Dabhol has contributed over Rs 1600 crore to the national and state exchequers and has brought in Foreign Direct Investment of over Rs 10,000 crore ($2.5 billion) into the country

- In building the facilities, DPC has provided valuable employment to area residents. DPC contractors on the site currently employ approximately 15,000 workers. A hospital, school and other community services have been provided to area residents by DPC

Issues

Expert Committee. DPC will cooperate with the GOM-appointed Expert Committee. That does not mean, however, that the PPA will automatically be renegotiated. To allow the time for such review, three things must happen: (i) DPC must continue to fulfill is generation obligations under the PPA; (ii) MSEB must pay the money owed to DPC; and (iii) the project lenders must continue to disburse funds to finish Phase II of the project.

Cause of MSEB Financial Difficulties. Dabhol is not the cause of MSEB's financial difficulties. Those difficulties are due to a number of factors, among them:

- The need for meters to measure electricity distributed to end users.
- The high rate of losses. MSEB currently has approximately 30% losses, a large part of which is due to theft.
- The State's continuing to grant subsidies on a political basis and not compensating MSEB therefor.
- The State's not allowing MSEB to disconnect nonpaying customers.
- The large cross subsidies built into the tariff structure.

Power Shortage. India is in need of power. The Minister of Power has recently stated that India needs 10,000 MW of new generation. (The state of Maharashtra itself faces a continuing shortage of power (approx. 2000 MW) resulting in large areas facing load shedding and blackouts.)

Foreign Direct Investment. Because India lacks the funds to construct needed power infrastructure, foreign direct investment is needed. Failure to honor contractual commitments or to respect the sanctity of contracts will serve to discourage such investment.

Distribution Reform. The long term solution is to institute reforms quickly. Reforms that are particularly pertinent to the financial distress suffered by the SEBs are:

- State Electricity Boards must be unbundled into three business units (generation, transmission and distribution) and be made accountable for their performance via corporatisation.
- Professional management teams rather than bureaucrats must run the power sector companies.
- Improvements to the infrastructure are critical. Losses cannot be reduced until electricity is metered, those using power properly billed, the funds billed properly collected, customers disconnected for nonpayment, and those responsible for theft of power prosecuted.
- The State must allow MSEB to run its business in a professional manner rather than as a political vehicle. Thus, subsidies must not be granted unless the government is willing to pay for them.
- Finally, the tariff structure must be rationalised so that the costs of distribution of power to the various customer classes are reflected in the tariffs.

The Dabhol Tariff. The tariff is not an absolute number but is a formula. The tariff at which DPC power is sold to MSEB is comprised of two cost factors, a fixed capacity charge and a variable energy charge. The per unit cost of DPC power, in turn, depends on the quantity of power actually drawn by the MSEB, prevailing international crude oil prices, and the rupee/dollar exchange rate. Depending on fluctuations in these variables, the tariff can go either up or down. A more representative way of judging tariff is on an annual average.

From May 1999 to October 2000, MSEB's off-take from DPC was an average of 60 %, resulting in an average tariff of Rs. 4.94. If during that period the off-take had been 90 %, the average tariff would have been Rs. 4.02. Looking ahead, the recent drop in international fuel prices (which affects the price of naphtha) will result in a decrease in the tariff. With the commissioning of the second phase of the project by end 2001, when Liquefied Natural Gas (LNG) is used as fuel, the tariff will be further reduced another 20-25% (assuming 90% off-take, prevailing foreign exchange rates and international fuel cost remaining within $21-28.)

It is not true that the tariff was Rs. 28 per unit during last summer. Rather, a Rs 7.80 figure was recorded for the monthly cycle bill of July 2000 – a figure based on a low dispatch level of 33 %, naphtha price of $ 306/MT and at an exchange rate of Rs. 45.35 per dollar. On the other hand, had MSEB dispatched DPC at 90% during the same period, other factors remaining identical, the tariff would have worked out to Rs. 4.31 per unit. (Capacity charge Rs.1.88 plus energy charge Rs. 2.43).

Financing

Costs. Total project cost is $3 billion (Phase I $1.1 billion; Phase II $1.9 billion).

Total Debt. Total project debt is $2 billion (Phase I $600 million; Phase II $1.4 billion).

Indian Debt. Of the $2 billion project debt, $1.2 billion is Indian debt, consisting of direct loans and guarantees. (Because the Japanese, U.S. and Belgium Exim Banks take no direct risk, the Indian banks guaranteed their loans.)

Other Foreign Government Lenders. Japanese Exim Bank; Belgium Credit Agency, U.S. Exim Bank, and Opic, the latter also providing political risk insurance to shareholders.

Other Lenders. 40 other international banks are involved in the loans for the Dabhol project.

Fuel Supply. Both the Oman and Abu Dahbi governments are involved in providing fuel to Dabhol. The Oman facilities are 60 percent owned by the Government and 30 percent owned by Shell.

LNG Tanker. The tanker is owned by Shipping Company of India, Mitsui and 15 percent by Enron.

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this Prospectus or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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Enron Oil & Gas Company

Common Stock
(par value $.01 per share)

PROSPECTUS

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this Prospectus or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Enron since the date hereof or the information contained herein is correct as of any time subsequent to its date.

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10,000,000 Exchangeable Notes

ENRON CORP

% Exchangeable Notes due , 1998

Goldman, Sachs & Co.

Merrill Lynch & Co.

Salomon Brothers Inc

Representatives of the Underwriters

10,000,000 Exchangeable Notes

ENRON CORP

6¼% Exchangeable Notes due December 13, 1998

(Subject to Exchange into Shares of Common Stock, Par Value $.01 Per Share, of Enron Oil & Gas Company)

The principal amount of each of the 6¼% Exchangeable Notes due December 13, 1998 (the "Exchangeable Notes") of Enron Corp. ("Enron") being offered hereby (the "Exchangeable Notes Offering") is $21.75 (the public offering price of the common stock, par value $.01 per share (the "Common Stock"), of Enron Oil & Gas Company ("EOG") in the concurrent Stock Offerings referred to below) (the "Initial Price"). The Exchangeable Notes will mature on December 13, 1998. Interest on the Exchangeable Notes, at the rate of 6¼% of the principal amount per annum, is payable quarterly in arrears on January 31, April 30, July 31, and October 31, beginning January 31, 1996. The Exchangeable Notes are not subject to redemption, defeasance or any sinking fund prior to maturity.

At maturity, including as a result of acceleration or otherwise ("Maturity"), each Exchangeable Note will be mandatorily exchanged by Enron into a number of shares of EOG Common Stock (or, at Enron's option, which may be exercised with respect to all, but not less than all, outstanding Exchangeable Notes, cash with an equal value) at the Exchange Rate. The Exchange Rate is equal to, subject to certain adjustments, (a) if the Maturity Price is greater than or equal to $26.32 per share of EOG Common Stock (the "Threshold Appreciation Price"), .8264 shares of EOG Common Stock per Exchangeable Note, (b) if the Maturity Price is less than the Threshold Appreciation Price but is greater than the Initial Price, a fractional share of EOG Common Stock per Exchangeable Note so that the value thereof, determined at the Maturity Price, equals the Initial Price and (c) if the Maturity Price is less than or equal to the Initial Price, one share of EOG Common Stock per Exchangeable Note. The "Maturity Price" means the average Closing Price (as defined herein) per share of EOG Common Stock for the 20 Trading Days (as defined herein) immediately prior to Maturity. Accordingly, the amount received upon exchange may be less than the principal amount of the Exchangeable Note, in which case an investment in the Exchangeable Notes will result in a loss. The Exchangeable Notes will be unsecured obligations of Enron ranking *pari passu* with all of its other unsecured and unsubordinated indebtedness. At September 30, 1995, Enron had $2.32 billion of outstanding debt which is *pari passu* to the Exchangeable Notes and its subsidiaries had $755 million of outstanding debt ($246 million of the subsidiaries' outstanding debt is guaranteed by Enron). The right of Enron, and hence the right of creditors of Enron (including the holders of the Exchangeable Notes), to participate in any distribution of assets of any subsidiary of Enron upon its liquidation or reorganization will be subject to the prior claims of creditors of such subsidiary, except to the extent that the claims of Enron itself as a creditor of such subsidiary may be recognized. See "Capitalization". Enron may only exercise its option to pay outstanding Exchangeable Notes in cash from the proceeds of its sale of Enron common stock. EOG will have no obligations with respect to the Exchangeable Notes. See "Description of the Exchangeable Notes".

Concurrently with the Exchangeable Notes Offering, Enron is offering 27,000,000 shares of EOG Common Stock (31,050,000 shares if the Underwriters' over-allotment options are exercised in full in such offerings) in concurrent U.S. and international offerings (collectively, the "Stock Offerings"). The consummation of the Exchangeable Notes Offering is not contingent upon the consummation of the Stock Offerings or vice versa. Assuming the Underwriters' over-allotment options in the Exchangeable Notes Offering and the Stock Offerings are exercised in full and the maximum number of shares of EOG Common Stock is delivered upon mandatory exchange of the Exchangeable Notes at Maturity, Enron, which currently owns 80% of the outstanding shares of EOG Common Stock, would own approximately 54% of the outstanding EOG Common Stock.

Attached hereto as Appendix A and included as part of this Prospectus is a prospectus of EOG covering the shares of EOG Common Stock which may be received by a holder of Exchangeable Notes at Maturity. The EOG prospectus relates to an aggregate of 11,000,000 shares of EOG Common Stock.

For a discussion of certain United States federal income tax consequences for holders of Exchangeable Notes, see "Certain United States Federal Income Tax Considerations".

The Exchangeable Notes have been approved for listing on the New York Stock Exchange ("NYSE") under the symbol "EXG", subject to official notice of issuance. EOG Common Stock (including the shares which may be received by a holder of Exchangeable Notes at Maturity) is listed on the NYSE under the symbol "EOG".

Prospective investors are advised to consider carefully the information contained under "Risk Factors Relating to Exchangeable Notes" beginning on page 5.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Initial Public Offering Price(1)	Underwriting Discount(2)	Proceeds to Enron(1)(3)
Per Exchangeable Note	$21.75	$.66	$21.09
Total (4)	$217,500,000	$6,600,000	$210,900,000

(1) Plus accrued interest, if any, from December 13, 1995.
(2) Enron and EOG have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.
(3) Before deducting expenses payable by Enron, estimated to be $425,000.
(4) Enron has granted the Underwriters an option for 30 days to purchase up to an additional 1,000,000 Exchangeable Notes at the initial public offering price, less the underwriting discount, solely to cover over-allotments. If such over-allotment option is exercised in full, the total initial public offering price, underwriting discount and proceeds to Enron will be $239,250,000, $7,260,000 and $231,990,000, respectively. See "Underwriting".

The Exchangeable Notes offered hereby are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them, and subject to their right to reject any order in whole or in part. It is expected that the Exchangeable Notes will be ready for delivery in New York, New York, on or about December 13, 1995.

Goldman, Sachs & Co.

Merrill Lynch & Co.

Salomon Brothers Inc

The date of this Prospectus is December 8, 1995.

AVAILABLE INFORMATION

Enron, a Delaware corporation, is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; and at the following Regional Offices of the Commission: Midwest Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511; and Northeast Regional Office, Seven World Trade Center, Suite 1300, New York, New York 10048. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. Enron's Common Stock and Cumulative Second Preferred Convertible Stock are listed on the New York and Midwest Stock Exchanges, and Enron's Common Stock is also listed on the Pacific Stock Exchange. Reports, proxy statements and other information concerning Enron can be inspected and copied at the respective offices of these exchanges at 20 Broad Street, New York, New York 10005; 120 South LaSalle Street, Chicago, Illinois 60603; and 301 Pine Street, San Francisco, California 94014.

This Prospectus constitutes a part of a Registration Statement on Form S-3 (together with all amendments and exhibits thereto, the "Registration Statement") filed with the Commission under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Exchangeable Notes. This Prospectus does not contain all of the information set forth in such Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. Reference is made to such Registration Statement and to the exhibits relating thereto for further information with respect to Enron and the Exchangeable Notes. Any statements contained herein concerning the provisions of any document filed as an exhibit to the Registration Statement or otherwise filed with the Commission or incorporated by reference herein are not necessarily complete, and in each instance reference is made to the copy of such document so filed for a more complete description of the matter involved. Each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the Commission by Enron (File No. 1-3423) pursuant to Section 13(a) of the Exchange Act are incorporated herein by reference:

(a) Annual Report on Form 10-K for the year ended December 31, 1994;
(b) Quarterly Report on Form 10-Q for the quarter ended March 31, 1995;
(c) Quarterly Report on Form 10-Q for the quarter ended June 30, 1995; and
(d) Quarterly Report on Form 10-Q for the quarter ended September 30, 1995

Each document filed by Enron pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the Exchangeable Notes pursuant hereto shall be deemed to be incorporated herein by reference and to be a part hereof from the date of filing of such document. Any statement contained herein or in a document all or a portion of which is incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Enron will provide without charge to each person to whom a copy of this Prospectus is delivered, on the request of any such person, a copy of any or all of the foregoing documents incorporated herein by reference other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into the documents that this Prospectus incorporates). Requests should be directed to Secretary Division, Enron Corp., at its principal executive offices, 1400 Smith Street, Houston, Texas 77002 (telephone: 713-853-6161).

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE EXCHANGEABLE NOTES OR THE EOG COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following is a summary of certain information contained in this Prospectus. It is not intended to be complete and is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus. Capitalized terms which are not defined in this summary are used as defined elsewhere in this Prospectus.

Enron Corp.

Enron, organized in 1930, is an integrated natural gas company with headquarters in Houston, Texas. Essentially all of Enron's operations are conducted through its subsidiaries and affiliates which are principally engaged in the gathering, transportation and wholesale marketing of natural gas to markets throughout the United States and internationally through approximately 44,000 miles of natural gas pipelines; the exploration for and production of natural gas and crude oil in the United States and internationally; the production, purchase, transportation and worldwide marketing of natural gas liquids and refined petroleum products; the independent (i.e., non-utility) development, promotion, construction and operation of power plants, natural gas liquids facilities and pipelines in the United States and internationally; and the non-price regulated purchasing and marketing of energy related commitments.

Enron Oil & Gas Company

EOG, together with its subsidiaries, is one of the largest independent (non-integrated) oil and gas companies in the United States in terms of domestic proved reserves. It is engaged, directly and through its subsidiaries, in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in major producing basins in the United States, as well as in Canáda, Trinidad and India, and to a lesser extent, selected other international areas.

The Exchangeable Notes Offering

Exchangeable Notes Offered	10,000,000 Exchangeable Notes.
Principal Amount	$21.75 per Exchangeable Note.
Stated Maturity	December 13, 1998.
Interest Rate	6¼% per annum, or $.34 per Exchangeable Note per quarter, payable quarterly in arrears.
Interest Payment Dates	January 31, April 30, July 31, and October 31, beginning January 31, 1996.
Exchange at Maturity	At Maturity, the principal amount of each Exchangeable Note will be mandatorily exchanged by Enron into a number of shares of EOG Common Stock (or, at Enron's option, which may be exercised with respect to all, but not less than all, of the outstanding Exchangeable Notes, cash with an equal value) at the Exchange Rate. The Exchange Rate is equal to, subject to certain adjustments, (a) if the Maturity Price is greater than or equal to the Threshold Appreciation Price, .8264 shares of EOG Common Stock per Exchangeable Note, (b) if the Maturity Price is less than the Threshold Appreciation Price but is greater than the Initial Price, a fractional share of EOG Common Stock per Exchangeable Note so that the value thereof (determined at the Maturity Price) equals the Initial Price and (c) if the Maturity Price is less than or equal to the Initial Price, one share of EOG Common Stock per Exchangeable Note. The "Maturity Price" means the average Closing Price per share of EOG Common Stock for the 20 Trading Days immediately prior to Maturity. Accordingly, holders of the Exchangeable Notes

will not necessarily receive an amount equal to the principal amount thereof. The Exchangeable Notes are not exchangeable for EOG Common Stock at the option of the holder. Enron may only exercise its option to pay outstanding Exchangeable Notes in cash from the proceeds of its sale of Enron common stock. See "Description of the Exchangeable Notes – General."

No Redemption or Sinking Fund . . The Exchangeable Notes are not subject to redemption, defeasance or any sinking fund prior to Maturity.

Ranking . . . . The Exchangeable Notes will be unsecured obligations of Enron ranking *pari passu* with all of its other unsecured and unsubordinated indebtedness.

Relationship of Exchangeable Notes to EOG Common Stock . . . . The Exchangeable Notes will bear interest at 6¼% per annum, a yield substantially in excess of the 0.6% anticipated dividend yield of EOG Common Stock based on the Initial Price of $21.75 and the current quarterly dividend payable on EOG Common Stock. However, the opportunity for equity appreciation afforded by an investment in the Exchangeable Notes is less than the opportunity for equity appreciation afforded by an investment in EOG Common Stock because the amount receivable by a holder of an Exchangeable Note upon exchange at Maturity will only exceed the principal amount of such Exchangeable Note if the Maturity Price exceeds the Threshold Appreciation Price (which represents an appreciation of 21% over the Initial Price). Moreover, holders of the Exchangeable Notes will only be entitled to receive upon exchange at Maturity 82.64% (the percentage equal to the Initial Price divided by the Threshold Appreciation Price) of any appreciation of the value of EOG Common Stock in excess of the Threshold Appreciation Price. Holders of the Exchangeable Notes will not be entitled to any rights with respect to EOG Common Stock (including, without limitation, voting rights and rights to receive any dividends or other distributions in respect thereof) until such time, if any, as Enron shall have exchanged shares of EOG Common Stock for Exchangeable Notes at Maturity thereof and unless the applicable record date, if any, for the exercise of such rights occurs after such exchange.

Use of Proceeds . . . . The net proceeds will be added to Enron's general funds and are expected to be used to retire existing indebtedness and for general corporate purposes. See "Use of Proceeds."

Relationship Between Enron and EOG . . . . Enron currently owns 80% of the outstanding shares of EOG Common Stock. Assuming the Underwriters' over-allotment options in this offering and the concurrent Stock Offerings are exercised in full and the maximum number of shares of EOG Common Stock is delivered upon the mandatory exchange of the Exchangeable Notes at Maturity, Enron would own approximately 54% of the outstanding shares of EOG Common Stock. See "Relationship Between Enron and EOG."

RISK FACTORS RELATING TO EXCHANGEABLE NOTES

As described in more detail below, the trading price of the Exchangeable Notes may vary considerably prior to Maturity due to, among other things, fluctuations in the price of EOG Common Stock and other events that are difficult to predict and beyond Enron's control.

Comparison to Other Debt Securities; Relationship of Exchangeable Notes to EOG Common Stock

The terms of the Exchangeable Notes differ from those of ordinary debt securities in that the amount that a holder of the Exchangeable Notes will receive upon mandatory exchange at Maturity is not fixed, but is based on the price of the EOG Common Stock as specified in the Exchange Rate. There can be no assurance that the amount received by such holder upon exchange at Maturity (whether in stock or cash) will be equal to or greater than the principal amount of an Exchangeable Note because the price of the EOG Common Stock is subject to market fluctuations, and the value of the EOG Common Stock (or, at the option of Enron, the amount of cash) received by a holder of an Exchangeable Note upon exchange at Maturity, determined as described herein, may be more or less than the principal amount of the Exchangeable Note. For example, if the Maturity Price of the EOG Common Stock is less than the Initial Price, the amount received upon exchange will be less than the principal amount paid for the Exchangeable Note, in which case an investment in Exchangeable Notes will result in a loss.

In addition, the opportunity for equity appreciation afforded by an investment in the Exchangeable Notes is less than the opportunity for equity appreciation afforded by an investment in the EOG Common Stock because the amount received by a holder of an Exchangeable Note upon exchange at Maturity will only exceed the principal amount of such Exchangeable Note if the Maturity Price exceeds the Threshold Appreciation Price (which represents an appreciation of 21% over the Initial Price). Holders of the Exchangeable Notes will only be entitled to receive upon exchange at Maturity 82.64% of any appreciation of the value of EOG Common Stock in excess of the Threshold Appreciation Price.

It is impossible to predict whether the price of EOG Common Stock will rise or fall. Trading prices of EOG Common Stock will be influenced by EOG's operational results and by complex and interrelated political, economic, financial and other factors that can affect natural gas and crude oil commodity markets generally. See the prospectus relating to EOG and to EOG Common Stock attached hereto as Appendix A and included as part of this Prospectus.

In addition, in the event Enron does not exercise its option to deliver cash, holders of the Exchangeable Notes will not be entitled to any rights with respect to the EOG Common Stock (including, without limitation, voting rights and rights to receive any dividends or other distributions in respect thereof) until such time as Enron shall have exchanged shares of EOG Common Stock for Exchangeable Notes at Maturity thereof and unless the applicable record date, if any, for the exercise of such rights occurs after such exchange.

The Exchangeable Notes will be unsecured obligations of Enron ranking *pari passu* with all of its other unsecured and unsubordinated indebtedness. The terms of the Exchangeable Notes do not limit the amount of indebtedness which may be incurred by Enron.

Dilution of EOG Common Stock

The amount that holders of the Exchangeable Notes are entitled to receive upon the mandatory exchange at Maturity is subject to adjustment for certain events arising from stock splits and combinations, stock dividends and certain other actions of EOG that modify its capital structure. See "Description of the Exchangeable Notes – Dilution Adjustments." The amount to be received by holders of Exchangeable Notes upon mandatory exchange at Maturity may not be adjusted for other events, such as offerings of EOG Common Stock for cash or in connection with acquisitions, that may adversely affect the price of the EOG Common Stock and, because of the relationship of such amount to be received upon exchange to the price of EOG Common Stock, such other events may adversely affect the trading price of the Exchangeable Notes. There can be no assurance that EOG will not make offerings of EOG Common Stock or take other action in the future.

Possible Illiquidity of the Secondary Market

It is not possible to predict how the Exchangeable Notes will trade in the secondary market or whether such market will be liquid or illiquid. Exchangeable Notes are novel securities and there is currently no secondary market for the Exchangeable Notes. The Underwriters currently intend, but are not obligated, to make a market in the Exchangeable Notes. There can be no assurance that a secondary market will develop or, if a secondary market does develop, that it will provide the holders of the Exchangeable Notes with liquidity of investment or that it will continue for the life of the Exchangeable Notes.

The Exchangeable Notes have been approved for listing on the NYSE, subject to official notice of issuance. However, there can be no assurance that the Exchangeable Notes will not later be delisted or that trading in the Exchangeable Notes on the NYSE will not be suspended. If the Exchangeable Notes are not listed or traded on any securities exchange or trading market, or if trading of the Exchangeable Notes is suspended, pricing information for the Exchangeable Notes may be more difficult to obtain, and the liquidity of the Exchangeable Notes may be adversely affected.

No Obligation on the Part of EOG with Respect to the Exchangeable Notes

EOG has no obligations with respect to the Exchangeable Notes or amounts to be paid to holders thereof, including any obligation to take the needs of holders of the Exchangeable Notes into consideration for any reason. EOG will not receive any of the proceeds of the offering of the Exchangeable Notes made hereby and is not responsible for the determination of the timing of, prices for or quantities of the Exchangeable Notes to be issued or the determination or calculation of the amount to be paid upon mandatory exchange at Maturity.

Tax Uncertainties

The Indenture (as defined herein) requires that any holder subject to U.S. federal income tax include currently in income, for U.S. federal income tax purposes, payments denominated as interest that are made with respect to the Exchangeable Notes, in accordance with such holder's method of accounting, and the amount of original issue discount ("OID"), if any, attributable to the Exchangeable Notes as it accrues. The Indenture also requires holders to treat the Exchangeable Notes as a unit consisting of (i) an exchange note, which is a debt obligation with a fixed principal amount unconditionally payable at Maturity equal to the principal amount of the Exchangeable Notes, and (ii) a forward purchase contract pursuant to which the holder agrees to use the principal payment due on the Exchangeable Notes to purchase at Maturity the EOG Common Stock that the holder is entitled to receive at that time (subject to Enron's right to deliver cash in lieu of the EOG Common Stock). It is contemplated that, upon a holder's sale or other disposition of the Exchangeable Notes prior to Maturity, the amount realized will be allocated between these two components of the Exchangeable Notes on the basis of their then relative fair market values. Because of an absence of authority as to the proper characterization of the Exchangeable Notes for tax purposes, these tax characterizations and results are uncertain. This uncertainty extends to characterization of any gain or loss recognized with respect to the Exchangeable Notes at Maturity as capital gain or loss or ordinary income or loss and, in the event Enron delivers EOG Common Stock at Maturity, as to whether any gain or loss can be deferred until a sale or disposition of such stock. As a result of these uncertainties, Enron has not received an opinion of counsel with respect to the specific tax consequences of owning or disposing of the Exchangeable Notes. See "Certain United States Federal Income Tax Considerations."

ENRON CORP.

Enron, a Delaware corporation organized in 1930, is an integrated natural gas company with headquarters in Houston, Texas. Essentially all of Enron's operations are conducted through its subsidiaries and affiliates which are principally engaged in the gathering, transportation and wholesale marketing of natural gas to markets throughout the United States and internationally through approximately 44,000 miles of natural gas pipelines; the exploration for and development and production of natural gas and crude oil in the United States and internationally; the production, purchase, transportation and worldwide marketing of natural gas liquids and refined petroleum products; the independent (i.e., non-utility) development, promotion, construction and operation of power plants, natural gas liquids facilities and pipelines in the United States and internationally; and the non-price regulated purchasing and marketing of energy related commitments.

Transportation and Operation. Enron's operations include the interstate and intrastate transmission of natural gas, construction, management and operation of natural gas and natural gas liquids pipelines, liquids plants, clean fuel plants and power facilities. Enron and its subsidiaries operate domestic interstate pipelines extending from Texas to the Canadian border and across the southern United States from Florida to California. Included in Enron's domestic interstate natural gas pipeline operations are Northern Natural Gas Company ("Northern"), Transwestern Pipeline Company ("Transwestern"), and Florida Gas Transmission Company ("Florida Gas") (indirectly 50% owned by Enron), and all such pipelines are subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission. Each pipeline serves customers in a specific geographical area: Northern, the upper Midwest; Florida Gas, the State of Florida; and Transwestern, principally the California market. In addition, Enron holds a 13% interest in Northern Border Partners, L.P., which owns a 70% interest in the Northern Border Pipeline system. An Enron subsidiary operates the Northern Border Pipeline system, which transports gas from western Canada to delivery points in the midwestern United States. Also, Enron has an approximate 15% interest in Enron Liquids Pipeline, L.P., which is engaged in pipeline transportation of natural gas liquids, refined petroleum products and carbon dioxide, operates coal terminalling, gas processing and natural gas liquids fractionation facilities, and is operated by a wholly owned subsidiary of Enron.

Domestic Gas and Power Services. Enron Capital & Trade Resources Corp. and its affiliated companies ("ECT") purchase natural gas, natural gas liquids and power through a variety of contractual arrangements, including both short- and long-term contracts, the arrangement of production payment and other financing transactions, and other contractual arrangements. ECT markets these energy products to local distribution companies, electric utilities, cogenerators, and both commercial and industrial end-users. ECT also provides price risk management services in connection with natural gas, gas liquids and power transactions through both physical delivery and financial arrangements.

ECT offers a broad range of non-price regulated natural gas merchant services by tailoring a variety of supply and marketing options to its customers' specific needs. ECT's strategy is to provide predictable pricing, reliable delivery and low cost capital to its customers. ECT provides these services through a variety of instruments, including forward contracts, swap agreements and other contractual commitments.

Certain Enron subsidiaries are engaged domestically in the extraction of natural gas liquids (ethane, propane, normal butane, isobutane and natural gasoline), which are typically extracted from natural gas in liquid form under low temperature and high pressure conditions. Ethane, propane, normal butane, isobutane and natural gasoline are used as feedstocks for petrochemical plants in the production of plastics, synthetic rubber and other products. Normal butane and natural gasoline are used by refineries in the blending of motor gasoline. Isobutane is used in the alkylation process to enhance the octane content of motor gasoline and is also used in the production of MTBE, which is used to produce cleaner burning motor gasoline. Propane is used as fuel for home heating and cooking, crop drying and industrial facilities and as an engine fuel for vehicles, and ethane is used as a feedstock for synthetic fuels production.

International Gas and Power Services. Enron's international activities principally involve the independent (non-utility) development, acquisition, promotion and operation of natural gas and power projects and the marketing of natural gas liquids. As is the case in the United States, Enron's emphasis is on businesses in which natural gas or its components play a significant role. Development projects are focused on power plants, gas processing and terminalling facilities, and gas pipelines, while marketing activities center on fuels used by or transported through such facilities. Enron's international activities include management of direct and indirect ownership interests in and operation of power plants in England, Germany, Guatemala and the Philippines; a pipeline system in southern Argentina; retail gas and propane sales in the Caribbean basin; processing of natural gas liquids at Teesside, England; and marketing of natural gas liquids worldwide. Enron is also involved in power and pipeline projects in varying stages of development in China, the Dominican Republic, Colombia, Turkey, Bolivia, Brazil, Indonesia and elsewhere.

Enron Global Power & Pipelines L.L.C., a Delaware limited liability company ("EPP"), was formed in November 1994 by Enron to own and manage Enron's operating power plant and natural gas pipeline business conducted outside the United States, Canada and Western Europe, and to expand such business through acquisitions. EPP's initial assets consist of interests contributed by Enron in two power plants in the Philippines (with 226 megawatts of aggregate net generating capacity), a power plant in Guatemala (with 110 megawatts of net generating capacity) and a 6,548 kilometer (4,069 mile) natural gas pipeline system in Argentina. The public offering of common shares of EPP was completed in November 1994. Enron owns approximately 52% of the common shares of EPP. Enron formed EPP to attract public equity capital to emerging market infrastructure projects, to enable public investors to better evaluate and participate directly in the growth of Enron's operating power plant and natural gas pipeline activities in emerging markets and to generate additional capital for Enron to reinvest in future development efforts and for other corporate purposes.

Exploration and Production. Substantially all of Enron's natural gas and crude oil exploration and production operations are conducted by its subsidiary EOG. EOG is engaged in the exploration for, and development, production and marketing of, natural gas and crude oil primarily in major producing basins in the United States, as well as in Canada, Trinidad, India and to a lesser extent, selected other international areas. At December 31, 1994, EOG had estimated net proved natural gas reserves of 1,910 billion cubic feet and estimated net proved crude oil, condensate and natural gas liquids reserves of 37 million barrels, and at such date, approximately 70% of EOG's reserves (on a natural gas equivalent basis) was located in the United States, 16% in Canada, 11% in Trinidad and 3% in India. A limited partnership in which ECT owns a 50% general partner interest has entered into an agreement to acquire a controlling interest in Coda Energy, Inc. ("Coda"). Coda is engaged in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in North Texas and Oklahoma. Crude oil accounts for approximately 86% of Coda's proved reserves. At December 31, 1994, Coda reported estimated proved natural gas reserves of 39,808 million cubic feet ("MMcf") and estimated proved crude oil, condensate and natural gas liquids reserves of 39,207 thousand barrels ("MBbls"). See "Relationship Between Enron and EOG – Conflicts of Interest."

RECENT EVENTS

In connection with a Power Purchase Agreement dated December 8, 1993, as amended, between Dabhol Power Company, Enron's 80%-owned subsidiary, and the Maharashtra State Electricity Board (the "MSEB"), Dabhol Power Company has been developing Phase I (approximately 695 megawatts) of a 2,015 megawatt electricity generating power plant south of Bombay, State of Maharashtra, India (the "Project"). Financial closing occurred and Project construction began on March 1, 1995. After construction had begun, and following elections to the Maharashtra Legislative Assembly, a new coalition government took office in the State of Maharashtra. The new coalition government appointed a review committee to study the Project, and on August 3, 1995, announced the State government's intention to terminate the Project. Work on the Project was ordered stopped by the MSEB, and construction ceased on August 8, 1995. Enron believes that such actions were in clear violation of the contract and in response to these actions, Dabhol Power Company is pursuing two courses of action. First, pursuant to Dabhol Power Company's remedies in the agreements with the State government, arbitration has commenced in London against the State government for the actions it has taken to terminate the Project. Dabhol Power Company seeks to recover all of its construction and other expenses, in addition to lost profits. The arbitration tribunal has been appointed and one arbitration hearing has occurred in London. Second, Dabhol Power Company has both orally and in writing communicated to the Maharashtra State government its desire to go forward with construction of the Project and its willingness to resolve any outstanding issues, and discussions to resolve outstanding issues have begun. Although the outcome of neither the arbitration nor the renegotiation process can be predicted with certainty, based on currently available information, Enron believes that the ultimate outcome of the Project will not have a materially adverse effect on its financial position.

In March 1993, Enron entered into long-term gas contracts with Phillips Petroleum Company United Kingdom Limited, British Gas Exploration and Production Limited and Agip (U.K.) Limited to purchase all of the future gas production from the J-Block field which is located in the North Sea offshore the United Kingdom (the "J-Block Contracts"). Such agreements provide for Enron to take or pay for the gas at a fixed price (with possible escalations throughout the contract period). Gas paid for, but not taken, may be recovered in later contract years. The J-Block Contracts provide for a first delivery date of not later than October 1, 1996. The contract price for such natural gas is in excess of current spot market prices in the United Kingdom. In September 1995, Enron announced that, in accordance with its contractual rights, it had notified the J-Block sellers that Enron's nominations for gas from the J-Block field were estimated to be zero from the first delivery date through September 30, 1997. In addition, in accordance with its contractual rights, Enron has made no estimated nominations for J-Block gas to date under the J-Block Contracts for the contract year ending September 30, 1998. Enron continues its good faith efforts to develop mutually beneficial solutions regarding pricing terms so that production from J-Block can begin as soon as possible. Enron believes that there are many commercial reasons for the parties to resolve any contract issues, but efforts have not been successful to date. Enron has advised the J-Block sellers that it intends to assert all legal rights, exercise all available commercial flexibility and pursue all available commercial and legal remedies under the J-Block Contracts, and stands ready and able to perform all legal obligations under the J-Block Contracts, including potential prepayments for gas to be taken in later years. The long-term market demand for J-Block gas supply remains favorable and Enron anticipates being able to meet all of its various short- and long-term market commitments. Although no assurances can be given, based upon the foregoing and other information currently available, Enron does not at this time anticipate that the J-Block Contracts will have a materially adverse effect on Enron's financial position.

SELECTED FINANCIAL DATA OF ENRON

The financial information set forth below has been derived from the audited and unaudited consolidated financial statements of Enron. The information should be read in connection with, and is qualified in its entirety by reference to, Enron's financial statements and notes thereto incorporated by reference herein. See "Incorporation of Certain Documents by Reference." The interim data reflects all adjustments which, in the opinion of the management of Enron, are necessary to present fairly such information for the interim periods. The results of operations for the nine-month periods are not necessarily indicative of the results expected for a full year or any other interim period.

	Year Ended December 31,					Nine Months Ended September 30,	
	1990	1991	1992	1993	1994	1994	1995
	(In millions)						
Income Statement Data:							
Revenues	$5,480	$5,698	$6,415	$7,985	$8,984	$6,397	$6,639
Costs and expenses							
Cost of gas and other products sold	3,528	3,646	4,222	5,567	6,517	4,631	4,726
Operating expenses	861	914	936	1,057	1,033	714	751
Amortization of deferred contract reformation costs	102	125	101	89	91	65	19
Oil and gas exploration costs	68	59	59	76	84	58	61
Depreciation, depletion and amortization	356	366	376	456	441	328	321
Taxes, other than income taxes	82	75	101	108	102	78	85
	4,997	5,185	5,795	7,355	8,268	5,874	5,963
Operating income	483	513	620	630	716	523	676
Other income and deductions							
Equity in earnings of unconsolidated subsidiaries	56	55	56	73	112	74	49
Other, net	143	147	91	95	116	112	116
Income before interest, minority interest and income taxes	662	715	767	798	944	709	841
Interest and related charges, net	395	373	330	300	273	202	214
Dividends on preferred stock of subsidiary company	—	—	—	2	20	14	24
Minority interest	7	7	18	28	31	21	34
Income taxes	58	103	90	135	167	127	180
Income before extraordinary items	202	232	329	333	453	345	389
Extraordinary items	—	—	(23)	—	—	—	—
Net income(1)	202	232	306	333	453	345	389
Preferred stock dividends	25	25	22	17	15	11	11
Earnings on Common Stock	$ 177	$ 207	$ 284	$ 316	$ 438	$ 334	$ 378

	December 31,					September 30, 1995
	1990	1991	1992	1993	1994	
	(In millions)					
Balance Sheet Data:						
Total assets	$ 9,849	$10,070	$10,312	$11,504	$11,966	$13,029
Short-term debt	—	—	—	—	—	—
Long-term debt (including amounts reclassified from short-term debt)	2,983	3,109	2,459	2,661	2,805	3,425
Preferred stock of subsidiary company	—	—	—	214	377	398
Minority interest	97	101	179	196	290	316
Shareholders' equity	1,838	1,901	2,518	2,623	2,880	3,107

(1) Net income for the year ended December 31, 1993 includes a primarily non-cash charge of $54 million to adjust for the increase in the corporate federal income tax rate from 34 percent to 35 percent.

CAPITALIZATION

The following table sets forth the capitalization of Enron and its consolidated subsidiaries as of September 30, 1995, and as adjusted to give effect to the issuance on October 11, 1995 of $100 million aggregate principal amount of 6⅞% Notes due 2007, and the issuance of the Exchangeable Notes offered hereby and, in each case, the use of the proceeds therefrom.

	Actual	As Adjusted
	(in thousands)	
Short-term debt		
Notes payable	$ —	$ —
Current maturities of long-term debt	—	—
Total short-term debt	—	—
Long-term debt		
Enron:		
Amount reclassified from short-term debt	587,032	277,566
Notes due 1996-2023 (6¾% to 10.75%)	1,753,139	1,753,139
Exchangeable Notes due 1998 (6¼%)	—	217,500
Notes due 2007 (6⅞%)	—	100,000
Subsidiary companies:		
Notes due 1998-2005 (4.52% to 9.2%)	636,000	636,000
Notes due 1998-1999 (floating rates)	55,000	55,000
Other	53,674	53,674
Enron:		
Senior subordinated debentures due 2005-2012 (6.75%-8.25%)	350,000	350,000
Unamortized debt discount and premium	(9,641)	(9,875)
Total long-term debt	3,425,204	3,433,004
Minority interests	315,821	315,821
Preferred stock of subsidiary companies	395,750	395,750
Shareholders' equity		
Convertible preferred stock	138,605	138,605
Common stock	25,373	25,373
Additional paid-in capital	1,792,544	1,792,544
Retained earnings	1,574,335	1,574,335
Cumulative foreign currency translation adjustment	(149,570)	(149,570)
Common stock held in treasury	(62,827)	(62,827)
Other, including Flexible Equity Trust	(210,969)	(210,969)
Total shareholders' equity	3,107,491	3,107,491
Total capitalization	$7,244,266	$7,252,066

RELATIONSHIP BETWEEN ENRON AND EOG

Ownership of Common Stock

Through its ability to elect all directors of EOG, Enron has the ability to control all matters relating to the management of EOG, including any determination with respect to acquisition or disposition of EOG assets, future issuance of Common Stock or other securities of EOG and any dividends payable on the Common Stock. Enron also has the ability to control EOG's exploration, development, acquisition and operating expenditure plans. The sale by Enron of EOG Common Stock pursuant to the Stock Offerings will cause Enron's ownership interest in EOG to fall below 80% with the result that EOG will cease to be included in the consolidated federal income tax return filed by Enron. There is no agreement between Enron and EOG that would prevent Enron from acquiring additional shares of Common Stock of EOG.

Contractual Arrangements

EOG entered into a Services Agreement (the "Services Agreement") with Enron effective January 1994, pursuant to which Enron provides various services, such as maintenance of certain employee benefit plans, provision of telecommunications and computer services, lease of office space and the provision of purchasing and operating services and certain other corporate staff and support services. Such services historically have been supplied to EOG by Enron, and the Services Agreement provides for the further delivery of such services substantially identical in nature and quality to those services previously provided. EOG has agreed to a fixed rate for the rental of office space and to reimburse Enron for all other direct costs incurred in rendering services to EOG under the contract and to pay Enron for allocated indirect costs incurred in rendering such services up to a maximum of $6.7 million for 1994, such cap to be increased in subsequent years for inflation and certain changes in EOG's allocation bases with any increase not to exceed 7.5% per year. Approximately $6.6 million was paid under the Services Agreement by EOG to Enron in 1994. The Services Agreement is for an initial term of five years through December 1998 and will continue thereafter until terminated by either party.

In March 1995, in a series of transactions with Enron and an affiliate of Enron, EOG exchanged all of its fuel supply and purchase contracts and related price swap agreements associated with the Texas City cogeneration plant (the "Cogen Contracts") for certain natural gas price swap agreements (the "Swap Agreements") of equivalent value. As a result of the transactions, EOG has been relieved of all performance obligations associated with the Cogen Contracts. EOG will realize net operating revenues and receive corresponding cash payments of approximately $91 million during the period extending through December 31, 1999 under the terms of the Swap Agreements. The estimated fair value of the Swap Agreements was approximately $81 million at the date the Swap Agreements were received. The net of this series of transactions will result in increases in net operating revenues and cash receipts for EOG during 1995 and 1996 of approximately $13 million and $7 million, respectively, with offsetting decreases in 1998 and 1999 versus that anticipated under the Cogen Contracts.

EOG has been included in the consolidated federal income tax return filed by Enron as the common parent for itself and its subsidiaries and affiliated companies, excluding any foreign subsidiaries. Consistent therewith and pursuant to a Tax Allocation Agreement between EOG, EOG's subsidiaries and Enron, either Enron has paid to EOG and each subsidiary an amount equal to the tax benefit realized in the Enron consolidated federal income tax return resulting from the utilization of EOG's or the subsidiary's net operating losses and/or tax credits, or EOG and each subsidiary has paid to Enron an amount equal to the federal income tax computed on its separate taxable income less the tax benefits associated with any net operating losses and/or tax credits generated by EOG or the subsidiary which were utilized in the Enron consolidated return. Enron has paid EOG and each subsidiary for the tax benefits associated with their net operating losses and tax credits utilized in the Enron consolidated return, provided that a tax benefit was realized except as discussed below, even if such benefits could not have been used by EOG or the subsidiary on a separately filed tax return. EOG entered into an agreement with Enron providing for EOG to be paid for all realizable benefits associated with tight gas sand federal income tax credits concurrent with tax reporting and settlement for the periods in which they were generated. The Tax Allocation Agreement applies to EOG and each of its subsidiaries for all years in which EOG or any of its subsidiaries are or were included in the Enron consolidated return. To the extent a state or other taxing jurisdiction requires or permits a consolidated, combined, or unitary tax return to be filed and such return includes EOG or any of its subsidiaries, the principles expressed with respect to consolidated federal income tax allocation shall apply. The Tax Allocation Agreement will cease to be effective from the time at which deconsolidation occurs. EOG and Enron have entered into a new tax agreement pursuant to which, among other things, Enron has agreed (in exchange for the payment of $8.0 million by EOG) to be liable for, and to indemnify EOG against, all federal income taxes and state taxes measured by net income imposed on EOG for periods through the date Enron reduces its ownership in EOG to less than 80%. Enron and EOG do not believe that the cessation of consolidated tax reporting and effectiveness of the Tax Allocation Agreement concurrently with deconsolidation or the terms of the new tax agreement will have a material adverse effect on the financial condition or results of operations of either Enron or EOG.

Conflicts of Interest

The nature of the respective businesses of EOG and Enron and its affiliates is such as to potentially give rise to conflicts of interest between the two companies. Conflicts could arise, for example, with respect to transactions involving purchases, sales and transportation of natural gas and other business dealings between EOG and Enron and its affiliates, potential acquisitions of businesses or oil and gas properties, the issuance of additional shares of voting securities, the election of directors or the payment of dividends by EOG.

Circumstances may also arise that would cause Enron to engage in the exploration for and/or development and production of natural gas and crude oil in competition with EOG. For example, opportunities might arise which would require financial resources greater than those available to EOG, which are located in areas or countries in which EOG does not intend to operate or which involve properties that EOG would be unwilling to acquire. Also, Enron might acquire a competing oil and gas business as part of a larger acquisition. In addition, as part of Enron's strategy of securing supplies of natural gas or capital, Enron may from time to time acquire producing properties or interests in entities owning producing properties, and thereafter engage in exploration, development and production activities with respect to such properties or indirectly engage in such activities through such companies. Enron subsidiaries provide or arrange financing, including debt or equity financing, for exploration and production companies that compete with EOG. In connection with such activities, Enron affiliates may make investments in the debt or equity of such companies. There are currently no such transactions under consideration that would result in voting control by Enron or any of its affiliates, other than the transaction described in the next paragraph. In its financing activities Enron or any entity in which it has an interest may also make loans secured by oil and gas properties or securities of oil and gas companies, may acquire production payments or may receive interests in oil and gas properties as equity components of lending transactions. As a result of its lending activities, Enron may also acquire oil and gas properties or companies upon foreclosure of secured loans or as part of a borrower's rearrangement of its obligations. Such acquisition, exploration, development and production activities may directly or indirectly compete with EOG's business. There can be no assurance that Enron will not engage, directly or indirectly through entities other than EOG, in the natural gas and crude oil exploration, development and production business in competition with EOG.

Joint Energy Development Investments Limited Partnership ("JEDI"), a limited partnership in which ECT owns a 50% general partner interest, has entered into an agreement to acquire a controlling interest in Coda. Coda is engaged in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in North Texas and Oklahoma. Crude oil accounts for approximately 86% of Coda's proved reserves. At December 31, 1994, Coda reported estimated proved natural gas reserves of 39,808 MMcf and estimated proved crude oil, condensates and natural gas liquids reserves of 39,207 MBbls. Enron anticipates that the transaction will be consummated in early 1996, subject to Coda stockholder approval and other conditions. Conflicts may arise between Coda and EOG, and if the acquisition of Coda occurs Enron will be required to resolve such conflicts in a manner that is consistent with its fiduciary and contractual duties to other investors in Coda and JEDI and its fiduciary duties to EOG. ECT has entered into an agreement with JEDI and other investors in Coda designed to minimize certain conflicts of interest that may arise and providing, among other things, that EOG has no obligation to offer any business opportunities to Coda.

EOG and Enron and its affiliates have in the past entered into significant intercompany transactions and agreements incident to their respective businesses, and EOG and Enron and its affiliates may be expected to enter into material transactions and agreements from time to time in the future. Such transactions and agreements have related to, among other things, the purchase and sale of natural gas and crude oil, the financing of exploration and development efforts by EOG, and the provision of certain corporate services. Enron believes that its existing transactions and agreements with EOG have been at least as favorable to Enron as could be obtained from third parties, and Enron intends that the terms of any future transactions and agreements between Enron and EOG and its affiliates will be at least as favorable to Enron as could be obtained from third parties.

USE OF PROCEEDS

The net proceeds from the sale of the Exchangeable Notes will be added to Enron's general funds and are expected to be used to retire existing indebtedness and for general corporate purposes. At December 6, 1995 the weighted average interest rate on such indebtedness was approximately 6.0%.

RATIO OF ENRON'S EARNINGS TO FIXED CHARGES

	Year Ended December 31,					Nine Months Ended
	1990	1991	1992	1993	1994	September, 1995
Ratio of Earnings to Fixed Charges	1.58	1.66	1.74	1.98	2.40	2.87

The ratio of earnings to fixed charges is based on continuing operations. "Earnings" represent the aggregate of (a) the pre-tax income of Enron and its majority owned subsidiaries, (b) Enron's share of pre-tax income of its 50% owned companies, (c) any income actually received from less than 50% owned companies, and (d) fixed charges, net of interest capitalized. "Fixed Charges" represent interest (whether expensed or capitalized), amortization of debt discount and expense and that portion of rentals considered to be representative of the interest factor.

PRICE RANGE OF EOG COMMON STOCK AND CASH DIVIDENDS

The following table sets forth, for the periods indicated, the high and low sale prices per share for the EOG Common Stock, as reported on the New York Stock Exchange Composite Tape, and the amount of cash dividends paid per share. The 1993 and First and Second Quarter 1994 sales prices and cash dividends per share have been restated to reflect the two-for-one stock split on May 31, 1994.

	Price Range		Cash
	High	Low	Dividends
1993			
First Quarter	$20.31	$13.38	$.03
Second Quarter	22.50	17.88	.03
Third Quarter	26.81	19.88	.03
Fourth Quarter	27.00	17.06	.03
1994			
First Quarter	$23.75	$19.31	$.03
Second Quarter	24.63	22.38	.03
Third Quarter	23.00	18.50	.03
Fourth Quarter	22.75	17.38	.03
1995			
First Quarter	$24.88	$17.12	$.03
Second Quarter	24.75	20.25	.03
Third Quarter	25.38	20.00	.03
Fourth Quarter (through December 7, 1995)	22.75	18.75	

The last reported sale price of the EOG Common Stock on December 7, 1995 as reported on the New York Stock Exchange Composite Tape was $22.

As of November 1, 1995, there were approximately 270 record holders of EOG's Common Stock, including individual participants in security position listings. There are an estimated 5,100 beneficial owners of EOG's Common Stock, including shares held in street name.

Following the initial public offering and sale of its Common Stock in October 1989, EOG paid quarterly dividends of $0.025 per share beginning with an initial dividend paid in January 1990 with respect to the fourth quarter of 1989. Beginning in January 1993 with respect to the fourth quarter of 1992, EOG has paid quarterly dividends of $0.03 per share. The determination of the amount of future cash dividends, if any, to be declared and paid will depend upon, among other things, the financial condition, funds from operations, level of exploration and development expenditure opportunities and future business prospects of EOG.

Enron makes no representation as to the amount of dividends, if any, that EOG will pay in the future. In any event, holders of the Exchangeable Notes will not be entitled to receive any dividends that may be payable on the EOG Common Stock until such time as Enron, if it so elects, delivers EOG Common Stock at Maturity of the Exchangeable Notes and the record date for such dividend occurs after such exchange. See "Description of the Exchangeable Notes."

DESCRIPTION OF THE EXCHANGEABLE NOTES

The Exchangeable Notes are one series of debt securities to be issued under an Indenture dated as of November 1, 1985, between Enron and Harris Trust and Savings Bank, as trustee, as supplemented by a First Supplemental Indenture dated as of December 1, 1995, between Enron and Harris Trust and Savings Bank, as trustee (the "Trustee") (the Indenture dated as of November 1, 1985, as supplemented from time to time, the "Indenture"). All references herein to "Indenture Securities" shall refer to debt securities issued under the Indenture. The following summary of certain provisions of the Indenture does not purport to be complete and is qualified in its entirety by reference to the Indenture, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part. All capitalized terms have the meanings specified in the Indenture.

General

The aggregate number of Exchangeable Notes to be issued will be 10,000,000, plus such additional number of Exchangeable Notes as may be issued pursuant to the over-allotment option granted by Enron to the Underwriters (see "Underwriting"). The Stated Maturity of the Exchangeable Notes is December 13, 1998. The Indenture does not limit the amount of Indenture Securities which may be issued thereunder. The Exchangeable Notes will be unsecured and will rank on a parity with all other unsecured and unsubordinated indebtedness of Enron. The right of Enron, and hence the right of creditors of Enron (including the holders of the Exchangeable Notes), to participate in any distribution of assets of any subsidiary of Enron upon its liquidation or reorganization will be subject to the prior claims of creditors of such subsidiary, except to the extent that the claims of Enron itself as a creditor of such subsidiary may be recognized.

Each Exchangeable Note, which will be issued with a principal amount of $21.75, will bear interest at the rate of 6¼% of the principal amount per annum (or $1.36 per annum) from December 13, 1995, or from the most recent Interest Payment Date (as defined below) to which interest has been paid or provided for until the principal amount thereof is exchanged at Maturity pursuant to the terms of the Exchangeable Notes. Interest on the Exchangeable Notes will be payable quarterly in arrears on January 31, April 30, July 31, and October 31, commencing January 31, 1996, (each, an "Interest Payment Date"), to the persons in whose names the Exchangeable Notes are registered at the close of business on the January 15, April 15, July 15, and October 15 immediately preceding such Interest Payment Date; provided that interest payable at Maturity is payable to the person to whom the principal is payable. Interest on the Exchangeable Notes will be computed on the basis of a 360-day year of twelve 30-day months. If an Interest Payment Date falls on a day that is not a Business Day (as defined below) the interest payment to be made on such Interest Payment Date will be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date, and no additional interest will accrue as a result of such delayed payment.

At Maturity, the principal amount of each Exchangeable Note will be mandatorily exchanged by Enron into a number of shares of EOG Common Stock at the Exchange Rate (as defined below) or, at Enron's option with respect to all, but not less than all, of the Exchangeable Notes, cash with an equal value. Accordingly, Holders of the Exchangeable Notes will not necessarily receive an amount equal to the principal amount thereof. The "Exchange Rate" is equal to, subject to adjustment as a result of certain dilution events (see "Dilution Adjustments" below), (a) if the Maturity Price (as defined below) of EOG Common Stock is greater than or equal to $26.32 per share of EOG Common Stock (the "Threshold Appreciation Price"), .8264 shares of EOG Common Stock per Exchangeable Note, (b) if the Maturity Price is less than the Threshold Appreciation Price but is greater than the Initial Price, a fractional share of EOG Common Stock per Exchangeable Note so that the value thereof (determined at the Maturity Price) is equal to the Initial Price and (c) if the Maturity Price is less than or equal to the Initial Price, one share of EOG Common Stock per Exchangeable Note. No fractional shares of EOG Common Stock will be issued at Maturity as provided under "Fractional Shares" below. Notwithstanding the foregoing, Enron may, at its option, deliver cash at Maturity in lieu of delivering shares of EOG Common Stock, in an amount equal to the value of such number of shares of EOG Common Stock at the Maturity Price. Such option, if exercised, must be exercised with respect to all of the outstanding Exchangeable Notes. If Enron elects to deliver cash in lieu of shares of EOG Common Stock upon the mandatory exchange of the Exchangeable Notes, on or prior to seven Business Days preceding the Stated Maturity, Enron will so notify the Trustee and publish a notice to that effect in a daily newspaper of national circulation. If Enron elects to deliver shares of EOG Common Stock, Holders of the Exchangeable Notes will be responsible for the payment of any and all brokerage costs upon the Holder's subsequent sale of such stock.

The "Maturity Price" is defined as the average Closing Price per share of EOG Common Stock for the 20 Trading Days immediately prior to (but not including) Maturity. The "Closing Price" of any security on any date of determination means the closing sale price (or, if no closing price is reported, the last reported sale price) of such security on the NYSE on such date or, if such security is not listed for trading on the NYSE on any such date, as reported in the composite transactions for the principal United States securities exchange on which such security is so listed, or if such security is not so listed on a United States national or regional securities exchange, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System, or, if such security is not so reported, the last quoted bid price for such security in the over-the-counter market as reported by the National Quotation Bureau or similar organization, or, if such bid price is not available, the market value of such security on such date as determined by a nationally recognized independent investment banking firm retained for this purpose by Enron. A "Trading Day" is defined as a Business Day on which the security the Closing Price of which is being determined (A) is not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business and (B) has traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of such security. "Business Day" means any day that is not a Saturday or Sunday or a day on which the NYSE, banking institutions or trust companies in The City of New York are authorized or obligated by law or executive order to close.

The Indenture pursuant to which the Exchangeable Notes are issued contains a covenant by Enron to the effect that should Enron exercise its option to pay all outstanding Exchangeable Notes in cash, such cash must be provided by the proceeds from a sale by Enron of its common stock. Such sale of common stock by Enron must have occurred not more than 540 days prior to the notice by Enron to Holders of Exchangeable Notes of its election to deliver cash in lieu of EOG Common Stock.

For illustrative purposes only, the following chart shows the number of shares of EOG Common Stock or the amount of cash that a Holder of Exchangeable Notes would receive for each Exchangeable Note at various Maturity Prices. The table assumes that there will be no adjustments to the Exchange Rate described under "– Dilution Adjustments" below. There can be no assurance that the Maturity Price will be within the range set forth below. Given the Initial Price of $21.75 per Exchangeable Note and the Threshold Appreciation Price of $26.32, a Holder of an Exchangeable Note would receive at Maturity the following number of shares of EOG Common Stock or amount of cash (if Enron elects to pay the Exchangeable Notes in cash):

Maturity Price of EOG Common Stock	Number of Shares of EOG Common Stock	Amount of Cash
$20.00	1.0000	$20.00
21.75	1.0000	21.75
24.00	0.9063	21.75
26.32	0.8264	21.75
28.00	0.8264	23.14

Interest on the Exchangeable Notes will be payable, and delivery of EOG Common Stock (or, at the option of Enron, its cash equivalent) in exchange for the Exchangeable Notes at Maturity will be made upon surrender of such Exchangeable Notes, at the office or agency of Enron maintained for such purposes, which will initially be the principal corporate trust office of the Trustee, currently 311 West Monroe, 12th Floor, Chicago, Illinois 60609 or at the Trustee's office maintained for such purpose in New York, New York, provided that payment of interest may be made at the option of Enron by check mailed to the persons in whose names the Exchangeable Notes are registered at the close of business on each January 15, April 15, July 15, and October 15.

The Exchangeable Notes will be transferable on the books of Enron at any time and from time to time. No service charge will be made to the Holder for any such transfer except for any tax or governmental charge incidental thereto.

The Indenture does not contain any restriction on the ability of Enron to sell, pledge or otherwise convey all or any portion of the EOG Common Stock held by it, and no such shares of EOG Common Stock will be pledged or otherwise held in escrow for use at Maturity of the Exchangeable Notes. Consequently, in the event of a bankruptcy, insolvency or liquidation of Enron, the EOG Common Stock, if any, owned by Enron will be subject to the claims of the creditors of Enron. In addition, as described herein, Enron will have the option, exercisable in its sole discretion, to satisfy its obligations pursuant to the mandatory exchange for the principal amount of each Exchangeable Note at Maturity by delivering to Holders of the Exchangeable Notes either the specified number of shares of EOG Common Stock or cash in an amount equal to the value of such number of shares at the Maturity Price. In the event that Enron does sell, pledge or convey all or a portion of the EOG Common Stock held by it, Enron may be more likely to deliver cash in lieu of EOG Common Stock. As a result, there can be no assurance that Enron will elect at Maturity to deliver EOG Common Stock or, if it so elects, that it will use all or a portion of its current holdings of EOG Common Stock to make such delivery. Holders of the Exchangeable Notes will not be entitled to any rights with respect to the EOG Common Stock (including without limitation voting rights and rights to receive any dividends or other distributions in respect thereof) until such time, if any, as Enron shall have delivered shares of EOG Common Stock to holders of the Exchangeable Notes at Maturity thereof and the applicable record date, if any, for the exercise of such rights occurs after such date.

Dilution Adjustments

The Exchange Rate is subject to adjustment if EOG shall (i) pay a stock dividend or make a distribution with respect to EOG Common Stock in shares of such stock, (ii) subdivide or split the outstanding shares of EOG Common Stock, (iii) combine the outstanding shares of EOG Common Stock into a smaller number of shares, (iv) issue by reclassification of shares of EOG Common Stock any shares of common stock of EOG, (v) issue rights or warrants to all holders of EOG Common Stock entitling them to subscribe for or purchase shares of EOG Common Stock at a price per share less than the market price of the EOG Common Stock (other than rights to purchase EOG

Common Stock pursuant to a plan for the reinvestment of dividends or interest); or (vi) pay a dividend or make a distribution to all holders of EOG Common Stock of evidences of indebtedness or other assets (excluding any dividends or distributions referred to in clause (i) above or any cash dividends other than any Extraordinary Cash Dividends (as defined below) or issue to all holders of EOG Common Stock rights or warrants to subscribe for or purchase any of its securities (other than those referred to in clause (v) above). In the case of the events referred to in clauses (i), (ii), (iii) and (iv) above, the Exchange Rate in effect immediately prior to such event shall be adjusted so that the holder of any Exchangeable Note shall thereafter be entitled to receive, upon mandatory exchange of the principal amount of the Exchangeable Note at Maturity, the number of shares of EOG Common Stock that such holder would have owned or been entitled to receive immediately following any event described above had such Exchangeable Note been exchanged immediately prior to such event on any record date with respect thereto. In the case of the event referred to in clause (v) above, the Exchange Rate shall be adjusted by multiplying the Exchange Rate in effect immediately prior to the date of issuance of the rights or warrants referred to in clause (v) above, by a fraction, the numerator of which shall be the number of shares of EOG Common Stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of additional shares of EOG Common Stock offered for subscription or purchase pursuant to such rights or warrants, and the denominator of which shall be the number of shares of EOG Common Stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of additional shares of EOG Common Stock that the aggregate offering price of the total number of shares of EOG Common Stock so offered for subscription or purchase pursuant to such rights or warrants would purchase at the market price (determined as the average Closing Price per share of EOG Common Stock for the 20 Trading Days immediately prior to the date such rights or warrants are issued), which shall be determined by multiplying such total number of shares by the exercise price of such rights or warrants and dividing the product so obtained by such market price. To the extent that shares of EOG Common Stock are not delivered after the expiration of such rights or warrants, the Exchange Rate shall be readjusted to the Exchange Rate which would then be in effect had such adjustments for the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of EOG Common Stock actually delivered. In the case of the event referred to in clause (vi) above, the Exchange Rate shall be adjusted by multiplying the Exchange Rate in effect on the record date by a fraction, the numerator of which shall be the market price per share of the EOG Common Stock on the record date for the determination of stockholders entitled to receive the dividend or distribution referred to in clause (vi) above (such market price being determined as the average Closing Price per share of EOG Common Stock for the 20 Trading Days immediately prior to such record date), and the denominator of which shall be such market price per share of EOG Common Stock less the fair market value (as determined by the Board of Directors of Enron, whose determination shall be conclusive, and described in a resolution adopted with respect thereto) as of such record date of the portion of the assets or evidences of indebtedness so distributed or of such subscription rights or warrants applicable to one share of EOG Common Stock. An "Extraordinary Cash Dividend" means, with respect to any 365-day period, all cash dividends on the EOG Common Stock during such period to the extent such dividends exceed on a per share basis 10% of the average Closing Price of the EOG Common Stock over such period (less any such dividends for which a prior adjustment to the Exchange Rate was previously made). All adjustments to the Exchange Rate will be calculated to the nearest 1/10,000th of a share of EOG Common Stock (or if there is not a nearest 1/10,000th of a share to the next lower 1/10,000th of a share). No adjustment in the Exchange Rate shall be required unless such adjustment would require an increase or decrease of at least one percent therein; *provided, however*, that any adjustments which by reason of the foregoing are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

In the event of (i) any consolidation or merger of EOG, or any surviving entity or subsequent surviving entity of EOG (an "EOG Successor"), with or into another entity (other than a merger or consolidation in which EOG is the continuing corporation and in which the EOG Common Stock outstanding immediately prior to the merger or consolidation is not exchanged for cash, securities or other property of EOG or another Person), (ii) any sale, transfer, lease or conveyance to another

Person of the property of EOG or any EOG Successor as an entirety or substantially as an entirety, (iii) any statutory exchange of securities of EOG, or any EOG Successor with another Person (other than in connection with a merger or acquisition); or (iv) any liquidation, dissolution or winding up of EOG or any EOG Successor (any such event being a "Reorganization Event"), the Exchange Rate used to determine the amount payable upon exchange at Maturity for each Exchangeable Note will be adjusted to provide that each Holder of Exchangeable Notes will receive at Maturity cash in an amount equal to (a) if the Transaction Value (as defined below) is greater than or equal to the Threshold Appreciation Price, .8264 multiplied by the Transaction Value, (b) if the Transaction Value is less than the Threshold Appreciation Price but greater than the Initial Price, the Initial Price and (c) if the Transaction Value is less than or equal to the Initial Price, the Transaction Value. "Transaction Value" means (i) for any cash received in any such Reorganization Event, the amount of cash received per share of EOG Common Stock, (ii) for any property other than cash or securities received in any such Reorganization Event, an amount equal to the market value at Maturity of such property received per share of EOG Common Stock as determined by a nationally recognized independent investment banking firm retained for this purpose by Enron and (iii) for any securities received in any such Reorganization Event, an amount equal to the average Closing Price per share of such securities for the 20 Trading Days immediately prior to Maturity multiplied by the number of such securities received for each share of EOG Common Stock.

Notwithstanding the foregoing, in lieu of delivering cash as provided above, Enron may at its option deliver an equivalent value of securities or other property received in such Reorganization Event, determined in accordance with clause (ii) or (iii) above, as applicable. If Enron elects to deliver securities or other property, holders of the Exchangeable Notes will be responsible for the payment of any and all brokerage and other transaction costs upon the sale of such securities or other property. The kind and amount of securities into which the Exchangeable Notes shall be exchangeable after consummation of such transaction shall be subject to adjustment as described in the immediately preceding paragraph following the date of consummation of such transaction.

Enron is required, within ten Business Days following the occurrence of an event that requires an adjustment to the Exchange Rate (or if Enron is not aware of such occurrence, as soon as practicable after becoming so aware), to provide written notice to the Trustee for distribution to all Holders of Exchangeable Notes of the occurrence of such event and a statement in reasonable detail setting forth the method by which the adjustment to the Exchange Rate was determined and setting forth the revised Exchange Rate.

Fractional Shares

No fractional shares of EOG Common Stock will be issued if Enron exchanges the Exchangeable Notes for shares of EOG Common Stock. If more than one Exchangeable Note shall be surrendered for exchange at one time by the same holder, the number of full shares of EOG Common Stock which shall be delivered upon exchange shall be computed on the basis of the aggregate number of Exchangeable Notes so surrendered at Maturity. In lieu of any fractional share otherwise issuable in respect of all Exchangeable Notes of any Holder which are exchanged at Maturity, such Holder shall be entitled to receive an amount in cash equal to the value of such fractional share at the Maturity Price.

Redemption and Defeasance

The Exchangeable Notes are not subject to redemption or defeasance prior to Maturity and do not contain any sinking fund or other mandatory redemption provisions.

Limitations on Mortgages and Liens

The Indenture provides that so long as any of the Indenture Securities issued under the Indenture (including the Exchangeable Notes) are outstanding, Enron will not, and will not permit any Subsidiary (as defined in the Indenture and herein) to, pledge, mortgage or hypothecate, or permit to exist, except in favor of Enron or any Subsidiary, any mortgage, pledge or other lien upon, any Principal Property (as defined in the Indenture and herein) at any time owned by it, to secure any indebtedness (as defined in the Indenture), unless effective provision is made whereby outstanding

Indenture Securities (including the Exchangeable Notes) will be equally and ratably secured with any and all such indebtedness and with any other indebtedness similarly entitled to be equally and ratably secured. This restriction does not apply to prevent the creation or existence of: (a) mortgages, pledges, liens or encumbrances on any property held or used by Enron or a Subsidiary in connection with the exploration for, development of or production of, oil, gas, natural gas (including liquefied gas and storage gas), other hydrocarbons, helium, coal, metals, minerals, steam, timber, geothermal or other natural resources or synthetic fuels, such properties to include, but not be limited to, Enron's or a Subsidiary's interest in any mineral fee interests, oil, gas or other mineral leases, royalty, overriding royalty or net profits interests, production payments and other similar interests, wellhead production equipment, tanks, field gathering lines, leasehold or field separation and processing facilities, compression facilities and other similar personal property and fixtures; (b) mortgages, pledges, liens or encumbrances on oil, gas, natural gas (including liquefied gas and storage gas), other hydrocarbons, helium, coal, metals, minerals, steam, timber, geothermal or other natural resources or synthetic fuels produced or recovered from any property, an interest in which is owned or leased by Enron or a Subsidiary; (c) mortgages, pledges, liens or encumbrances (or certain extensions, renewals or refundings thereof) upon any property acquired before or after the date of the Indenture, created at the time of acquisition or within one year thereafter to secure all or a portion of the purchase price thereof, or existing thereon at the date of acquisition, whether or not assumed by Enron or a Subsidiary, provided that every such mortgage, pledge, lien or encumbrance applies only to the property so acquired and fixed improvements thereon; (d) mortgages, pledges, liens or encumbrances upon any property acquired before or after the date of the Indenture by any corporation that is or becomes a Subsidiary after the date of the Indenture ("Acquired Entity"), provided that every such mortgage, pledge, lien or encumbrance (1) shall either (i) exist prior to the time the Acquired Entity becomes a Subsidiary or (ii) be created at the time the Acquired Entity becomes a Subsidiary or within one year thereafter to secure all or a portion of the acquisition price thereof and (2) shall only apply to those properties owned by the Acquired Entity at the time it becomes a Subsidiary or thereafter acquired by it from sources other than Enron or any other Subsidiary; (e) pledges of current assets, in the ordinary course of business, to secure current liabilities; (f) deposits to secure public or statutory obligations; (g) liens to secure indebtedness other than Funded Debt (as defined in the Indenture and herein); (h) mortgages, pledges, liens or encumbrances upon any office, data processing or transportation equipment; (i) mortgages, pledges, liens or encumbrances created or assumed by Enron or a Subsidiary in connection with the issuance of debt securities the interest on which is excludable from gross income of the holder of such security pursuant to the Internal Revenue Code of 1986, as amended, for the purpose of financing the acquisition or construction of property to be used by Enron or a Subsidiary; (j) pledges or assignments of accounts receivable or conditional sales contracts or chattel mortgages and evidences of indebtedness secured thereby received in connection with the sale by Enron or a Subsidiary of goods or merchandise to customers; or (k) certain other liens or encumbrances.

Notwithstanding the foregoing, Enron or a Subsidiary may issue, assume or guarantee indebtedness secured by a mortgage which would otherwise be subject to the foregoing restrictions in an aggregate amount which, together with all other indebtedness of Enron or a Subsidiary secured by a mortgage which (if originally issued, assumed or guaranteed at such time) would otherwise be subject to the foregoing restrictions (not including secured indebtedness permitted under the foregoing exceptions), does not at the time exceed 10% of the Consolidated Net Tangible Assets (total assets less (a) total current liabilities, excluding indebtedness due within 12 months, and (b) goodwill, patents and trademarks) of Enron, as shown on the audited consolidated financial statements of Enron as of the end of the fiscal year preceding the date of determination.

The holders of at least 50% in principal amount of the outstanding Indenture Securities under the Indenture (including the Exchangeable Notes) may waive compliance by Enron with the covenant described above (and certain other covenants of Enron).

The Indenture defines the term "Subsidiary" to mean a corporation all of the voting shares (that is, shares entitled to vote for the election of directors, but excluding shares entitled so to vote only upon the happening of some contingency unless such contingency shall have occurred) of which shall be owned by Enron or by one or more Subsidiaries or by Enron and one or more Subsidiaries. The term "Principal Property" is defined to mean any oil or gas pipeline, gas processing plant or chemical plant located in the United States, except any such property, pipeline or plant that in the opinion of the Board of Directors of Enron is not of material importance to the total business conducted by Enron and its Subsidiaries. "Principal Property" does not include any oil or gas property or the production or any proceeds of production from an oil or gas producing property or the production or any proceeds of production of gas processing plants or oil or gas or petroleum products in any pipeline.

The term "indebtedness", as applied to Enron or any Subsidiary, is defined to mean bonds, debentures, notes and other instruments representing obligations created or assumed by any such corporation for the repayment of money borrowed (other than unamortized debt discount or premium). All indebtedness secured by a lien upon property owned by Enron or any Subsidiary and upon which indebtedness any such corporation customarily pays interest, even though such corporation has not assumed or become liable for the payment of such indebtedness, is also deemed to be indebtedness of any such corporation. All indebtedness for money borrowed incurred by other persons which is directly guaranteed as to payment of principal by Enron or any Subsidiary is for all purposes of the Indenture deemed to be indebtedness of any such corporation, but no other contingent obligation of any such corporation in respect to indebtedness incurred by other persons is for any purpose deemed indebtedness of such corporation. Indebtedness of Enron or any Subsidiary does not include (i) amounts which are payable only out of all or a portion of the oil, gas, natural gas, helium, coal, metals, minerals, steam, timber or other natural resources produced, derived or extracted from properties owned or developed by such corporation; (ii) any amount representing capitalized lease obligations; (iii) any indebtedness incurred to finance oil, gas, natural gas, helium, coal, metals, minerals, steam, timber, hydrocarbons or geothermal or other natural resources or synthetic fuel exploration or development, payable, with respect to principal and interest, solely out of the proceeds of oil, gas, natural gas, helium, coal, metals, minerals, steam, timber, hydrocarbons or geothermal or other natural resources or synthetic fuel to be produced, sold and/or delivered by Enron or any Subsidiary; (iv) indirect guarantees or other contingent obligations in connection with the indebtedness of others, including agreements, contingent or otherwise, with such other persons or with third persons with respect to, or to permit or ensure the payment of, obligations of such other persons, including without limitation, agreements to purchase or repurchase obligations of such other persons, agreements to advance or supply funds to or to invest in such other persons or agreements to pay for property, products or services of such other persons (whether or not conferred, delivered or rendered) and any demand charge, throughput, take-or-pay, keep-well, make-whole, cash deficiency, maintenance of working capital or earnings or similar agreements; and (v) any guarantees with respect to lease or other similar periodic payments to be made by other persons.

The term "Funded Debt" as applied to any corporation means all indebtedness incurred, created, assumed or guaranteed by such corporation, or upon which it customarily pays interest charges, which matures, or is renewable by such corporation to a date, more than one year after the date as of which Funded Debt is being determined; provided, however, that the term "Funded Debt" shall not include (i) indebtedness incurred in the ordinary course of business representing borrowings, regardless of when payable, of such corporation from time to time against, but not in excess of the face amount of, its installment accounts receivable for the sale of appliances and equipment sold in the regular course of business or (ii) advances for construction and security deposits received by such corporation in the ordinary course of business.

The foregoing limitations on mortgages, pledges and liens are intended to limit other creditors of Enron from obtaining preference or priority over holders of the Indenture Securities issued under the Indenture, but are not intended to prevent other creditors from sharing equally and ratably and without preference ("pari passu") over the holders of such Indenture Securities. While such limitations on mortgages and liens do provide protection to the holders of the Indenture Securities, there are a number of exceptions to such restrictions which could result in certain assets of Enron and its Subsidiaries being encumbered without equally and ratably securing the Indenture Securities issued under the Indenture. Specifically, the restrictions apply only to pledges, mortgages or liens upon "Principal Property" (as defined in the Indenture and herein) to secure any "indebtedness" (as defined in the Indenture and herein), unless effective provision is made whereby outstanding Securities will be equally and ratably secured with any such indebtedness and with any other indebtedness similarly entitled to be equally and ratably secured. There are certain exceptions to the definition of "indebtedness," which are enumerated in the Indenture and herein. In addition, the restrictions do not apply to prevent the creation or existence of mortgages, pledges, liens or encumbrances on certain types of properties or pursuant to certain types of transactions, all as enumerated in the Indenture and above. Also, up to 10% of Consolidated Net Tangible Assets (as defined in the Indenture and herein) is not subject to the mortgage and lien limitations contained in the Indenture.

Modification of the Indenture

With certain exceptions, the Indenture provides that, with the consent of the holders of not less than 50% in principal amount of all outstanding Indenture Securities (including, where applicable, the Exchangeable Notes) affected thereby, Enron and the Trustee may enter into a supplemental indenture for the purpose of adding to, changing or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the holders of Indenture Securities under the Indenture. Notwithstanding the foregoing, the consent of the holder of each outstanding Indenture Security affected thereby will be required to: (a) change the Stated Maturity (as defined in the Indenture) of the principal of, or any installment of principal of or interest on, any Indenture Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change any Place of Payment (as defined in the Indenture) where, or change the coin or currency in which, any Indenture Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date, as defined in the Indenture) or change the terms under which any Exchangeable Notes are exchangeable; (b) reduce the percentage in principal amount of the outstanding Indenture Securities of any series, the consent of whose holders is required for any supplemental indenture or for any waiver provided for in the Indenture; or (c) with certain exceptions, modify any of the provisions of the sections of the Indenture which concern waivers of past defaults, waivers of certain covenants or consent to supplemental indentures, except to increase the percentage of principal amount of Indenture Securities of any series, the holders of which are required to effect such waiver or consent, or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Indenture Security affected thereby. The Indenture provides that a supplemental indenture which changes or eliminates any covenant or other provision of the Indenture which has expressly been included solely for the benefit of one or more particular series of Indenture Securities, or which modifies the rights of the holders of Indenture Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under the Indenture of the holders of Indenture Securities of any other series.

Events of Default and Rights Upon Default

Under the Indenture, the term "Event of Default" with respect to any series of Indenture Securities, means any one of the following events which shall have occurred and is continuing: (a) default in the payment of any interest upon any Indenture Security of that series when it becomes due and payable or default in the payment of any mandatory sinking fund payment provided for by the terms of any series of Indenture Securities, and continuance of such default for a period of 30 days; (b) default in the payment of the principal of (or premium, if any, on) any Indenture Security of that series at its maturity; (c) default in the performance, or breach, of any covenant or warranty of Enron in the Indenture (other than a covenant or warranty a default in the performance of which or the breach of which is otherwise specifically dealt with in the Indenture or which has been expressly included in the Indenture solely for the benefit of one or more series of Indenture Securities other than that series), and continuance of such default or breach for 60 days after there has been given to Enron by the Trustee, or to Enron and the Trustee by the holders of at least 25% in principal amount of all outstanding Indenture Securities, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Indenture; or (d) certain events involving Enron in bankruptcy, receivership or other insolvency proceedings or an assignment for the benefit of creditors.

If an Event of Default described in clause (a) or (b) in the foregoing paragraph has occurred and is continuing with respect to Indenture Securities of any series, the Indenture provides that the Trustee or the holders of not less than 25% in principal amount of the outstanding Indenture Securities of that series may declare the principal amount of all of the Indenture Securities of that series to be due and payable immediately, and upon any such declaration such principal amount shall become immediately due and payable. If an Event of Default described in clause (c) or (d) of the foregoing paragraph occurs and is continuing, the Trustee or the holders of not less than 25% in principal amount of all of the Indenture Securities then outstanding may declare the principal amount of all of the Indenture Securities to be due and payable immediately, and upon any such declaration such principal amount shall become immediately due and payable.

A default under other indebtedness of Enron is not an Event of Default under the Indenture, and an Event of Default under one series of Indenture Securities will not necessarily be an Event of Default under another series.

At any time after such a declaration of acceleration with respect to Indenture Securities of any series (or of all series, as the case may be) has been made and before judgment or decree for payment of the money due has been obtained by the Trustee, the holders of a majority in principal amount of the outstanding Indenture Securities of that series (or of all series, as the case may be) may rescind and annul such declaration and its consequences, if, subject to certain conditions, all Events of Default with respect to Indenture Securities of that series (or of all series, as the case may be), other than the non-payment of the principal of the Indenture Securities due solely by such declaration of acceleration, have been cured or waived and all payments due (other than by acceleration) have been paid or deposited with the Trustee. With certain exceptions, the holders of not less than a majority in principal amount of the outstanding Indenture Securities of any series, on behalf of the holders of all the Indenture Securities of such series, may waive any past default described in clause (a) or (b) of the first paragraph of this heading "Events of Default and Rights Upon Default" (or, in the case of a default described in clause (c) or (d) of such paragraph, the holders of a majority in principal amount of all outstanding Indenture Securities may waive any such past default), and its consequences, except a default (a) in the payment of the principal of (or premium, if any) or interest on any Indenture Security, or (b) in respect of a covenant or provision of the Indenture which under the Indenture cannot be modified or amended without the consent of the holder of each outstanding Indenture Security of such series affected.

The holders of not less than a majority in principal amount of the Indenture Securities of any series at the time outstanding are empowered under the terms of the Indenture, subject to certain limitations, to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

The Indenture further provides that no holder of an Indenture Security of any series may enforce the Indenture except in the case of failure by the Trustee to act for 60 days after notice of a continuing Event of Default with respect to the Indenture Securities of that series and after request by the holders of not less than 25% in principal amount of the outstanding Indenture Securities of such series and the offer to the Trustee of reasonable indemnity, but this provision will not prevent a holder of any Indenture Security from enforcing the payment of the principal of, and interest on, such holder's Indenture Security.

The Indenture requires that Enron deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate, stating whether to the best knowledge of the signers thereof, Enron is in default in the performance and observance of certain of the terms of the Indenture and, if so, specifying each such default and the nature and status thereof of which the signers may have knowledge.

Concerning the Trustee

Harris Trust and Savings Bank is the Trustee under the Indenture. Such bank also acts as a depository of funds for, makes loans to, and performs other services for, Enron in the normal course of business, including acting as trustee under other indentures of Enron.

The Indenture contains the provisions required by the Trust Indenture Act of 1939 with reference to the disqualification of the Trustee if it shall have or acquire any "conflicting interest", as therein defined. The Indenture also contains certain limitations on the right of the Trustee, as a creditor of Enron, to obtain payment of claims in certain cases, or to realize on certain property received by it in respect of any such claims, as security or otherwise.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain U.S. federal income tax consequences that may be relevant to a citizen or resident of the United States, a corporation, partnership or other entity created or organized under the laws of the United States, or an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source (any of the foregoing, a "U.S. Person") who is the beneficial owner of Exchangeable Notes (a "U.S. Holder"), which in the opinion of Vinson & Elkins L.L.P. is accurate insofar as it expresses conclusions of law. All references to "holders" (including U.S. Holders) are to beneficial owners of the Exchangeable Notes. This discussion, which was prepared by Vinson & Elkins L.L.P., is based on current U.S. federal income tax law and is for general information only.

This summary deals only with holders who are initial holders of the Exchangeable Notes and who will hold the Exchangeable Notes as capital assets. It does not address tax considerations applicable to investors that may be subject to special U.S. federal income tax treatment, such as dealers in securities or persons holding the Exchangeable Notes as a position in a "straddle" for U.S. federal income tax purposes or as part of a "synthetic security" or other integrated investment, and does not address the consequences under state, local or foreign law.

No statutory, judicial or administrative authority directly addresses the characterization of the Exchangeable Notes or instruments similar to the Exchangeable Notes for U.S. federal income tax purposes. As a result, significant aspects of the U.S. federal income tax consequences of an investment in the Exchangeable Notes are not certain. No ruling is being requested from the Internal Revenue Service (the "IRS") with respect to the Exchangeable Notes and no assurance can be given that the IRS will agree with the characterization and tax treatment of the Exchangeable Notes described herein. In addition, Vinson & Elkins L.L.P. has stated in its opinion that it could give no opinion with respect to the specific tax consequences of owning or disposing of the Exchangeable Notes, including the characterization of the Exchangeable Notes. President Clinton recently announced as part of the Administration's 1996 budget, a proposal to deny the deductibility of interest on certain debt instruments, including instruments similar to the Exchangeable Notes. This announcement enhances the possibility that the IRS might challenge the contractually agreed upon characterization of the Exchangeable Notes described below. **ACCORDINGLY, A PROSPECTIVE INVESTOR (INCLUDING A TAX-EXEMPT INVESTOR) IN THE EXCHANGEABLE NOTES SHOULD CONSULT ITS TAX ADVISOR IN DETERMINING THE TAX CONSEQUENCES OF AN INVESTMENT IN THE EXCHANGEABLE NOTES, INCLUDING THE APPLICATION OF STATE, LOCAL OR OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.**

Pursuant to the terms of the Indenture, Enron and all holders of the Exchangeable Notes will agree to treat an Exchangeable Note as a unit (the "Unit") consisting of (i) an exchange note ("Exchange Note") which is a debt obligation with a fixed principal amount unconditionally payable at Maturity equal to the principal amount of the Exchangeable Note, bearing interest at the stated interest rate on the Exchangeable Note, and (ii) a forward purchase contract (the "Purchase Contract") pursuant to which the holder agrees to use the principal payment due on the Exchange Note to purchase at Maturity the EOG Common Stock which the holder is entitled to receive at that time (subject to Enron's right to deliver cash in lieu of EOG Common Stock). The Indenture will require that a U.S. Holder include currently in income payments denominated as interest that are made with respect to the Exchangeable Notes, in accordance with such holder's method of accounting, and the amount of OID, if any, attributable to the Exchangeable Notes.

Pursuant to the agreement to treat the Exchangeable Notes as a Unit, a holder will be required to allocate the purchase price of the Exchangeable Note between the two components of the Unit (the Exchange Note and the Purchase Contract) on the basis of their relative fair market values. The purchase price so allocated will generally constitute the tax basis for each component. Pursuant to the terms of the Indenture, Enron and the holders agree to allocate the entire purchase price of an Exchangeable Note to the Exchange Note unless the stated interest on the Exchangeable Note represents a yield that is lower than Enron's normal cost of issuing debt with a similar term to the Exchangeable Note ("Enron's Mid-Term Borrowing Rate"). If the stated interest on the Exchangeable Note represents a yield that is lower than Enron's Mid-Term Borrowing Rate of 5.90 percent, Enron and the holders agree to allocate to the Exchange Note an amount, less than the principal amount of the Exchange Note, calculated by discounting the cash flows relating to the Exchange Note at a rate equal to Enron's Mid-Term Borrowing Rate, and to allocate to the Purchase Contract the remainder of the purchase price of the Exchangeable Note.

If the amount allocated to the Exchange Note (its deemed issue price) is less than the stated principal amount of the Exchangeable Note, the Exchange Note will be treated as having OID. In that event, a U.S. Holder will be required to include in income OID as it accrues, in accordance with a constant-yield method, in an aggregate amount equal to the difference between the stated principal amount of the Exchangeable Note and the deemed issue price of the Exchange Note. However, if the amount of OID relating to an Exchange Note is less than three-fourths of one percent of the stated principal amount of the Exchangeable Note, no amount of OID will be deemed to exist with respect to the Exchange Note. A U.S. Holder's tax basis in the Exchange Note will increase over its term by the amount of OID included in such holder's income with respect to the Exchangeable Note.

Upon the sale or other disposition of an Exchangeable Note, a U.S. Holder generally will be required to allocate the amount realized between the two components of the Exchangeable Note on the basis of their then relative fair market values. A U.S. Holder will recognize gain or loss with respect to each component equal to the difference between the amount realized on the sale or other disposition for each such component and the U.S. Holder's tax basis in such component. Such gain or loss generally will be long-term capital gain or loss if the U.S. Holder has held the Exchangeable Note for more than a year at the time of disposition.

At Maturity, pursuant to the agreement to treat the Exchangeable Note as a Unit, on the repayment of the Exchange Note a U.S. Holder will recognize capital gain or loss which will be long-term capital gain or loss unless Maturity occurs within one year of issuance of the Exchangeable Note (as a result of acceleration or otherwise) equal to any difference between its tax basis and the principal amount of the Exchange Note. If Enron delivers EOG Common Stock at Maturity, a U.S. Holder will recognize no additional gain or loss on the exchange, pursuant to the Purchase Contract, of the principal payment due on the Exchange Note for the EOG Common Stock. However, a U.S. Holder will recognize additional capital gain or loss, which should be short-term capital gain or loss, equal to the difference between the cash received in lieu of fractional shares and the portion of the principal amount of the Exchange Note allocable to fractional shares. A U.S. Holder will have a tax basis in such shares of EOG Common Stock equal to the principal amount of the Exchange Note less the amount of the portion of the principal amount of the Exchange Note allocable to any fractional shares. The U.S. Holder will have a holding period for the EOG Common Stock that begins on the day after the Maturity date, and will realize short- or long-term capital gain or loss upon the subsequent sale or disposition of such stock. Alternatively, at Maturity, if Enron pays the Exchangeable Note in cash, a U.S. Holder will have additional gain or loss (which might be ordinary income or loss rather than capital gain or loss) equal to the difference between the principal amount of the Exchangeable Note and the amount of cash received from Enron.

Due to the absence of authority as to the proper characterization of the Exchangeable Note, no assurance can be given that the IRS will accept or that a court will uphold the characterization agreed to in the Indenture or the tax treatment described above. Proposed Treasury regulations with respect to "contingent payment" debt instruments (the "Proposed Regulations") would provide for a different tax result under some circumstances for instruments having characteristics similar to the Exchangeable Notes, but the Proposed Regulations would be effective only for instruments issued 60 days or more after their publication as final regulations. Under the Proposed Regulations, the amount of interest included in a holder's taxable income for any year would generally be determined by projecting the amounts of contingent payments (which might include the value of the EOG Common Stock to be delivered at Maturity) and the yield on the instrument. Taxable interest income would be measured with reference to the projected yield, which might be less than or greater than the stated interest rate under the instrument. In the event that the amount of an actual contingent payment differed from the projected amount of that payment, the difference would generally increase or reduce taxable interest income, or create a loss. Because of their prospective effective date, the Proposed Regulations, if finalized in their current form, would not apply to the Exchangeable Notes.

Even in the absence of regulations applicable to the Exchangeable Notes, the Exchangeable Notes may be characterized under current law in a manner that results in tax consequences different from those reflected in the agreement pursuant to the Indenture and as described above. Under alternative characterizations of the Exchangeable Notes, it is possible, for example, that (i) a U.S. Holder may be taxed upon the receipt of EOG Common Stock with a value in excess of the principal amount of the Exchange Note, rather than upon the sale of such stock, (ii) any gain recognized at Maturity (whether a U.S. Holder received EOG Common Stock or cash) may be treated as ordinary income rather than capital gain, (iii) all or part of the interest income on the Exchange Note may be treated as nontaxable, increasing the gain (or decreasing the loss) at Maturity or upon disposition of the Exchangeable Note (or disposition of the EOG Common Stock) or (iv) if the stated interest rate exceeds Enron's Mid-Term Borrowing Rate, the Exchange Notes could be considered as issued at a premium which, if amortized, would reduce the amount of interest income currently includible in income by a holder and increase the taxable gain (or decrease the loss) realized at Maturity or upon disposition of the Exchangeable Notes (or disposition of the EOG Common Stock).

The Revenue Reconciliation Act of 1993 added Section 1258 to the Code, which may require certain holders of the Exchangeable Notes who have entered into hedging transactions or offsetting positions with respect to the Exchangeable Notes to recognize ordinary income rather than capital gain upon the disposition of the Exchangeable Notes. Holders should consult their tax advisors regarding the applicability of this provision to an investment in the Exchangeable Notes.

Non-United States Person

In the case of a holder of the Exchangeable Notes that is not a U.S. Person, payments made with respect to the Exchangeable Notes should not be subject to U.S. withholding tax; *provided* that such holder complies with applicable certification requirements. Any capital gain realized upon the sale or other disposition of the Exchangeable Notes by a holder that is not a U.S. Person will generally not be subject to U.S. federal income tax if (i) such gain is not effectively connected with a U.S. trade or business of such holder and (ii) in the case of an individual, such individual is not present in the United States for 183 days or more in the taxable year of the sale or other disposition and either such individual does not have a "tax home" in the United States or the gain is not attributable to a fixed place of business maintained by such individual in the United States.

Backup Withholding and Information Reporting

A holder of the Exchangeable Notes may be subject to information reporting requirements and to backup withholding at a rate of 31 percent of certain amounts paid to the holder unless such holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with applicable requirements of the backup withholding rules.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, Enron has agreed to sell to each of the Underwriters named below (the "Underwriters"), and each of such Underwriters, for whom Goldman, Sachs & Co. are acting as representatives, has severally agreed to purchase from Enron, the respective number of Exchangeable Notes set forth opposite its name below:

Underwriter	Number of Exchangeable Notes
Goldman, Sachs & Co.	3,333,334
Merrill Lynch, Pierce, Fenner & Smith Incorporated	3,333,333
Salomon Brothers Inc	3,333,333
Total	10,000,000

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of the Exchangeable Notes offered hereby, if any are taken.

The Underwriters propose to offer the Exchangeable Notes in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus, and in part to certain securities dealers at such price less a concession of $.40 per Exchangeable Note. The Underwriters may allow, and each of such dealers may reallow, a concession not exceeding $.10 per Exchangeable Note to certain dealers and brokers. After the Exchangeable Notes are released for sale to the public, the offering price and the other selling terms may from time to time be varied by the representatives.

Enron has granted the Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to 1,000,000 additional Exchangeable Notes solely to cover over-allotments, if any. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of Exchangeable Notes to be purchased by each of them, as shown in the foregoing table, bears to the 10,000,000 Exchangeable Notes offered.

Enron, EOG and EOG's Chief Executive Officer have agreed that during the period beginning from the date of this Prospectus and continuing to and including the date 270 days after the date of this Prospectus, subject to certain exceptions set forth in the Underwriting Agreement, they will not offer, sell, contract to sell or otherwise dispose of any EOG Common Stock, any securities of EOG which are substantially similar to shares of EOG Common Stock or any securities which are convertible into or exchangeable for EOG Common Stock or such substantially similar securities without the prior written consent of Goldman, Sachs & Co., except for the shares of EOG Common Stock offered in connection with the concurrent Stock Offering.

The Exchangeable Notes have been approved for listing on the NYSE, subject to official notice of issuance. The EOG Common Stock (including the shares of EOG Common Stock which may be received by a holder of Exchangeable Notes at Maturity) is listed on the NYSE.

The Underwriters and/or their affiliates have provided investment banking and financial advisory services to Enron, its subsidiaries or affiliates in the past, for which they have received customary compensation and expense reimbursement, and may do so again in the future.

Enron and EOG have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Underwriters may be required to make in respect thereof.

VALIDITY OF THE EXCHANGEABLE NOTES

The validity of the Exchangeable Notes will be passed upon for Enron by James V. Derrick, Jr., Senior Vice President and General Counsel of Enron. Mr. Derrick owns substantially less than 1% of the outstanding shares of Common Stock of Enron. Certain matters will be passed upon for Enron by Vinson & Elkins L.L.P. The validity of the Exchangeable Notes will be passed upon for the Underwriters by Bracewell & Patterson, L.L.P. Bracewell & Patterson, L.L.P. currently provides services to Enron and certain of its subsidiaries and affiliates as outside counsel on matters unrelated to the issuance of the Exchangeable Notes.

EXPERTS

The consolidated financial statements and schedules included in Enron's Annual Report on Form 10-K for the year ended December 31, 1994, incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto and are incorporated by reference herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

The letter report of DeGolyer and MacNaughton, independent petroleum consultants, included as an exhibit to Enron's Annual Report on Form 10-K for the year ended December 31, 1994, and the estimates from the reports of that firm appearing in such Annual Report, are incorporated by reference herein on the authority of said firm as experts in petroleum engineering and in giving such reports.

SUBJECT TO COMPLETION, DATED NOVEMBER 14, 1995

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

APPENDIX A

Enron Oil & Gas Company

Common Stock

(par value $.01 per share)

This Prospectus relates to up to 11,000,000 shares of common stock, par value $.01 per share (the "Common Stock"), of Enron Oil & Gas Company (the "Company"), which may be delivered by Enron Corp. upon mandatory exchange of the % Exchangeable Notes due , 1998 (the "Exchangeable Notes") of Enron Corp., subject to Enron Corp.'s right to deliver cash in lieu of such shares. This Prospectus is Appendix A to a prospectus of Enron Corp. covering the sale of the Exchangeable Notes (the "Exchangeable Notes Prospectus"). The Company will not receive any of the proceeds from the sale of the Exchangeable Notes or the delivery of shares of Common Stock upon mandatory exchange of the Exchangeable Notes at maturity.

Enron Corp. has granted the underwriters of the Exchangeable Notes a 30-day option to purchase up to an additional 1,000,000 Exchangeable Notes at the initial offering price per Exchangeable Note, less the underwriting discount, which may be exchangeable at their maturity for additional shares of Common Stock. Such option has been granted solely to cover over-allotments, if any.

Concurrently with the offering of the Exchangeable Notes made by the Exchangeable Notes Prospectus (the "Exchangeable Notes Offering"), Enron Corp. is offering for sale 27,000,000 shares of Common Stock (31,050,000 shares if the underwriters' over-allotment options in such offerings are exercised in full) in concurrent U.S. and international offerings (collectively, the "Stock Offerings"). The consummation of the Exchangeable Notes Offering is not contingent upon the consummation of the Stock Offerings, or vice versa.

On November 13, 1995, the last reported sale price of Common Stock on the New York Stock Exchange Composite Tape was $20[illegible] per share. See "Price Range of Common Stock and Cash Dividends".

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is , 1995.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; and at the following Regional Offices of the Commission: Midwest Regional Office, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661; and Northeast Regional Office, Seven World Trade Center, Suite 1300, New York, New York 10048. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. The Company's Common Stock is listed on the New York Stock Exchange, Inc. ("NYSE"), and reports, proxy statements and other information concerning the Company can be inspected and copied at the offices of the New York Exchange at 20 Broad Street, New York, New York 10005.

This Prospectus constitutes a part of a Registration Statement on Form S-3 (together with all amendments and exhibits thereto, the "Registration Statement") filed by the Company with the Commission under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the shares of Common Stock offered hereby. This Prospectus does not contain all of the information set forth in such Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. Reference is made to such Registration Statement and to the exhibits relating thereto for further information with respect to the Company and the shares of Common Stock offered hereby. Any statements contained herein concerning the provisions of any document filed as an exhibit to the Registration Statement or otherwise filed with the Commission or incorporated by reference herein are not necessarily complete, and in each instance reference is made to the copy of such document so filed for a more complete description of the matter involved. Each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-K for the year ended December 31, 1994, Quarterly Reports on Form 10-Q for the quarters ended March 31, 1995, June 30, 1995 and September 30, 1995 and the description of the Common Stock contained in the Registration Statement on Form 8-A declared effective on October 3, 1989, are incorporated herein by reference.

Each document filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the shares of Common Stock pursuant hereto shall be deemed to be incorporated herein by reference and to be a part hereof from the date of filing of such document. Any statement contained herein or in a document all or a portion of which is incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom a copy of this Prospectus is delivered, on the request of any such person, a copy of any or all of the foregoing documents incorporated herein by reference, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into the documents that this Prospectus incorporates). Requests should be directed to Secretary Division, Enron Oil & Gas Company, at its principal executive offices, 1400 Smith Street, Houston, Texas 77002 (telephone: 713-853-6161).

IN CONNECTION WITH THE OFFERING OF THE EXCHANGEABLE NOTES AND COMMON STOCK OF THE COMPANY BY ENRON CORP., THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE EXCHANGEABLE NOTES OR THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following is a summary of certain information contained in this Prospectus. It is not intended to be complete and is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus. Certain terms are defined in this summary under "Certain Definitions." Capitalized terms which are not defined in this summary are used as defined elsewhere in this Prospectus.

The Company

Enron Oil & Gas Company (together with its subsidiaries, "the Company") is one of the largest independent (non-integrated) oil and gas companies in the United States in terms of domestic proved reserves. It is engaged, directly and through its subsidiaries, in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in major producing basins in the United States, as well as in Canada, Trinidad and India and to a lesser extent, selected other international areas. At December 31, 1994, the Company's estimated net proved natural gas reserves were 1,910 Bcf and estimated net proved crude oil, condensate and natural gas liquids reserves were 37 MMBbl, a net increase of 8% and 78%, respectively, over year end 1993. The Company has increased its reserves for six consecutive years. At December 31, 1994, approximately 70% of the Company's reserves (on a natural gas equivalent basis) was located in the United States, 16% in Canada, 11% in Trinidad and 3% in India. At such date, approximately 90% of the Company's total proved reserves was classified as developed.

While year end reserve evaluations will not be available for some time, based on the results of the Company's drilling program for the first nine months of 1995, it is expected that extensions, discoveries and other additions to reserves for the year will exceed production for both North America and Trinidad, as well as in total. Additionally, reserves acquired are expected to substantially exceed those sold, with the resulting replacement of production from all sources expected to exceed 150%.

Business Strategy. The Company's strategy is to maximize the rate of return on investment of capital by controlling both operating and capital costs and enhancing the certainty of future revenues through the use of various marketing mechanisms. This strategy enhances the generation of both income and cash flow from each unit of production and allows for the growth of production on a cost-effective basis by optimizing the reinvestment of cash flow. Through this strategy, the Company has increased its net income in each of the last five years, despite the volatile natural gas price environment, and achieved a return on equity ranging from 8% in 1990 to 15% in 1994. For the first nine months of 1995, net income increased 5% compared to the same period for 1994.

The Company refocused its 1995 drilling activity away from natural gas deliverability and toward natural gas reserve enhancement and crude oil exploitation in the United States in response to the decline in United States natural gas prices in recent periods. The Company also is focusing on the cost-effective utilization of advances in technology associated with gathering, processing and interpretation of 3-D seismic data, developing reservoir simulation models and drilling operations through the use of new and/or improved drill bits, mud motors, mud additives, formation logging techniques and reservoir fracturing methods. These advanced technologies are used, as appropriate, throughout the Company to reduce the risks associated with all aspects of oil and gas reserve exploration, exploitation and development.

The Company implements its strategy by emphasizing the drilling of internally generated prospects in order to find and develop low cost reserves. By following this strategy, the Company has increased production in each of the last four years with a compound annual growth rate of 13.1%, while increasing proved reserves approximately 32%, both on a natural gas equivalent basis. For 1994, net equivalent production reached a new high of 307 Bcfe, an increase of 9% over 1993. Natural gas production in 1994 averaged approximately 749 MMcf per day, which represents an increase of 6% over 1993. Crude oil and condensate production averaged 12.6 MBbl per day in 1994 which represents an increase of 42% over 1993. Natural gas production for the first nine months of 1995 averaged 719 MMcf per day, down 24 MMcf per day from the first nine months of 1994. Lower volumes in 1995 reflect the voluntary curtailment by the Company of United States production at a higher rate than in 1994 because United States natural gas prices were down by 26% period to period, the impact of the sale of reserves and related assets and the effect of the reduction and redirection of natural gas drilling activities early in 1995. Crude oil and condensate volumes for the first nine months of 1995 averaged 18.6 MBbl per day, an increase of 55% over the first nine months of 1994.

Achieving and maintaining the lowest possible cost structure are also important goals in the implementation of the Company's strategy. Over the last five years, the Company has reduced total cash operating expenses, including lease and well, general and administrative, taxes other than income, and interest expenses from $.95/Mcfe in 1989 to $.49/Mcfe in 1994, a reduction of 48%. At the same time non-cash expenses (depreciation, depletion and amortization) have been reduced from $.93/Mcfe in 1989 to $.80/Mcfe in 1994, a reduction of 14%. For the first nine months of 1995, cash operating expenses averaged $.56/Mcfe compared to $.50/Mcfe for the first nine months of 1994 and non-cash expenses averaged $.69/Mcfe and $.81/Mcfe for the two periods, respectively.

Consistent with the Company's desire to optimize the use of its assets, the Company also maintains a strategy of selling select oil and gas properties that for various reasons no longer fit into future operating plans, or which are not assessed to have sufficient future growth potential and when the economic value to be obtained by selling the properties and reserves in the ground is evaluated to be greater than what would be obtained by holding the properties and producing the reserves over time. As a result, the Company typically receives each year a varying but substantial level of proceeds related to such sales which proceeds are available for general corporate use. Proceeds from property sales in 1994 were $91 million ($71 million after tax) and in the first nine months of 1995 were $101 million ($77 million after tax).

North American Operations. The Company's seven principal United States producing areas are the Big Piney area of Wyoming, South Texas area, East Texas area, Offshore Gulf of Mexico area, Canyon Trend area of West Texas, Pitchfork Ranch area of New Mexico and Vernal area of Utah. Properties in these areas comprised approximately 76% of the Company's United States reserves (on a natural gas equivalent basis) and 85% of the Company's United States net natural gas deliverability as of December 31, 1994 and are substantially all operated by the Company. The Company's other United States natural gas and crude oil producing properties are located primarily in other areas of Texas, Utah, New Mexico and in Oklahoma.

At December 31, 1994, 93% of the Company's proved United States reserves (on a natural gas equivalent basis) was natural gas and 7% was crude oil, condensate and natural gas liquids. A substantial portion of the Company's United States natural gas reserves is in long-lived fields with well-established production histories. The Company believes that opportunities exist to increase production in many of these fields through continued infill and other development drilling.

The Company also has natural gas and crude oil producing properties located in Western Canada, primarily in the provinces of Alberta, Saskatchewan and Manitoba. The Company produces natural gas from seven major areas and crude oil from three major areas. The Sandhills area in

Southern Saskatchewan is the largest single producing area, contributing 51% of Canadian deliverability at September 30, 1995. Canadian natural gas deliverability net to the Company at September 30, 1995 was approximately 70 MMcf per day and the Company held approximately 350,000 net undeveloped acres in Canada.

Outside North America Operations. The Company has operations offshore Trinidad and India and is conducting exploration in selected other international areas. Properties offshore Trinidad and India comprise 100% of the Company's current reserves and production outside of North America. The Company's reserves at December 31, 1994 included 236 Bcf of natural gas and 12 MMBbl of liquids in these two areas. The Company's net production from offshore Trinidad was approximately 100 MMcf per day of natural gas and 6.2 MBbl per day of crude oil and condensate at September 30, 1995. The Company's net production from offshore India was approximately 3.5 MBbl per day of crude oil net to the Company at September 30, 1995. In addition, the Company is pursuing other exploitation opportunities in countries, including China, Mozambique and Qatar, where indigenous natural gas reserves have been identified, particularly where synergies in natural gas transportation, processing and power cogeneration can be optimized with other Enron Corp. affiliated companies.

Relationship Between the Company and Enron Corp.

All of the shares of Common Stock offered hereby and in the Stock Offerings are being sold by Enron Corp., and the Company will receive no proceeds from such sales. Concurrently with the offering of the Exchangeable Notes, Enron Corp. is offering for sale 27,000,000 shares of Common Stock (31,050,000 shares if the Underwriters' over-allotment options ip such Stock Offerings are exercised in full). Following the consummation of the Stock Offerings, Enron Corp. will own an aggregate of 101,000,000 shares of Common Stock or approximately 63% of the outstanding shares (or, assuming that the Underwriters' over-allotment options in the Stock Offerings are exercised in full, 96,950,000 shares of Common Stock or approximately 61% of the outstanding shares). At maturity, the Exchangeable Notes may be exchanged for no more than 10,000,000 shares of Common Stock (no more than 11,000,000 shares if the over-allotment option of the underwriters in the Exchangeable Notes Offering is exercised in full), subject to adjustment under certain circumstances and to Enron Corp.'s option to pay an amount of cash in lieu of such mandatory exchange. Assuming the underwriters' over-allotment options in the Stock Offerings and the Exchangeable Notes Offering are exercised in full and the maximum number of shares is mandatorily exchanged at maturity of the Exchangeable Notes, Enron Corp.'s remaining ownership of Common Stock would be approximately 54% of the outstanding shares. Any market that develops in the Exchangeable Notes is likely to influence, and be influenced by, the market for the Common Stock. For example, the price of the Common Stock could become more volatile and could be depressed by possible sales of Common Stock by investors who view the Exchangeable Notes as a more attractive means of equity participation in the Company and by hedging and arbitrage activity that may develop involving the Exchangeable Notes and the Common Stock.

Neither the Stock Offerings nor the delivery of shares of Common Stock pursuant to the terms of the Exchangeable Notes will affect the existing agreements between the Company and Enron Corp. and their respective affiliates, except for the Tax Allocation Agreement which will cease to be effective from the time at which deconsolidation occurs (when Enron Corp. ceases to own 80% of the outstanding shares of Common Stock) for future periods, but will remain in effect with regard to periods prior to deconsolidation. For issues not addressed in the original agreement, the Company has entered into a supplemental agreement with Enron Corp. clarifying future potential adjustments associated with the final settlement on audit of taxes for periods prior to the deconsolidation. The

Company does not believe that the cessation of consolidated tax reporting with Enron Corp. and effectiveness of the Tax Allocation Agreement concurrent with deconsolidation will have a material adverse effect on its financial condition or results of operations. See "Relationship Between the Company and Enron Corp."

The nature of the respective businesses of the Company and Enron Corp. and its affiliates is such as to potentially give rise to conflicts of interest between the two companies. The Company's operations account for substantially all of Enron Corp.'s natural gas and crude oil exploration and production operations. An affiliate of Enron Corp. has entered into an agreement to acquire a controlling interest in Coda Energy, Inc. ("Coda"), a company engaged in domestic oil and gas exploration, development and production. Crude oil accounts for approximately 86% of Coda's proved reserves. At December 31, 1994, Coda reported estimated proved natural gas reserves of 39,808 MMcf and estimated proved crude oil, condensate and natural gas liquids reserves of 39,207 MBbls. If the transaction is consummated, conflicts of interest could arise between the Company and Coda. See "Relationship Between the Company and Enron Corp. – Conflicts of Interest."

Summary Financial and Operating Information

The following table sets forth a summary of selected consolidated financial and operating data for the Company for each of the five years in the period ended December 31, 1994 and for the nine-month periods ended September 30, 1994 and 1995. This information should be read in conjunction with the consolidated financial statements of the Company and related notes thereto incorporated by reference herein (see "Incorporation of Certain Documents by Reference") and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus. Financial information for each of the five years in the period ended December 31, 1994 has been derived from audited financial statements. Financial information for the nine-month periods ended September 30, 1994 and 1995 has been derived from unaudited financial statements. The interim data reflects all adjustments which, in the opinion of the management of the Company, are necessary to present fairly such information for the interim periods. Results of the nine-month periods are not necessarily indicative of the results expected for a full year or any other interim period.

	Year Ended December 31,					Nine Months Ended September 30,	
	1990	1991	1992	1993	1994	1994	1995
	(In Thousands, Except Per Share Amounts and Operating Data)						
Statement of Income Data:							
Net operating revenues(1)	$ 403,137	$ 402,588	$ 459,028	$ 581,020	$ 625,823	$ 474,340	$ 492,342
Income before income taxes	34,614	45,669	79,844	112,273	153,935	126,166	144,175
Net income	45,468	47,916	97,580	138,025	147,998	105,438	110,731
Earnings per share of common stock(2)	$.30	$.32	$.63	$.86	$.93	$.66	$.69
Average number of common shares(2)	151,800	151,800	154,533	159,966	159,845	159,826	159,951
Balance Sheet Data (at period end):							
Net oil and gas properties	$1,305,136	$1,339,666	$1,466,011	$1,546,045	$1,684,811	$1,637,762	$1,843,150
Total assets	1,417,939	1,455,608	1,731,012	1,811,162	1,861,867	1,855,819	2,109,971
Long-term debt							
Affiliate	277,918	132,836	–(3)	–	25,000	25,000	16,320
Other	140,442	289,558	150,000(3)	153,000	165,337	158,662	247,552
Deferred revenue	–	–	301,395	227,528	184,183	195,109	224,085
Shareholders' equity	610,042	643,185	826,966(3)	933,073	1,043,419	1,019,712	1,140,295
Operating Data:							
Wellhead Volumes and Prices							
Natural Gas Volumes (MMcf per day)(4)	455	491	564	709	749	743	719
Average Natural Gas Prices ($/Mcf)(5)	$1.51	$1.37	$1.58	$1.92	$1.62	$1.69	$1.23
Crude/Condensate Volumes (MBbl per day)	8.2	8.2	8.5	8.9	12.6	12.0	18.6
Average Crude/Condensate Prices ($/Bbl)	$21.67	$18.78	$17.90	$16.37	$15.62	$15.24	$16.77

(1) Net operating revenues for the years 1990 and 1991 and for the first nine months of 1994 have been revised to include gains from sales of reserves and related assets for consistency with current year reporting.

(2) In May 1994, the Board of Directors declared a two-for-one split of the Company's Common Stock to be effected as a non-taxable dividend of one share for each share outstanding on May 31, 1994. All share and per share amounts presented herein are reflected on a post-split basis.

(3) In August 1992, the Company completed the sale of 8.2 million shares of Common Stock resulting in aggregate net proceeds to the Company of approximately $112 million used primarily to repay long-term debt. In September 1992, the Company completed the sale of a volumetric production payment, resulting in net proceeds of approximately $327 million used to repay long-term debt and for other general corporate purposes.

(4) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of a volumetric production payment agreement effective October 1, 1992, as amended.

(5) Includes an average equivalent wellhead value of $1.70 per Mcf in 1992, $1.57 per Mcf in 1993, $1.27 per Mcf in 1994 and $1.32 per Mcf and $.76 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively, for the volumes described in note (4), net of transportation costs.

Summary Oil and Gas Reserve Information

The following table sets forth summary information with respect to the Company's estimates of its net proved natural gas, crude oil, condensate and natural gas liquids reserves at December 31, 1994. For additional information relating to reserves, see "Business - Oil and Gas Exploration and Production Properties and Reserves."

	Natural Gas (Bcf)	Liquids (MBbl)(1)	Natural Gas Equivalents (Bcfe)	
			Developed	Undeveloped
Net proved reserves at December 31, 1994:				
United States	1,307	17,787	1,229	185
Canada	297	7,237	330	10
Trinidad	206	4,429	233	-
India	29	7,585	46	29
Total	1,839	37,038	1,838	224

Reserve amounts set out above have been revised to exclude volumes attributable to a volumetric production payment from owned reserves.

The Company's estimates of its net proved natural gas, crude oil, condensate and natural gas liquids reserves at December 31, 1994, including amounts attributable to a volumetric production payment, are shown below. This disclosure is presented as additional information and is not intended to represent required disclosure pursuant to Statement of Financial Accounting Standards ("SFAS") No. 69 - "Disclosures about Oil and Gas Producing Activities."

	Natural Gas (Bcf)	Liquids (MBbl)(1)	Natural Gas Equivalents (Bcfe)	
			Developed	Undeveloped
Net proved reserves at December 31, 1994, including amounts attributable to volumetric production payment:				
United States	1,378	17,787	1,300	185
Canada	297	7,237	330	10
Trinidad	206	4,429	233	-
India	29	7,585	46	29
Total	1,910	37,038	1,909	224

(1) Includes crude oil, condensate and natural gas liquids.

Certain Definitions

Unless otherwise indicated in this Prospectus, natural gas volumes are stated at the legal pressure base of the state, area or country in which the reserves are located and at 60° Fahrenheit. Natural gas equivalents are determined using the ratio of 6.0 Mcf of natural gas to 1.0 barrel of crude oil, condensate or natural gas liquids.

As used herein, the following terms have the specific meanings set out: "Mcf" means thousand cubic feet, "MMcf" means million cubic feet, "Bcf" means billion cubic feet, "Bbl" means barrel, "MBbl" means thousand barrels, "MMBbl" means million barrels, "Mcfe" means thousand cubic feet equivalent, "MMcfe" means million cubic feet equivalent, "Bcfe" means billion cubic feet equivalent, "MMBtu" means million British thermal units, "BBtu" means billion British thermal units and "TBtu" means trillion British thermal units.

With respect to information on the Company's working interest in wells or acreage, "net" oil and gas wells or acreage are determined by multiplying "gross" oil and gas wells or acreage by the Company's working interest in the wells or acreage.

"Exploration and development expenditures" include costs associated with exploratory and development drilling (including exploratory dry holes), leasehold acquisitions, seismic data acquisitions, geological and land related overhead expenditures, delay rentals, producing property acquisitions, capitalized interest and other miscellaneous capital expenditures. "Total finding costs" is the ratio of total exploration and development expenditures to reserves added as a result of the drilling and acquisition program. Reserves added include the total net natural gas equivalent volume of all natural gas, crude oil, condensate and natural gas liquids added from extensions, discoveries and other additions, purchases in place and revisions of previous estimates.

"Infill drilling" means drilling for the development and production of net proved undeveloped reserves.

USE OF PROCEEDS

The shares of Common Stock of the Company being offered hereby and the Exchangeable Notes are being sold by Enron Corp. Accordingly, the Company will not receive any of the proceeds from the Stock Offerings or the sale of the Exchangeable Notes or delivery of shares of Common Stock pursuant thereto.

PRICE RANGE OF COMMON STOCK AND CASH DIVIDENDS

The following table sets forth, for the periods indicated, the high and low sale prices per share for the Common Stock, as reported on the New York Stock Exchange Composite Tape, and the amount of cash dividends paid per share. The 1993 and First and Second Quarter 1994 sales prices and cash dividends per share have been restated to reflect the two-for-one stock split on May 31, 1994.

	Price Range		Cash Dividends
	High	Low	
1993			
First Quarter	$20.31	$13.38	$.03
Second Quarter	22.50	17.88	.03
Third Quarter	26.81	19.88	.03
Fourth Quarter	27.00	17.06	.03
1994			
First Quarter	$23.75	$19.31	$.03
Second Quarter	24.63	22.38	.03
Third Quarter	23.00	18.50	.03
Fourth Quarter	22.75	17.38	.03
1995			
First Quarter	$24.88	$17.12	$.03
Second Quarter	24.75	20.25	.03
Third Quarter	25.38	20.00	.03
Fourth Quarter (through November 13, 1995)	22.75	18.75	

See the cover page of this Prospectus for the last reported sale price of the Common Stock on the NYSE as of a recent date.

As of November 1, 1995, there were approximately 270 record holders of the Company's Common Stock, including individual participants in security position listings. There are an estimated 5,100 beneficial owners of the Company's Common Stock, including shares held in street name.

Following the initial public offering and sale of its Common Stock in October 1989, the Company paid quarterly dividends of $0.025 per share beginning with an initial dividend paid in January 1990 with respect to the fourth quarter of 1989. Beginning in January 1993 with respect to the fourth quarter of 1992, the Company has paid quarterly dividends of $0.03 per share. The Company currently intends to continue to pay quarterly cash dividends on its outstanding shares of Common Stock. However, the determination of the amount of future cash dividends, if any, to be declared and paid will depend upon, among other things, the financial condition, funds from operations, level of exploration and development expenditure opportunities and future business prospects of the Company.

BUSINESS

General

The Company, a Delaware corporation organized in 1985, is engaged, either directly or through a marketing subsidiary with regard to domestic operations or through various subsidiaries with regard to international operations, in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in major producing basins in the United States, as well as in Canada, Trinidad and India and to a lesser extent, selected other international areas. At December 31, 1994, the Company's estimated net proved natural gas reserves were 1,910 Bcf and estimated net proved crude oil, condensate and natural gas liquids reserves were 37 MMBbl. At such date, approximately 70% of the Company's reserves (on a natural gas equivalent basis) was located in the United States, 16% in Canada, 11% in Trinidad and 3% in India.

The Company pursues its oil and gas exploration and development operations primarily by the acquisition, through various means including but not limited to leasing, purchasing and farming-in of acreage that is either undeveloped or lightly developed, and drilling of internally generated prospects. The Company also maintains a strategy of selling selected oil and gas properties that, for various reasons, no longer fit into future operating plans or which are not assessed to have sufficient future growth potential and when the economic value to be obtained by selling the properties and reserves in the ground is evaluated to be greater than what would be obtained by holding the properties and producing the reserves over time. As a result, the Company typically receives each year a varying but substantial level of proceeds related to such sales which proceeds are available for general corporate use.

Exploration and Production

North American Operations

The Company's seven principal United States producing areas are the Big Piney area, South Texas area, East Texas area, Offshore Gulf of Mexico area, Canyon Trend area, Pitchfork Ranch area and Vernal area. Properties in these areas comprised approximately 76% of the Company's United States reserves (on a natural gas equivalent basis) and 85% of the Company's United States net natural gas deliverability as of December 31, 1994 and are substantially all operated by the Company. At September 30, 1995, properties in these areas comprised approximately 87% of the Company's United States net natural gas deliverability. The Company's other United States natural gas and crude oil producing properties are located primarily in other areas of Texas, Utah, New Mexico and in Oklahoma.

At December 31, 1994, 93% of the Company's proved United States reserves (on a natural gas equivalent basis) was natural gas and 7% was crude oil, condensate and natural gas liquids. A substantial portion of the Company's United States natural gas reserves is in long-lived fields with well-established production histories. The Company believes that opportunities exist to increase production in many of these fields through continued infill and other development drilling.

The Company also has natural gas and crude oil producing properties located in Western Canada, primarily in the provinces of Alberta, Saskatchewan and Manitoba.

Big Piney Area. The Company's largest reserve accumulation is located in the Big Piney area in Sublette and Lincoln counties in southwestern Wyoming. The Company is the holder of the largest productive acreage base in this area, with approximately 219,000 net acres under lease directly within field limits. The Company operates approximately 650 natural gas wells in this area in which it owns a 91% average working interest. Deliveries from the area net to the Company averaged 124 MMcf per day of natural gas and 1.5 MBbl per day of crude oil, condensate, and natural gas liquids in 1994. At September 30, 1995, natural gas deliverability net to the Company was approximately 138 MMcf per day.

The current principal producing intervals are the Frontier and Mesaverde formations. The Frontier formation, which occurs at 6,500-10,000 feet, contains approximately 66% of the Company's current Big Piney reserves. The Company drilled 67 wells in the Big Piney area in 1994. Although natural gas drilling has been curtailed in this area during 1995 in response to market conditions, numerous drilling opportunities will be available for several years.

During the fourth quarter of 1995, the Company anticipates recording as proved undeveloped reserves approximately 1,100 Bcf of methane contained, along with high concentrations of carbon dioxide and nitrogen as well as small amounts of other gaseous substances, in the deep Wyoming Paleozoic formation located under acreage leased by the Company and held by production in the Big Piney area. The Company is actively pursuing the consummation of a market or markets from several different potential sources to facilitate realizing the value of these reserves.

South Texas Area. The Company's activities in South Texas are focused in the Wilcox, Expanded Wilcox, Frio and Lobo producing horizons. The principal area of activity is in the Lobo Trend which occurs primarily in Webb and Zapata counties.

The Company operates approximately 470 wells in the South Texas area. Production is primarily from the Lobo sand of the Wilcox formation at depths ranging from 7,000 to 11,000 feet. The Company has approximately 250,000 net acres under lease in this area. Natural gas deliveries net to the Company averaged 181 MMcf per day in 1994. At September 30, 1995, natural gas deliverability from this area net to the Company was approximately 150 MMcf per day which was impacted during 1995 by the sale of selected properties. The Company drilled 56 wells in the South Texas area in 1994 and anticipates an active drilling program will continue for several years.

East Texas Area. The Company's activities in the East Texas area are primarily in the Carthage field, located in Panola County, and the North Milton field, located in northern Harris County.

The Carthage field is the Company's newest area of concentration. This field is one of the most prolific fields in east Texas with production primarily from the Cotton Valley, Travis Peak and Pettit formations. In 1995, properties were acquired that doubled the Company's acreage position to 17,000 acres. An active drilling program is planned for the remainder of 1995 and for several years. The Company has an average 71% working interest in its holdings. The Company has continued its activity in the North Milton field where it now operates 19 wells and holds a 100% working interest in the acreage. Further drilling is planned for 1996. At September 30, 1995, deliverability from the East Texas area was approximately 35 MMcf per day of natural gas with almost 1.0 MBbl per day of condensate, both net to the Company.

Offshore Gulf of Mexico Area. At September 30, 1995, the Company held an interest in 191 blocks in the Offshore Gulf of Mexico area totaling 561,000 net acres. Of the 191 blocks, 133 are operated by the Company. These interests are located predominantly in federal waters offshore Texas and Louisiana. During 1995, the Company acquired a 50% interest in operations previously owned by Santa Fe Minerals complementing previously owned interests and adding significantly to the Company's offshore operations. Natural gas deliveries from this area averaged 83 MMcf per day during 1994 and 118 MMcf per day during the first nine months of 1995, both net to the Company. A substantial portion of such deliveries was from interests in the Matagorda trend with significant volumes also coming from the Mustang Island area. Deliverability from this area at September 30, 1995 was 160 MMcf per day net to the Company sourced principally as noted above. The Company has maintained an active drilling program in this area during 1994 and 1995 and anticipates a similar program to continue for several years.

Canyon Trend Area. The Company's activities in this area have been concentrated in Crockett, Sutton, Terrell and Val Verde Counties, Texas where the Company drilled 331 natural gas wells during the period 1992 through 1994. The Company holds approximately 91,800 net acres and now operates approximately 500 natural gas wells in this area in which it owns a 97% average working interest. Production is from the Canyon sands and Strawn limestone at depths from 5,500 to 11,500 feet. In 1994, natural gas deliveries from this area net to the Company averaged 65 MMcf per day. At September 30, 1995, natural gas deliverability from this area net to the Company was approximately 54 MMcf per day. The Company has maintained an active drilling program in the Canyon Trend area during 1995 and expects a similar program to continue for several years.

Pitchfork Ranch Field. The Pitchfork Ranch field located in Lea County, New Mexico, produces primarily from the Bone Spring, Atoka and Morrow formations. In 1994, deliveries net to the Company from this area averaged 36 MMcf per day of natural gas and approximately 2 MBbl per day of crude oil, condensate and natural gas liquids. At September 30, 1995, deliverability from this area net to the Company was approximately 32 MMcf per day of natural gas and 3.6 MBbl per day of crude oil, condensate and natural gas liquids. The Company holds approximately 27,900 net acres and expects to maintain an active drilling program in this field for several years.

Vernal Area. In the Vernal area, located primarily in Uintah County, Utah, the Company operates approximately 195 producing wells and presently controls approximately 79,000 net acres. For the first nine months of 1995, natural gas deliveries net to the Company from the Vernal area averaged 24 MMcf per day which represents deliverability. Production is from the Green River and Wasatch formations located at depths between 4,500-8,000 feet. The Company has an average working interest of approximately 60%. The Company drilled 20 wells in the Vernal area in 1994 and has maintained a comparable drilling program during 1995.

Canada. The Company is engaged in the exploration for and the development, production and marketing of natural gas and crude oil and the operation of natural gas processing plants in western Canada, principally in the provinces of Alberta, Saskatchewan, and Manitoba. The Company conducts operations from offices in Calgary. The Company produces natural gas from seven major areas and crude oil from three major areas. The Sandhills area in Southern Saskatchewan is the largest single producing area where 160 wells were drilled in 1994 resulting in deliverability net to the Company from the field of approximately 38 MMcf per day at December 31, 1994. Canadian natural gas deliverability net to the Company at September 30, 1995 was approximately 70 MMcf per day and the Company held approximately 350,000 net undeveloped acres in Canada. The Company expects to maintain an active drilling program in Canada for several years.

Outside North America Operations

The Company has operations offshore Trinidad and India and is conducting exploration in selected other international areas. Properties offshore Trinidad and India comprised 100% of the Company's proved reserves and production outside of North America at year end 1994.

Trinidad. In November 1992, the Company was awarded a 95% working interest concession in the South East Coast Consortium ("SECC") block offshore Trinidad, encompassing three undeveloped fields, previously held by three government-owned energy companies. The Kiskadee field has been developed, the Ibis field is under development and the Oil Bird field is anticipated to be developed over the next three to five years. Existing surplus processing and transportation capacity at the Pelican field facilities owned and operated by Trinidad and Tobago government-owned companies is being used to process and transport the production. Natural gas is being sold into the local market under a take-or-pay agreement with the National Gas Company of Trinidad and Tobago. In 1994, deliveries net to the Company averaged 63 MMcf per day of natural gas and 2.6 MBbl per day of crude oil and condensate. At September 30, 1995, deliverability net to the Company was approximately 166 MMcf per day of natural gas and 8.0 MBbls per day of crude oil and condensate. The Company's net production from offshore Trinidad was approximately 100 MMcf per day of natural gas and 6.2 MBbl per day of crude oil and condensate at September 30, 1995. The Company held approximately 71,000 net undeveloped acres in Trinidad.

The Company recently has been awarded the right to develop the U(a) block adjacent to the SECC block and is presently negotiating the terms of a production sharing contract with the Government of Trinidad and Tobago.

India. In December 1994, the Company signed agreements covering profit sharing, joint operations and product sales, and was granted a 30% working interest in, the Tapti, Panna and Mukta blocks located offshore Bombay, India. The Company is designated operator of all three areas. The blocks were previously operated by the Indian national oil company, Oil & Natural Gas Corporation Limited, which retained a 40% working interest. The 363,000 acre Tapti Block contains two major proved gas accumulations delineated by 22 expendable exploration wells that have been plugged. The Company has initiated a development plan for the Tapti Block accumulations. The 106,000 acre Panna Block and the 192,000 acre Mukta Block are partially developed with 30 wells producing from five producing platforms located in the Panna and Mukta fields. The fields were producing approximately 3.5 MBbl per day of crude oil net to the Company as of September 30, 1995; all associated natural gas was being flared. The Company intends to continue development of the accumulations and to expand processing capacity to allow crude oil production at full deliverability as well as to permit natural gas sales.

Other International. The Company continues to evaluate other selected conventional natural gas and crude oil opportunities outside North America. The Company is pursuing other exploitation opportunities in countries where indigenous natural gas reserves have been identified, particularly where synergies in natural gas transportation, processing and power cogeneration can be optimized with other Enron Corp. affiliated companies. In early 1995, the Company and the Qatar General Petroleum Corporation signed a nonbinding letter of intent concerning the possible development of a liquefied natural gas project for natural gas to be produced from the North Dome Field. The Company and Enron Corp. may jointly hold up to a 40% working interest in the joint venture and drill and develop to-be-agreed-upon reserves. In addition, the Company signed letters of intent in early 1995 with the National Oil Corporation of Uzbekistan, and Gazprom, the Russian natural gas company, to pursue the feasibility of joint venture development and marketing of previously discovered conventional hydrocarbon reserves in Uzbekistan. The Company is also in discussions concerning the potential for conventional oil and gas development opportunities in China, Mozambique and Qatar. The Company holds nonoperating working interests in two conventional oil and gas exploration prospects in the U.K. North Sea.

The Company continues evaluation and assessment of its international opportunity portfolio in the coalbed methane recovery arena, including projects in South Wales in the U.K., the Lorraine Basin in France, Galilee Basin in Queensland, Australia and Hedong basin in China.

Marketing

Wellhead Marketing

The Company's North America wellhead natural gas production is currently being sold on the spot market and under long-term natural gas contracts at market responsive prices. In many instances, the long-term contract prices closely approximate the prices received for natural gas being sold on the spot market. Wellhead natural gas volumes from Trinidad are sold at prices that are based on a fixed price schedule with annual escalations. Natural gas volumes in India will be sold to the Gas Authority of India, Ltd. under a take-or-pay contract at a price linked to a basket of world market fuel oil quotations with floor and ceiling limits. Approximately 45% of the Company's wellhead natural gas production is currently being sold to pipeline and marketing subsidiaries of Enron Corp. The Company believes that the terms of its transactions and agreements with Enron Corp. and/or its affiliates are and intends that future such transactions and agreements will be at least as favorable to the Company as could be obtained from third parties.

Substantially all of the Company's wellhead crude oil and condensate is sold under short-term contracts at market responsive prices.

Other Marketing

Enron Oil & Gas Marketing, Inc. ("EOGM") is a wholly-owned subsidiary of the Company engaged in various marketing activities. Both the Company and EOGM contract to provide, under short and long-term agreements, natural gas to various purchasers and then aggregate the necessary supplies for the sales with purchases from various sources including third-party producers, marketing companies, pipelines or from the Company's own production. In addition, EOGM has purchased and constructed several small gathering systems in order to facilitate its entry into the gathering business on a strategic basis. Both the Company and EOGM utilize other short and long-term hedging and trading mechanisms including sales and purchases utilizing NYMEX-related commodity market transactions. All of these activities are currently conducted with companies affiliated with Enron Corp. These marketing activities have provided an effective balance in managing the Company's exposure to commodity price risks for both natural gas and crude oil and condensate wellhead prices. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Liquidity – Hedging Transactions."

Wellhead Volumes and Prices, and Lease and Well Expenses

The following table sets forth certain information regarding the Company's wellhead volumes of and average prices for natural gas per Mcf, crude oil and condensate, and natural gas liquids per Bbl, and average lease and well expenses per Mcfe delivered during each of the three years in the period ended December 31, 1994 and the nine-month periods ended September 30, 1994 and 1995.

	Year Ended December 31,			Nine Months Ended September 30,	
	1992	1993	1994	1994	1995
Volumes (per day)					
Natural Gas (MMcf)					
United States(1)	534	649	614	609	534
Canada	30	58	72	71	75
Trinidad	-	2	63	63	110
Total(1)	564	709	749	743	719
Crude Oil and Condensate (MBbl)					
United States	6.3	6.6	8.0	7.5	9.1
Canada	2.2	2.2	2.0	1.9	2.4
Trinidad	-	.1	2.5	2.6	4.8
India	-	-	.1	-	2.3
Total	8.5	8.9	12.6	12.0	18.6
Natural Gas Liquids (MBbl)					
United States	.3	.2	.3	.2	1.2
Canada	.4	.4	.4	.5	.3
Total	.7	.6	.7	.7	1.5
Average Prices					
Natural Gas ($/Mcf)					
United States(2)	$ 1.61	$ 1.97	$ 1.71	$ 1.79	$ 1.33
Canada	1.18	1.34	1.42	1.51	.95
Trinidad	-	.89	.93	.93	.97
Composite(2)	1.58	1.92	1.62	1.69	1.23
Crude Oil and Condensate ($/Bbl)					
United States	$18.29	$16.96	$16.06	$15.64	$17.20
Canada	16.80	14.63	14.05	13.72	16.31
Trinidad	-	14.36	15.50	15.20	16.16
India	-	-	15.70	-	16.82
Composite	17.90	16.37	15.62	15.24	16.77
Natural Gas Liquids ($/Bbl)					
United States	$11.56	$13.85	$12.45	$12.50	$11.76
Canada	10.05	9.46	8.45	7.86	9.69
Composite	10.69	11.12	9.90	9.43	11.27
Lease and Well Expenses ($/Mcfe)					
United States	$ .20	$ .18	$ .19	$ .19	$ .20
Canada	.50	.48	.34	.35	.35
Trinidad	-	1.46	.17	.15	.14
India	-	-	.13	-	1.59
Composite	.22	.21	.20	.20	.23

(1) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of a volumetric production payment agreement effective October 1, 1992, as amended.

(2) Includes an average equivalent wellhead value of $1.70 per Mcf in 1992, $1.57 per Mcf in 1993, $1.27 per Mcf in 1994 and $1.32 per Mcf and $.76 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively, for the volumes described in note (1), net of transportation costs.

Other Natural Gas Marketing Volumes and Prices

The following table sets forth certain information regarding the Company's volumes of natural gas delivered under other marketing and volumetric production payment arrangements, and resulting average per unit gross revenue and per unit amortization of deferred revenues along with associated costs during each of the three years in the period ended December 31, 1994 and the nine-month periods ended September 30, 1994 and 1995.

	Year Ended December 31,			Nine Months Ended September 30,	
	1992	1993	1994	1994	1995
Volumes (MMcf per day)(1)	255	293	324	327	266
Average Gross Revenue ($/Mcf)(2)	$ 2.62	$ 2.57	$ 2.38	$ 2.41	$ 1.87
Associated Costs ($/Mcf)(3)(4)	1.99	2.32	2.06	2.13	1.49
Margin ($/Mcf)	$ 0.63	$ 0.25	$ 0.32	$ 0.28	$ 0.38

(1) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of volumetric production payment and exchange agreements effective October 1, 1992, as amended.

(2) Includes per unit deferred revenue amortization for the volumes detailed in note (1) at an equivalent of $2.51 per Mcf in 1992, $2.50 per Mcf in 1993, $2.46 per Mcf in 1994 and $2.46 per Mcf and $2.47 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively.

(3) Includes an average value of $2.37 per Mcf in 1992, $2.20 per Mcf in 1993, $1.92 per Mcf in 1994 and $1.99 per Mcf and $1.50 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively, including average equivalent wellhead value, any applicable transportation costs and exchange differentials, for the volumes detailed in note (1).

(4) Including transportation and exchange differentials.

Oil and Gas Exploration and Production Properties and Reserves

The following tables set forth the Company's net proved and proved developed reserves at December 31, 1993 and 1994, and the changes in the net proved reserves for the year 1994 as estimated by the Company's engineering staff. The additional disclosures that include volumes attributable to a volumetric production payment set forth in the following tables are presented as additional information and are not intended to represent required disclosure pursuant to SFAS No. 69 — "Disclosures about Oil and Gas Producing Activities."

	United States	Canada	Trinidad	India	Total
Natural Gas (Bcf)					
Net proved reserves at December 31, 1993	1,313.2	271.0	100.5	-	1,684.7
Additional disclosures:					
Volumes attributable to volumetric production payment	87.5	-	-	-	87.5
Net proved reserves at December 31, 1993, including volumes attributable to volumetric production payment	1,400.7	271.0	100.5	-	1,772.2
Net proved reserves at December 31, 1993	1,313.2	271.0	100.5	-	1,684.7
Revisions of previous estimates	(17.1)	(6.5)	15.0	-	(8.6)
Purchases in place	18.8	9.2	-	29.3	57.3
Extensions, discoveries and other additions	233.8	50.2	113.9	-	397.9
Sales in place	(29.3)	(1.0)	-	-	(30.3)
Production	(212.0)	(26.3)	(23.2)	-	(261.5)
Net proved reserves at December 31, 1994	1,307.4	296.6	206.2	29.3	1,839.5

(Continued on next page)

	United States	Canada	Trinidad	India	Total
Additional disclosures:					
Volumes attributable to volumetric production payment	70.9	–	–	–	70.9
Net proved reserves at December 31, 1994, including volumes attributable to volumetric production payment	1,378.3	296.6	206.2	29.3	1,910.4
Liquids (MBbl)(1)					
Net proved reserves at December 31, 1993	13,172	5,471	2,218	–	20,861
Revisions of previous estimates	2,179	(177)	455	–	2,457
Purchases in place	358	–	–	7,617	7,975
Extensions, discoveries and other additions	5,332	2,848	2,687	–	10,867
Sales in place	(257)	–	–	–	(257)
Production	(2,997)	(905)	(931)	(32)	(4,865)
Net proved reserves at December 31, 1994	17,787	7,237	4,429	7,585	37,038

	United States	Canada	Trinidad	India	Total
Net proved developed reserves at					
Natural Gas (Bcf)					
December 31, 1993	1,079.8	250.6	71.4	–	1,401.8
December 31, 1994	1,128.2	288.3	206.2	–	1,622.7
Liquids (MBbl)(1)					
December 31, 1993	11,165	5,409	1,591	–	18,165
December 31, 1994	16,770	7,073	4,429	7,585	35,857

	United States	Canada	Trinidad	India	Total
Net proved developed reserves, including amounts attributable to volumetric production payment at					
Natural Gas (Bcf)					
December 31, 1993	1,167.3	250.6	71.4	–	1,489.3
December 31, 1994	1,199.1	288.3	206.2	–	1,693.6
Liquids (MBbl)(1)					
December 31, 1993	11,165	5,409	1,591	–	18,165
December 31, 1994	16,770	7,073	4,429	7,585	35,857

(1) Includes crude oil, condensate and natural gas liquids.

Estimates of proved and proved developed reserves at December 31, 1993 and 1994 were based on studies performed by the Company's engineering staff for reserves in the United States, Canada, Trinidad and India. Opinions by DeGolyer and MacNaughton, independent petroleum consultants, for the years ended December 31, 1993 and 1994 covering producing areas containing 65% and 59%, respectively, of proved reserves of the Company on a net-equivalent-cubic-feet-of-gas basis, indicate that the estimates of proved reserves prepared by the Company's engineering staff for the properties reviewed by DeGolyer and MacNaughton, when compared in total on a net-equivalent-cubic-feet-of-gas basis, do not differ materially from the estimates prepared by DeGolyer and MacNaughton. Such estimates by DeGolyer and MacNaughton in the aggregate varied by not more than 5% from those prepared by the Company's engineering staff. All reports by DeGolyer and MacNaughton were developed utilizing geological and engineering data provided by the Company.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the producer. The reserve data set forth herein represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of natural gas and liquids, including crude oil, condensate and natural gas liquids, that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the amount and quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers normally vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities ultimately recovered. The meaningfulness of such estimates is highly dependent upon the accuracy of the assumptions upon which they were based.

In general, the volume of production from oil and gas properties owned by the Company declines as reserves are depleted. Except to the extent the Company acquires additional properties containing proved reserves or conducts successful exploration and development activities, or both, the proved reserves of the Company will decline as reserves are produced. Volumes generated from future activities of the Company are therefore highly dependent upon the level of success in acquiring or finding additional reserves and the costs incurred in doing so.

Acreage

The following tables summarize the Company's developed and undeveloped acreage at December 31, 1994 and September 30, 1995. Excluded is acreage in which the Company's interest is limited to owned royalty, overriding royalty and other similar interests.

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
At December 31, 1994:						
United States	978,427	637,870	1,952,656	1,705,716	2,931,083	2,343,586
Canada	501,989	307,996	437,523	353,550	939,512	661,546
India	60,000	18,000	602,207	180,662	662,207	198,662
Trinidad	4,200	3,990	74,851	71,108	79,051	75,098
Other International	–	–	13,913,600	11,756,800	13,913,600	11,756,800
Total	1,544,616	967,856	16,980,837	14,067,836	18,525,453	15,035,692
At September 30, 1995:						
United States	1,554,024	661,647	2,321,727	1,775,151	3,875,751	2,436,798
Canada	559,534	335,559	424,302	349,503	983,836	685,062
India	60,000	18,000	602,207	180,662	662,207	198,662
Trinidad	4,200	3,990	74,851	71,108	79,051	75,098
Other International	–	–	13,422,400	11,773,100	13,422,400	11,773,100
Total	2,177,758	1,019,196	16,845,487	14,149,524	19,023,245	15,168,720

Drilling and Acquisition Activities

During the years ended December 31, 1992, 1993 and 1994 and the nine months ended September 30, 1995 the Company spent approximately $396, $430, $494 and $401 million, respectively, for exploratory and development drilling and acquisition of leases and producing properties. The Company drilled, participated in the drilling of or acquired wells as set out in the table below for the periods indicated:

	Year Ended December 31,						Nine Months Ended September 30,	
	1992		1993		1994		1995	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Development Wells Completed								
Domestic								
Gas	484	399.06	352	279.00	308	244.23	99	77.78
Oil	19	10.80	45	19.01	34	29.57	36	32.06
Dry	64	56.12	59	46.83	41	32.15	38	30.80
Total	567	465.98	456	344.84	383	305.95	173	140.64
International								
Gas	2	2.00	227	190.10	250	190.30	116	107.66
Oil	13	11.70	4	3.50	11	5.10	13	8.21
Dry	5	4.05	11	7.60	13	11.50	11	8.38
Total	20	17.75	242	201.20	274	206.90	140	124.25
Total Development	587	483.73	698	546.04	657	512.85	313	264.89
Exploratory Wells Completed								
Domestic								
Gas	11	8.72	14	10.03	13	9.80	4	2.52
Oil	1	.40	3	2.50	3	2.57	3	2.63
Dry	16	13.42	32	22.08	23	18.17	6	4.47
Total	28	22.54	49	34.61	39	30.54	13	9.62
International								
Gas	7	5.75	14	11.40	9	7.90	2	1.24
Oil	4	3.69	2	.90	1	.50	2	2.00
Dry	4	2.85	10	7.35	14	12.50	5	3.70
Total	15	12.29	26	19.65	24	20.90	9	6.94
Total Exploratory	43	34.83	75	54.26	63	51.44	22	16.56
Total	630	518.56	773	600.30	720	564.29	335	281.45
Wells in Progress at end of period	82	60.75	82	61.09	45	28.79	53	38.72
Total	712	579.31	855	661.39	765	593.08	388	320.17
Wells Acquired								
Gas	641	597.29*	44	26.44*	41	40.90*	271	97.37*
Oil	28	25.80*	-	12.80*	60	38.99*	5	.93*
Total	669	623.09	44	39.24	101	79.89	276	98.30

* Includes the acquisition of additional interests in certain wells in which the Company previously held an interest.

All of the Company's drilling activities are conducted on a contract basis with independent drilling contractors. The Company owns no drilling equipment.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following table sets forth a summary of selected consolidated financial and operating information for the Company for each of the five years in the period ended December 31, 1994 and the nine-month periods ended September 30, 1994 and 1995. This information should be read in conjunction with the consolidated financial statements of the Company and related notes thereto incorporated by reference herein (see "Incorporation of Certain Documents by Reference") and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus. Financial information for each of the five years in the period ended December 31, 1994 has been derived from audited financial statements. Financial information for the nine-month periods ended September 30, 1994 and 1995 has been derived from unaudited financial statements. The interim data reflects all adjustments which, in the opinion of the management of the Company, are necessary to present fairly such information for the interim periods. Results of the nine-month periods are not necessarily indicative of the results expected for a full year or any other interim period.

	Year Ended December 31,					Nine Months Ended September 30,	
	1990	1991	1992	1993	1994	1994	1995
	(In Thousands, Except Per Share Amounts)						
Statement of Income Data:							
Net operating revenues							
Natural gas	$ 301,645	$ 321,603	$ 388,988	$ 505,162	$ 489,893	$ 365,654	$ 332,015
Crude oil, condensate and natural gas liquids	66,165	62,836	58,927	55,834	76,338	52,632	90,342
Gains on sales of reserves and related assets	31,802	14,983	6,037	13,318	54,014	52,212	62,546
Other	3,525	3,166	5,074	6,706	5,578	3,842	7,439
Total	403,137	402,588	459,026	581,020	625,823	474,340	492,342
Operating expenses							
Lease and well	43,808	49,922	49,406	59,344	60,384	44,782	52,918
Exploration	35,031	31,470	33,278	36,921	41,811	29,647	31,590
Dry hole	12,988	14,698	10,764	18,355	17,197	10,803	8,586
Impairment of unproved oil and gas properties	20,571	12,791	15,136	20,467	24,938	17,364	20,453
Depreciation, depletion and amortization	155,877	160,885	179,839	249,704	242,182	181,645	157,875
General and administrative	38,254	36,216	36,648	45,274	51,418	38,050	41,186
Taxes other than income	22,966	18,222	28,348	35,396	28,254	22,010	25,606
Total	329,491	324,204	353,417	465,461	466,182	344,301	338,214
Operating income	73,646	78,384	105,609	115,559	159,641	130,039	154,128
Other income (expense)	(2,153)	(3,215)	(3,476)	6,635	2,783	2,238	(1,143)
Interest expense (net of interest capitalized)	36,879	29,500	22,289	9,921	8,489	6,111	8,810
Income before income taxes	34,614	45,669	79,844	112,273	153,935	126,166	144,175
Income tax provision (benefit)(1)	(10,854)	(2,247)	(17,736)	(25,752)(2)	5,937(3)	20,728	33,444(4)
Net income	$ 45,468	$ 47,916	$ 97,580	$ 138,025	$ 147,998	$ 105,438	$ 110,731
Earnings per share of common stock(5)	$ .30	$ .32	$ .63	$ .86	$ .93	$ .66	$ .69
Average number of common shares(5)	151,800	151,800	154,533	159,996	159,845	159,826	159,951
Balance Sheet Data (at period end):							
Net oil and gas properties	$1,305,136	$1,339,666	$1,468,011	$1,546,045	$1,684,811	$1,637,762	$1,843,150
Total assets	1,417,939	1,455,608	1,731,012	1,811,162	1,861,867	1,855,819	2,109,971
Long-term debt							
Affiliate	277,918	132,836	–(6)	–	25,000	25,000	16,320
Other	140,442	289,556	150,000(6)	153,000	165,337	158,862	247,552
Deferred revenue	–	–	301,395	227,528	184,183	195,109	224,085
Shareholders' equity	610,042	643,185	826,986(6)	933,073	1,043,419	1,019,712	1,140,295

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	Year Ended December 31,					Nine Months Ended September 30,	
	1990	1991	1992	1993	1994	1994	1995
Operating Data:							
Wellhead Volumes and Prices							
Natural Gas Volumes (MMcf per day)							
United States(7)	437	466	534	649	613	609	534
Canada	18	25	30	58	73	71	75
Trinidad	–	–	–	2	63	63	110
Total(7)	455	491	564	709	749	743	719
Average Natural Gas Prices ($/Mcf)							
United States	$ 1.51	$ 1.38	$ 1.61	$ 1.97	$ 1.71	$ 1.79	$ 1.33
Canada	1.47	1.32	1.18	1.34	1.42	1.51	.95
Trinidad	–	–	–	.89	.93	.93	.97
Composite	1.51	1.37	1.58	1.92	1.62	1.69	1.23
Crude/Condensate Volumes (MBbl per day)							
United States	5.8	5.9	6.3	6.6	8.0	7.5	9.1
Canada	2.4	2.3	2.2	2.2	2.0	1.9	2.4
Trinidad	–	–	–	.1	2.5	2.6	4.8
India	–	–	–	–	.1	–	2.3
Total	8.2	8.2	8.5	8.9	12.6	12.0	18.6
Average Crude/Condensate Prices ($/Bbl)							
United States	$21.95	$19.24	$18.29	$16.96	$16.06	$15.64	$17.20
Canada	21.01	17.58	16.80	14.63	14.05	13.72	16.31
Trinidad	–	–	–	14.36	15.50	15.20	16.16
India	–	–	–	–	15.70	–	16.82
Composite	21.67	18.78	17.90	16.37	15.62	15.24	16.77
Natural Gas Liquids Volumes (MBbl per day)							
United States	.4	.3	.3	.2	.3	.2	1.2
Canada	–	.3	.4	.4	.4	.5	.3
Total	.4	.6	.7	.6	.7	.7	1.5
Average Natural Gas Liquids Prices ($/Bbl)							
United States	$10.59	$10.79	$11.58	$13.85	$12.45	$12.50	$11.76
Canada	–	12.48	10.05	9.46	8.45	7.66	9.69
Composite	10.59	11.64	10.69	11.12	9.90	9.43	11.27

(1) Includes benefits of approximately $17 million, $43 million, $65 million and $36 million in 1991, 1992, 1993 and 1994, respectively, and $29 million and $18 million in the nine-month periods ended September 30, 1994 and 1995, respectively, relating to tight gas sand federal income tax credits and $25 million and $7 million in 1990 and 1991, respectively, associated with the utilization of a net operating loss carryforward.

(2) Includes a benefit of $12 million from the reduction of the Company's deferred federal income tax liability resulting from a reevaluation of deferred tax requirements partially offset by an approximate $7 million predominantly non-cash charge primarily to adjust the Company's accumulated deferred income tax liability for the increase in the corporate federal income tax rate from 34% to 35%.

(3) Includes a benefit of approximately $8 million related to reduced estimated state income taxes and certain franchise taxes, a portion of which is treated as income tax under SFAS No. 109 – "Accounting for Income Taxes", and a $5 million benefit from the reduction of the Company's deferred federal income tax liability resulting from a reevaluation of deferred tax requirements.

(4) Includes a $12 million benefit associated with the successful resolution on audit of federal income taxes for certain prior years.

(5) In May 1994, the Board of Directors declared a two-for-one split of the Company's Common Stock to be effected as a non-taxable dividend of one share for each share outstanding. Shares were issued on June 15, 1994 to shareholders of record as of May 31, 1994. All share and per share amounts presented herein are reflected on a post-split basis.

(6) In August 1992, the Company completed the sale of an additional 8.2 million shares of Common Stock resulting in aggregate net proceeds to the Company of approximately $112 million used primarily to repay long-term debt. In September 1992, the Company completed the sale of a volumetric production payment, resulting in net proceeds of approximately $327 million used to repay long-term debt and for other general corporate purposes.

(7) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of a volumetric production payment effective October 1, 1992, as amended.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following review of operations for each of the three years in the period ended December 31, 1994 and for the nine-month periods ended September 30, 1994 and 1995 should be read in conjunction with the consolidated financial statements of the Company and notes thereto and other financial data incorporated by reference herein. See "Incorporation of Certain Documents by Reference."

Results of Operations

Net Operating Revenues

Wellhead volume and price statistics for the specified periods were as follows:

	Year Ended December 31,			Nine Months Ended September 30,	
	1992	1993	1994	1994	1995
Natural Gas Volumes (MMcf per day)					
North America(1)	564	707	686	680	609
Trinidad	–	2	63	63	110
Total	564	709	749	743	719
Average Natural Gas Prices ($/Mcf)					
North America(2)	$ 1.58	$ 1.92	$ 1.68	$ 1.76	$ 1.28
Trinidad	–	.89	.93	.93	.97
Composite	1.58	1.92	1.62	1.69	1.23
Crude/Condensate Volumes (MBbl per day)					
North America	8.5	8.8	10.0	9.4	11.5
Trinidad	–	.1	2.5	2.6	4.8
India	–	–	.1	–	2.3
Total	8.5	8.9	12.6	12.0	18.6
Average Crude/Condensate Prices ($/Bbl)					
North America	$ 17.90	$ 16.39	$ 15.65	$15.25	$17.01
Trinidad	–	14.36	15.50	15.20	16.16
India	–	–	15.70	–	16.82
Composite	17.90	16.37	15.62	15.24	16.77

(1) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of volumetric production payment and exchange agreements effective October 1, 1992, as amended.

(2) Includes an average equivalent wellhead value of $1.70 per Mcf in 1992, $1.57 per Mcf in 1993, $1.27 per Mcf in 1994 and $1.32 per Mcf and $.76 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively, for the volumes detailed in note (1), net of transportation costs.

Nine months 1995 compared to nine months 1994. During the first nine months of 1995, net operating revenues increased $18 million to $492 million as compared to the same period in 1994.

Average wellhead natural gas prices for the first nine months of 1995 were down approximately 27% from the same period in 1994 reducing net operating revenues by approximately $90 million. In addition, a decrease of 3% in wellhead natural gas volumes from the first nine months of 1994 reduced net operating revenues by approximately $11 million. The Company voluntarily curtailed its United States wellhead natural gas delivered volumes by an average of approximately 140 MMcf per day during the first nine months of 1995 compared to approximately 110 MMcf per day during the same period in 1994 due to significantly lower United States wellhead natural gas prices. In addition, the impact of the sales of oil and gas reserves and related assets (net of purchases of similar assets) resulted in a reduction of approximately 40 MMcf per day in delivered volumes for the first nine months of 1995 as compared to the first nine months of 1994. The Company refocused its 1995 drilling activity away from natural gas deliverability and toward natural gas reserve enhancement and crude oil exploitation in the United States in response to the significant decline in United States natural gas prices in recent periods. Wellhead crude oil and condensate average prices increased 10% adding approximately $8 million to net operating revenues compared to the first nine months of 1994. Crude oil and condensate wellhead volumes increased 55% adding approximately $27 million to net operating revenues compared to the same period a year ago primarily reflecting new production on stream offshore India, and higher volumes offshore Trinidad and in North America.

Other marketing activities associated with sales and purchases of natural gas, natural gas price swap transactions, other commodity price hedging of natural gas and crude oil and condensate prices utilizing NYMEX-related commodity market transactions, and volumetric production payment related margins added approximately $91 million to net operating revenues during the first nine months of 1995, an increase of approximately $67 million from the same period in 1994. This increase primarily resulted from a gain of $51 million on natural gas commodity price hedging activities utilizing NYMEX-related commodity market transactions in the first nine months of 1995 compared to a $2 million loss during the same period in 1994 and increased margins associated with other natural gas marketing activities. The average associated costs of natural gas marketing, price swap and volumetric production payment transactions, including, where appropriate, average wellhead value, transportation costs and exchange differentials, decreased $.64 per Mcf. The average price received for these transactions decreased $.54 per Mcf. Related other natural gas marketing volumes decreased 19%. The reduction in other natural gas marketing volumes and prices relates primarily to the exchange of the fuel contracts noted below, lower wellhead market prices and decreased other marketing activities. The $.10 per Mcf margin increase partially offset by the reduction in other natural gas marketing volumes increased net operating revenues by approximately $3 million compared to the first nine months of 1994. The Company realized an $11 million gain in the first nine months of 1995 related to certain NYMEX-related commodity market transactions with an Enron Corp. affiliated company that were designated for trading purposes in late 1994. The Company had no open trading positions at September 30, 1995. See "Trading Transactions."

In March 1995, the Company exchanged existing fuel supply and purchase contracts and related price swap agreements associated with a Texas City cogeneration plant for certain natural gas price swap agreements of equivalent value issued by an Enron Corp. affiliated company. As a result of these transactions, the Company realized a $8.4 million increase in net operating revenues in the first nine months of 1995 over the amount realized from the exchanged fuel supply and purchase contracts in the same period of 1994. See "Relationship Between the Company and Enron Corp. – Contractual Agreements."

Gains on sales of reserves and related assets during the first nine months of 1995 increased $10 million to $63 million when compared to the same period in 1994 which increase was attributable to the Company's continuing efforts in optimizing the use of its assets.

1994 compared to 1993. During 1994, net operating revenues increased to $626 million, up $45 million as compared to 1993.

Average wellhead natural gas volumes increased approximately 6% compared to 1993 primarily reflecting the effects of development activities offshore Trinidad and in Canada partially offset by voluntary curtailments of production in the United States in 1994. The volume reductions in the United States as a result of voluntary curtailments were more than offset by the new natural gas deliveries from the Kiskadee field offshore Trinidad and increased deliveries in Canada. The increase in wellhead natural gas volumes added $28 million to net operating revenues. Average wellhead natural gas prices were down significantly from 1993 reducing net operating revenues by approximately $83 million. This 16% reduction in average wellhead natural gas prices reflects the overall decline in the United States natural gas markets during the last half of 1994 and increased volumes offshore Trinidad sold under a long-term contract at a price considerably below North America spot market prices. A 42% increase in wellhead crude oil and condensate volumes over 1993 added $22 million to net operating revenues primarily reflecting development activities offshore Trinidad and increased production in the United States. A 5% decrease in wellhead crude oil and condensate average prices decreased net operating revenues by approximately $3 million.

Other marketing activities associated with sales and purchases of natural gas, natural gas and crude oil price swap transactions, other commodity price hedging of natural gas and crude oil prices utilizing NYMEX-related commodity market transactions, and margins relating to the volumetric production payment added $50 million to net operating revenues during 1994. This increase of $41 million from the same period in 1993 primarily results from a gain of $11 million on natural gas commodity price hedging activities utilizing NYMEX-related commodity market transactions in 1994 versus an $18 million loss during 1993 and increased margins associated with other natural gas marketing activities. The average associated costs of natural gas marketing, price swap and volumetric production payment transactions, including, where appropriate, average wellhead value, transportation costs and exchange differentials, decreased $.26 per Mcf. The average price received for these transactions decreased $.19 per Mcf. Related other natural gas marketing volumes increased 10%.

Gains on sales of selected oil and gas reserves and related assets were $54 million in 1994 as compared to $13 million in 1993. While the quantity of equivalent reserves sold in 1994 was slightly less than 1993, higher average proceeds received per equivalent unit in 1994 as compared to 1993 primarily contributed to the increased gain recognition. In continuing its strategy of fully utilizing its assets in optimizing profitability, cash flow and return on investments, the Company expects to continue the sale of similar properties from time to time.

1993 compared to 1992. During 1993, net operating revenues increased to $581 million, up $122 million as compared to 1992.

Average wellhead natural gas volumes increased approximately 26% compared to 1992 primarily reflecting the effects of exploration and development activities relating to tight gas sand formations. Wellhead natural gas delivered volumes were curtailed less during portions of 1993 than for the comparable periods in 1992 due to the significant increases realized in wellhead natural gas prices in 1993. Average wellhead natural gas prices were up approximately 22% in 1993 over those received in 1992, adding approximately $87 million to net operating revenues. Increases in wellhead natural gas volumes in 1993 added $83 million to net operating revenues compared to 1992. Average wellhead crude oil and condensate prices in 1993 were down 9% compared to 1992, reducing net operating revenues by $5 million. Increases in wellhead crude oil and condensate volumes in 1993 added approximately $2 million to net operating revenues compared to 1992.

Other marketing activities associated with sales and purchases of natural gas, natural gas price swap transactions, other commodity price hedging of natural gas and crude oil and condensate prices utilizing NYMEX-related commodity market transactions, and margins relating to the volumetric production payment added $8 million to net operating revenues during 1993. This decrease of $54 million from 1992 primarily results from shrinking margins associated with sales under long-term fixed price contracts and amortization of volumetric production payment deferred revenue due to increases in market responsive natural gas prices associated with volumes supplying these dispositions and losses on natural gas commodity price hedging activities utilizing NYMEX-related commodity market transactions. The average associated costs of natural gas marketing, price swap and volumetric production payment transactions, including, where appropriate, average wellhead value, transportation costs and exchange differentials, increased $.33 per Mcf. Related other natural gas marketing volumes increased 15%.

The impact of the other marketing activities, a substantial portion of which serve as hedges of commodity price risks for a portion of wellhead deliveries for the respective periods, were more than offset by reductions in revenues associated with market responsive prices for wellhead deliveries during those periods.

Operating Expenses

Nine months 1995 compared to nine months 1994. During the first nine months of 1995, operating expenses of $338 million were $6 million lower than the $344 million incurred in the same period in 1994. Lease and well expenses increased approximately $8 million to $53 million primarily due to expanded international operations including the initiation of operations in India in late December 1994 partially offset by reductions in United States lease and well expenses. Exploration expenses increased $2 million to $32 million due to increased exploration activities. Impairment of unproved oil and gas properties for the first nine months of 1995 increased $3 million from the comparable period a year ago primarily due to impairments associated with certain offshore Gulf of Mexico leases. Depreciation, depletion and amortization ("DD&A") expense decreased $24 million to $158 million reflecting a decrease in the average DD&A rate from $.81 per Mcfe in the first nine months of 1994 to $.69 per Mcfe in the first nine months of 1995. The DD&A rate decrease is primarily attributable to increased production from international operations with lower average DD&A rates than incurred for North America operations. General and administrative expenses increased approximately $3 million to $41 million due to expanded international activities and overall higher costs associated with certain employee related expenses. Taxes other than income were $4 million higher in the first nine months of 1995 compared to the same period in 1994 primarily due to a reduction included in 1994 associated with state franchise taxes and higher production related taxes associated with new production in India in the first nine months of 1995 partially offset by decreases in state severance taxes due to lower taxable North America wellhead volumes and average prices in 1995.

The Company reduced its total per unit operating costs for lease and well expense, DD&A, general and administrative expense, interest expense, and taxes other than income by $.06 per Mcfe, averaging $1.25 per Mcfe during the first nine months of 1995 compared to $1.31 per Mcfe during the same period in 1994. This decrease is primarily attributable to the reduction in the average DD&A rate as noted above partially offset by increases in per unit lease and well, general and administrative expenses, and taxes other than income.

1994 compared to 1993. During 1994, total operating expenses of $466 million were approximately $1 million higher than the $465 million incurred in 1993. Lease and well expenses of $60 million were approximately $1 million higher than 1993 primarily due to increased expenses related to new operations offshore Trinidad partially offset by cost reductions in North America. Exploration expenses of $42 million increased $5 million from the previous year primarily due to an increased level of exploration activities. Impairment of unproved oil and gas properties increased $4 million from 1993 primarily due to impairments associated with certain offshore Gulf of Mexico leases. DD&A expense decreased from $250 million in 1993 to $242 million in 1994 reflecting a $.09 per Mcfe decrease in the average DD&A rate to $.80 per Mcfe. The rate decrease is primarily due to increased production from offshore Trinidad at an average DD&A rate significantly less than the North America operations DD&A rate and a $.03 per Mcfe reduction in the North America operations DD&A rate. General and administrative expenses increased $6 million to $51 million primarily due to overall higher costs associated with expanded international and domestic operations. Taxes other than income decreased approximately $7 million from 1993 primarily due to lower taxable United States wellhead volumes and prices and reductions included in 1994 related to revisions of certain prior year production taxes. Included in 1994 and 1993 are benefits associated with reductions in state franchise taxes of $4 million and $3 million, respectively. The Company continues to benefit from certain state severance tax exemptions allowed on high cost natural gas volumes.

Total per unit operating costs for lease and well expense, DD&A, general and administrative expense, interest expense, and taxes other than income decreased $.14 per Mcfe, averaging $1.29 per Mcfe during 1994 compared to $1.43 per Mcfe for 1993. The decrease was primarily due to per unit reductions in DD&A and taxes other than income as discussed above.

1993 compared to 1992. During 1993, total operating expenses of $465 million were $112 million higher than the $353 million incurred in 1992. Lease and well expenses increased approximately $10 million primarily due to expanded domestic and international operations. Exploration expenses increased approximately $4 million primarily due to increased exploration activities in North America. An unsuccessful Gulf of Mexico well added nearly $4 million to dry hole expenses and a related $3 million to lease impairments in 1993. Dry hole expenses also reflect the impact of increased drilling activity outside North America. DD&A expense increased $70 million to $250 million reflecting an increase in production volumes and an average DD&A rate increase from $.79 per Mcfe in 1992 to $.89 per Mcfe for 1993. The DD&A rate increase is primarily due, as expected, to factors associated with the tight gas sands drilling program which costs are being more than offset by benefits realized in the form of tight gas sand federal income tax credits and certain state severance tax exemptions. General and administrative expenses increased almost $9 million to $45 million primarily reflecting cost reductions included in 1992 related to changes associated with certain employee compensation plans and overall higher costs in 1993 due to an expansion of domestic and international operations. Taxes other than income increased $7 million primarily due to increased production volumes and revenues in 1993, partially offset by continuing benefits associated with certain state severance tax exemptions allowed on high cost natural gas volumes and a $3 million reduction of state franchise taxes resulting from refunds of prior year payments received in 1993.

Total per unit operating costs for lease and well expense, DD&A, general and administrative expense, interest expense, and taxes other than income increased $.03 per Mcfe, averaging $1.43 per Mcfe during 1993 compared to $1.40 per Mcfe for 1992. The total increase was associated with DD&A expense which was up $.10 per Mcfe as noted above being partially offset by a reduction of $.07 Mcfe in all other costs.

Other Income

Other income for 1993 includes $4 million in interest income associated with the investment of funds temporarily surplus to the Company and $4 million associated with settlements related to the termination of certain long-term natural gas contracts.

Interest Expense

Net interest expense for the first nine months of 1995 was up $3 million as compared to the same period in 1994 reflecting primarily a higher level of debt outstanding during the 1995 period.

Net interest expense in 1994 decreased approximately $1 million to $8 million as compared to 1993 primarily due to favorable interest rates on new financing acquired by a subsidiary of the Company for operations offshore Trinidad and the retirement of higher interest rate debt. The estimated fair value of outstanding interest rate swap agreements at December 31, 1994 was a negative $0.5 million based on termination values obtained from third parties.

Net interest expense decreased $12 million, or 55%, to $10 million in 1993 as compared to 1992 reflecting the repayment of a substantial portion of the Company's long-term debt in 1992 with proceeds from the sale of common stock in August 1992 and the sale of a volumetric production payment in September 1992. The estimated fair value of outstanding interest rate swap agreements at December 31, 1993 was a negative $3.3 million based upon termination values obtained from third parties.

Income Taxes

Income tax provision increased $13 million for first nine months of 1995 as compared to the same period in 1994 primarily resulting from higher income before income taxes and lower benefits associated with tight gas sand federal income tax credits utilized in the first nine months of 1995 as compared to the same period in 1994 partially offset by a $12 million benefit associated with the successful resolution on audit of federal income taxes for certain prior years.

Income tax provision in 1994 includes a benefit of approximately $36 million associated with tight gas sand federal income tax credit utilization, a benefit of approximately $8 million related to reduced estimated state income taxes and a portion of certain franchise taxes which is treated as income tax under SFAS No. 109, and a $5 million benefit from the reduction of the Company's deferred federal income tax liability resulting from a reevaluation of deferred tax requirements.

Income tax benefit in 1993 includes a benefit of approximately $65 million associated with tight gas sand federal income tax credit utilization, an approximate $7 million predominantly one-time non-cash charge recorded in the third quarter of 1993 primarily to adjust the Company's accumulated deferred federal income tax liability for the increase in the corporate federal income tax rate from 34% to 35% and a $12 million benefit from the reduction of the Company's deferred federal income tax liability resulting from a reevaluation of deferred tax requirements.

Capital Resources and Liquidity

Cash Flow

The primary sources of cash for the Company during the nine-month period ended September 30, 1995 and for each of the years in the three-year period ended December 31, 1994 included funds generated from operations, the sale of Common Stock, the sale of a volumetric production payment, proceeds from the sale of selected oil and gas reserves and related assets and the issuance of debt. Primary cash outflows during these periods included funds used in operations, exploration and development expenditures, dividends and the repayment of debt.

Discretionary cash flow, a frequently used measure of performance for exploration and production companies, is generally derived by adjusting net income to eliminate the effects of depreciation, depletion and amortization, impairment of unproved oil and gas properties, deferred taxes, gains on sales of oil and gas reserves and related assets, certain other miscellaneous non-cash amounts, except for amortization of deferred revenue, and exploration and dry hole expenses. However, based on the continuing practice of the Company of selling selected oil and gas reserves and related assets in furtherance of its strategy of fully utilizing its assets in optimizing profitability, cash flow and return on investments, it believes that net proceeds from these transactions should also be considered as available discretionary cash flow and accordingly is presenting those values for all periods shown. The Company generated discretionary cash flow of $387 million during the first nine months of 1995, a 3% decrease from the $401 million generated for the same period in 1994, primarily reflecting lower net operating revenues, higher cash expenses and a decrease in benefits associated with tight gas sand federal income tax credits. The Company generated discretionary cash flow of approximately $514 million in 1994, $521 million in 1993 and $346 million in 1992. The 1993 amount includes $50 million associated with a federal income tax refund resulting from the settlement on audit of federal income taxes paid in certain prior years.

Net operating cash flows for the first nine months of 1995 and for each of the years in the three-year period ended December 31, 1994 have been revised to reflect proceeds from the sale of a volumetric production payment during 1992 and the elimination of the related amortization of deferred revenues as net operating cash flows rather than as investing cash flows as previously reported. Net operating cash flows of $229 million for the first nine months of 1995 decreased approximately $72 million as compared to the same period in 1994 primarily reflecting the same factors addressed above with regard to discretionary cash flow and higher working capital requirements. Net operating cash flows were approximately $383 million in 1994, $406 million in 1993, and

$608 million in 1992. Decreased 1994 net operating cash flows were primarily due to the receipt in 1993 of a refund on settlement on audit of federal income taxes paid in certain prior years. Decreased 1993 net operating cash flows were primarily due to the receipt in 1992 of $327 million of proceeds from the sale of a volumetric production payment, increased net operating revenues and a decrease in provision for current taxes resulting from both increased tight gas sand federal income tax credit utilization and the receipt of a refund on settlement on audit of federal income taxes paid in certain prior years. In accordance with the requirements of SFAS No. 95 – "Statement of Cash Flows", net proceeds from the sale of selected oil and gas reserves and related assets are not included in the determination of net operating cash flows.

Sale of Selected Oil and Gas Reserves and Related Assets

During the first nine months of 1995, the Company received proceeds of $101 million from the sale of selected oil and gas reserves and related assets compared to $82 million received in the first nine months of 1994. Taxable gains from the first nine months of 1995 sales generated income taxes of $24 million leaving, net proceeds of $77 million. During 1994, the Company received proceeds of $91 million from the sale of selected oil and gas reserves and related assets compared to $42 million received in 1993. While the quantity of equivalent reserves sold in 1994 was slightly less than 1993, higher average proceeds received per equivalent unit of reserves sold in 1994 as compared to 1993 resulted in significantly higher 1994 proceeds. Taxable gains resulting from the 1994 sales generated income taxes of $20 million, leaving net proceeds of $71 million. Taxable gains resulting from such sales in 1993 generated federal income taxes of $8 million, leaving net proceeds of $34 million.

Sale of Volumetric Production Payment

In September 1992, the Company sold a volumetric production payment for $326.8 million to a limited partnership. Under the terms of the production payment agreements, the Company conveyed a real property interest in approximately 124 Bcfe (136 TBtu) of certain natural gas and other hydrocarbons to the purchaser. Effective October 1, 1993, the agreements were amended providing for the extension of the original term of the volumetric production payment through March 31, 1999 and including a revised schedule of daily quantities of hydrocarbons to be delivered which is approximately one-half of the original schedule. The revised schedule will total approximately 89.1 Bcfe (97.8 TBtu) versus approximately 87.9 Bcfe (96.4 TBtu) remaining to be delivered under the original agreement. Daily quantities of hydrocarbons no longer required to be delivered under the revised schedule during the period from October 1, 1993 through June 30, 1996 are available for sale by the Company. The Company retains responsibility for its working interest share of the cost of operations. In accordance with generally accepted accounting principles, the Company accounted for the proceeds received in the transaction as deferred revenue which is being amortized into revenue and income as natural gas and other hydrocarbons are produced and delivered to the purchaser during the term, as revised, of the volumetric production payment thereby matching those revenues with the depreciation of asset values which remained on the balance sheet following the sale and the operating expenses incurred for which the Company retained responsibility. The Company expects the above transaction, as amended, to have minimal direct impact on future earnings. However, cash made available by the sale of the volumetric production payment has provided considerable financial flexibility for the pursuit of investment alternatives.

Exploration and Development Expenditures

The table below sets out components of actual exploration and development expenditures for the years ended December 31, 1992, 1993 and 1994, along with those estimated for the year 1995 and actual components of exploration and development expenditures for the nine-month periods ended September 30, 1994 and 1995.

Expenditure Category	1992	1993	1994	Nine Months Ended September 30, 1994	Nine Months Ended September 30, 1995
			(In Millions)		
Capital					
Drilling and Facilities	$260	$331	$342	$257	$225
Leasehold Acquisitions	23	29	52	32	17
Producing Property Acquisitions	65	9	34	14	114
Capitalized Interest and Other	14	14	14	10	9
Total	362	383	442	313	365
Exploration Expenses	44	55	59	41	40
Total	$406	$438	$501	$354	$405

Exploration and development expenditures for the first nine months of 1995 increased $51 million compared to the same period in 1994, and primarily reflect the acquisitions of selected properties to complement existing United States producing areas.

Exploration and development expenditures increased $63 million, or 14%, in 1994 compared to 1993. The increase primarily reflects the acquisitions of selected properties to compliment existing North America producing areas and the addition of new international activities in India. See "Business – Exploration and Production" for additional information detailing the specific geographic locations of the Company's drilling programs and "– Outlook" below for a discussion related to future exploration and development expenditure plans.

Exploration and development expenditures in 1993 increased to $438 million, an 8% increase, as compared to the $406 million expended in 1992. The increase was attributable to increased domestic drilling activity with reduced emphasis on development drilling expenditures associated with tight gas sand formations. The Company also implemented its first development program outside of North America during 1993, installing a jacket, platform and production facilities and initiating natural gas production from the Kiskadee field offshore the southeast coast of Trinidad.

Hedging Transactions

With the objective of enhancing the certainty of future revenues, the Company has, as of October 23, 1995, entered into hedging transactions for approximately 400 BBtu per day (approximately 381 MMcf per day) and 529 BBtu per day (approximately 504 MMcf per day) of its North America natural gas volumes for the last three months of 1995 and the year 1996, respectively. A significant portion of the 1995 and substantially all of the 1996 hedge transactions involve NYMEX-based commodity price swap agreements totaling 260 BBtu per day at an average price of $1.98 per MMBtu and 447 BBtu per day at an average price of $2.00 per MMBtu for the last three months of 1995 and the year 1996, respectively. The remaining hedge transactions of 140 BBtu per day and 82 BBtu per day for the last three months of 1995 and the year 1996, respectively, include notional and physical transactions that involve fixed price sales contracts and volumetric production payment and exchange agreements. Included in the 1996 hedge transactions are commodity price swap agreements totaling 200 BBtu per day of notional volumes at a weighted average NYMEX-based price of $1.97 per MMbtu which include one-time options exercisable by the counterparty on or before December 17, 1996 totaling 200 BBtu per day of notional volumes in 1997 and 1998 at the same weighted average NYMEX-based price of $1.97 per MMBtu. The Company has also, as of October 16, 1995, hedged approximately 10,100 Bbl per day and 9,600 Bbl per day of its North

America crude oil and condensate volumes using commodity price swap agreements at NYMEX-based West Texas Intermediate Crude Oil ("WTI") prices averaging $18.77 per Bbl and $18.90 per Bbl for the last three months of 1995 and the year 1996, respectively. Included in the 1995 and 1996 hedge transactions are commodity price swap agreements totaling up to 3,000 Bbl per day at WTI prices ranging between $18.70 and $18.80 per Bbl each of which includes a one-time option exercisable by the counterparty at various times up to and including December 31, 1996 and for various periods some of which extend through December 31, 2000 at the same respective NYMEX-based prices as are applicable in the individual agreements for the 1995 and 1996 periods. The Company continues to evaluate the potential for entering into and may enter into, additional hedging transactions related to certain of the remaining months in 1995, and in future years. In addition, the Company also may close out any portion of the existing or yet to be entered into hedges as determined appropriate by management of the Company.

Trading Transactions

Subsequent to September 30, 1995, the Company sold call options with a notional volume of 50 BBtu per day at an average price of $2.10 per MMBtu for the period January through December, 1996.

Financing

The Company's long-term debt-to-total-capital ratio was 19%, 15% and 14% as of September 30, 1995 and December 31, 1994 and 1993, respectively. The Company has entered into an agreement with Enron Corp. pursuant to which the Company may borrow funds from Enron Corp. at a representative market rate of interest on a revolving basis. During 1994, there were no funds borrowed by the Company under this agreement. During the first nine months of 1995, the average of the daily balances of funds borrowed by the Company under the agreement was $2.3million, and the balance at September 30, 1995 was $16.3 million. Under a promissory note effective January 1, 1993 at a fixed interest rate of 7%, the Company may advance funds temporarily surplus to the Company to Enron Corp. for investment purposes. Daily outstanding balances of funds advanced to Enron Corp. under the note averaged $200,000 during the first nine months of 1995 and $69 million during 1994 with no balance outstanding at December 31, 1994 or September 30, 1995. There was a balance of $7 million outstanding at December 31, 1994 under a commercial paper program initiated in 1990. Proceeds from the commercial paper program were used to fund current transactions. During 1994, total long-term debt increased $37 million to $190 million as a result of $23 million of new borrowings related to certain international drilling activities, a $7 million increase in commercial paper, and the recording of an $8 million capital lease obligation. The estimated fair value of the Company's long-term debt, including current maturities of $2 million and $30 million, at December 31, 1994 and 1993 was $186 million and $192 million, respectively, based upon quoted market prices and, where such prices were not available, upon interest rates currently available to the Company at year end.

Outlook

Uncertainty continues to exist as to the direction of future North America natural gas price trends and there is a wide divergence in the opinions held by some in the industry. However, recent history would tend to support, and it seems there is emerging among a larger number of industry representatives somewhat of a consensus, that natural gas prices will remain below parity with crude oil, condensate and natural gas liquids for some time. This situation is being impacted by improvements in the technology used in drilling and completing oil and gas wells that are tending to mitigate the impacts of fewer oil and gas wells being drilled, the deregulation of the natural gas market under Federal Energy Regulatory Commission Order 636 and subsequent related orders, and improvements being realized in the availability and utilization of natural gas storage capacity. However, the continually increasing recognition of natural gas as a more environmentally friendly source of energy along with the availability of significant domestically sourced supplies should result in further increases in demand and a supporting/strengthening of the overall natural gas market over time. Being primarily a natural gas producer, the Company is more significantly impacted by changes in natural gas prices than by changes in crude oil and condensate prices. Based on the portion of the Company's anticipated natural gas volumes for which prices have not, in effect, been hedged using NYMEX-related commodity market transactions, long-term marketing contracts and the sale of a volumetric production payment, the Company's net income and cash flow sensitivity to changing natural gas prices is approximately $4.0 million for each $.10 per Mcf change in average wellhead natural gas prices. Using various commodity price hedging mechanisms, the Company has, in effect, locked in prices for an average of about 50% of its anticipated wellhead natural gas volumes and about 30% of its anticipated wellhead crude oil and condensate volumes for the year 1995 and about 65% of its anticipated wellhead natural gas volumes and about 40% of its anticipated wellhead crude oil and condensate volumes for the year 1996. The percentage of volumes hedged may change during the remainder of 1995 and will change in future years.

Other factors representing positive impacts that are more certain continue to hold good potential for the Company in future periods. While the drilling qualification period for the tight gas sand federal income tax credit expired on December 31, 1992, the Company has continued in 1995, and should continue in the future, to realize significant benefits associated with production from wells drilled during the qualifying period as it will be eligible for the federal income tax credit through the year 2002. However, all other factors remaining equal, the annual benefit, which was $36 million in 1994 and is estimated to be approximately $21 million for 1995, is expected to continue to decline in future periods as production from the qualified wells declines. The drilling qualification period for a certain state severance tax exemption available on qualifying high-cost natural gas revenues continues through August 1996 in its current form and in a modified and somewhat reduced form from that point through August 2002. Consequently, new qualifying production will be added prospectively to that presently qualified. Other natural gas marketing activities are also expected to continue to contribute meaningfully to financial results. The Company completed a fairly significant restructure of its other natural gas marketing portfolio during 1992 with the sale of a volumetric production payment of approximately 124 Bcfe (136 TBtu) for $326.8 million that was subsequently revised in 1993 and elimination of most delivery obligations under four long-term fixed price marketing contracts. The proceeds from the sale of the volumetric production payment added substantially to the financial flexibility of the Company supporting future development while the combined effect of all elements of the restructuring on net income has not been, and will not in the future be, significant. These factors are expected to contribute significantly to earnings, cash flow, and the ability of the Company to pursue the continuation of an active exploration, development and selective acquisition program.

The Company plans to continue to focus a substantial portion of its development and certain exploration expenditures in its major producing areas in North America. However, based on the continuing uncertainty associated with North America natural gas prices and the continuing weakness in that market, and as a result of the recent success realized offshore Trinidad and opportunities available to the Company in conjunction with the recent signing of agreements in India, the Company anticipates expending an increasing portion of its available funds in the further development of these opportunities. In addition, the Company expects to include limited but meaningful exploratory exposure in other areas outside of North America in its expenditure plans and will continue to evaluate the potential for involvement in other exploitation type opportunities. The continuation of expenditures in other areas outside of North America in the near term is expected to be primarily for the evaluation of conventional oil and gas exploration and exploitation opportunities in the U.K. North Sea and China, respectively, and coalbed methane recovery prospects in Australia and China. Other prospects in various locations will also attract the expenditure of some funds. (See "Business – Exploration and Production" for additional information detailing the specific geographic locations of the related drilling programs). The Company continues to pursue a strategy of funding exploration, development and acquisition activities primarily from available internally generated cash flow.

The level of exploration and development expenditures will vary in future periods depending on energy market conditions and other related economic factors. Based upon existing economic and market conditions, the Company believes net operating cash flow and available financing alternatives will be sufficient to fund its net investing cash requirements for the near term. However, the Company has significant flexibility with respect to its financing alternatives and adjustment of its exploration and development expenditure plans as circumstances warrant. While the Company has certain continuing commitments associated with expenditure plans related to operations in India, they are not anticipated to be material when considered in relation to the total financial capacity of the Company.

Other

The cost of environmental compliance has not been material to the Company.

In March 1995, the Financial Accounting Standards Board issued SFAS No. 121 – "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (the "Standard"). The Standard requires, among other things, that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company is required to adopt the Standard no later than the first quarter of 1996. While the Company has not finalized its evaluation of the effect of adoption of the Standard, its evaluation to date indicates that application of the Standard to its current portfolio of assets could result in impairment charges ranging from $5 million to $60 million before federal income taxes ($3 million to $39 million after federal income taxes). However, such impairment charges would be non-cash.

MANAGEMENT

The current directors and executive officers of the Company and their names and ages are as follows:

Name	Age	Position
Forrest E. Hoglund	62	Chairman of the Board, President and Chief Executive Officer; Director
Fred C. Ackman	64	Director
Richard D. Kinder	51	Director
Kenneth L. Lay	53	Director
Edward Randall, III	68	Director
Joe Michael McKinney	55	President-International Operations
Mark G. Papa	49	President-North American Operations
Walter C. Wilson	53	Senior Vice President and Chief Financial Officer
Ben B. Boyd	54	Vice President and Controller
Dennis M. Ulak	41	Vice President and General Counsel

Forrest E. Hoglund joined the Company as Chairman of the Board, Chief Executive Officer and Director in September 1987. Since May 1990, he has also served as President of the Company. Mr. Hoglund was a director of USX Corporation from February 1986 until September 1987. He joined Texas Oil & Gas Corp. ("TXO") in 1977 as president, was named Chief Operating Officer in 1979, Chief Executive Officer in 1982, and served TXO in those capacities until September 1987. Mr. Hoglund is also an advisory director of Texas Commerce Bank National Association.

Fred C. Ackman is the former Chairman, President and Chief Executive Officer of The Superior Oil Company. For over five years Mr. Ackman has been a consultant to the oil and gas industry and has interests in ranching and investments.

Richard D. Kinder has been President and Chief Operating Officer of Enron Corp. since October 1990. From December 1988 until October 1990, he served Enron Corp. as Vice Chairman of the Board. For over five years prior to his election as Vice Chairman, Mr. Kinder served in various management and legal positions with Enron Corp. and its affiliates. Mr. Kinder is also a director of Enron Corp., Enron Global Power & Pipelines L.L.C., EOTT Energy Corp. (the general partner of EOTT Energy Partners, L.P.), Enron Liquids Pipeline Company (the general partner of Enron Liquids Pipeline, L.P.), Sonat Offshore Drilling Inc. and Baker Hughes Incorporated.

Kenneth L. Lay has been Chairman of the Board and Chief Executive Officer of Enron Corp. for over five years. From February 1989 until October 1990, he also served as President of Enron Corp. Mr. Lay is also a director of Eli Lilly and Company, Compaq Computer Corporation, Trust Company of the West, EOTT Energy Corp. (the general partner of EOTT Energy Partners, L.P.), and Enron Corp.

Edward Randall, III is principally involved in investments. Mr. Randall is also a director of KN Energy, Inc. and PaineWebber Group Inc.

Joe Michael McKinney has been President-International Operations since February 1994 with responsibilities for all exploration, drilling, production and engineering activities for the Company's international ventures outside North America. Mr. McKinney joined Enron Oil & Gas International, Inc., a wholly-owned subsidiary of the Company, in December 1991 as Senior Vice President of Operations and was elected President and Chief Operating Officer of Enron Oil & Gas International, Inc. in April 1993, a capacity in which he continues to serve. Prior to joining the Company, Mr. McKinney held operations management positions with Union Texas Petroleum Company, The Superior Oil Company and Exxon Company, USA.

Mark G. Papa has been President-North American Operations since February 1994. From May 1986 through January 1994, Mr. Papa served as Senior Vice President-Operations. Mr. Papa joined Belco Petroleum Corporation, a predecessor of the Company, in 1981 as Division Production Coordinator and served as Senior Vice President-Drilling and Production, BelNorth Petroleum Corporation from May 1984 until May 1986.

Walter C. Wilson has been Senior Vice President and Chief Financial Officer since May 1991. Mr. Wilson joined the Company in November 1987 as Vice President and Controller and was named Senior Vice President-Finance in October 1988. Prior to joining the Company Mr. Wilson held financial management positions with Exxon Company, USA for 16 years and The Superior Oil Company for four years.

Ben B. Boyd has been Vice President and Controller since March 1991. Mr. Boyd joined the Company in March 1989 as Director of Accounting and was named Controller in May 1990. Prior to joining the Company, Mr. Boyd held financial management positions with DeNovo Oil & Gas, Inc., Scurlock Oil Company and Coopers & Lybrand.

Dennis M. Ulak has been Vice President and General Counsel since March 1992. Mr. Ulak joined the Company in March 1987 as Senior Counsel and was named Assistant General Counsel in August 1990. Prior to joining the Company, Mr. Ulak held various legal positions with Enron Corp. and Northern Natural Gas Company.

THE SELLING STOCKHOLDER

	Beneficial Ownership Before Stock Offerings			Beneficial Ownership After Stock Offerings(1)(2)	
Selling Stockholder	Shares	Percentage	Shares to be Sold(1)	Shares	Percentage
Enron Corp.	128,000,000	80%	27,000,000	101,000,000	63%

(1) Assumes that the Underwriters' over-allotment options in the Stock Offerings are not exercised. If such options are exercised in full, Enron Corp. will sell 31,050,000 shares of Common Stock in the Stock Offerings and will beneficially own 96,950,000 shares of Common Stock (approximately 61% of the outstanding shares) after the Stock Offerings.

(2) Concurrently with the Stock Offerings, Enron Corp. is offering Exchangeable Notes, which at maturity may be exchanged for no more than 10,000,000 shares of Common Stock (no more than 11,000,000 shares if the over-allotment option to the Underwriters in the Exchangeable Notes Offering is exercised in full) owned by Enron Corp., subject to adjustment under certain circumstances and to Enron Corp.'s option to pay an amount in cash in lieu of such mandatory exchange. Following consummation of the Exchangeable Notes Offering, the shares that may be delivered upon exchange therefor will continue to be beneficially owned by Enron Corp. until such time, if any, as they are delivered at maturity of the Exchangeable Notes. If the Underwriters' over-allotment options in the Stock Offerings and the Exchangeable Notes Offering are exercised in full and the maximum number of shares of Common Stock are delivered at maturity of the Exchangeable Notes, Enron Corp. will beneficially own 85,950,000 shares of Common Stock or approximately 54% of the outstanding shares.

The registration related to the Stock Offerings and the Common Stock deliverable upon exchange of the Exchangeable Notes is being provided pursuant to the terms of a Stock Restriction and Registration Agreement with Enron Corp., under which the Company has agreed that upon the request of Enron Corp. (or certain assignees), the Company will register under the Securities Act and applicable state securities laws the sale of Common Stock owned by Enron Corp. The Company's obligation is subject to certain limitations relating to a minimum amount of Common Stock required for registration, the timing of registration and other similar matters. The Company is obligated to pay all expenses incidental to such registration, excluding underwriters' discounts and commissions and certain legal fees and expenses.

RELATIONSHIP BETWEEN THE COMPANY AND ENRON CORP.

Ownership of Common Stock

Through its ability to elect all of the directors of the Company, Enron Corp. has the ability to control all matters relating to the management of the Company, including any determination with respect to acquisition or disposition of Company assets, future issuance of Common Stock or other securities of the Company and any dividends payable on the Common Stock. Enron Corp. also has the ability to control the Company's exploration, development, acquisition and operating expenditure plans. There is no agreement between Enron Corp. and the Company that would prevent Enron Corp. from acquiring additional shares of Common Stock of the Company.

The sale by Enron Corp. of the shares of Common Stock of the Company will cause Enron Corp.'s ownership interest in the Company to fall below 80% with the result that (i) the Company will cease to be included in the consolidated federal income tax return filed by Enron Corp. and (ii) the Tax Allocation Agreement between the Company and Enron Corp. described below will cease to be effective from the time at which deconsolidation occurs for future periods, but will remain in effect with regard to periods prior to deconsolidation. The Company has entered into a supplemental agreement with Enron Corp. clarifying future potential adjustments associated with the final settlement on audit of taxes for periods prior to the deconsolidation for issues not addressed in the original agreement. The Company does not believe that the cessation of consolidated tax reporting with Enron Corp. and effectiveness of the Tax Allocation Agreement concurrent with deconsolidation will have a material adverse effect on its financial condition or results of operations.

Contractual Arrangements

The Company entered into a Services Agreement (the "Services Agreement") with Enron Corp. effective January 1994, pursuant to which Enron Corp. provides various services, such as maintenance of certain employee benefit plans, provision of telecommunications and computer services, lease of office space and the provision of purchasing and operating services and certain other corporate staff and support services. Such services historically have been supplied to the Company by Enron Corp., and the Services Agreement provides for the further delivery of such services substantially identical in nature and quality to those services previously provided. The Company has agreed to a fixed rate for the rental of office space and to reimburse Enron Corp. for all other direct costs incurred in rendering services to the Company under the contract and to pay Enron Corp. for allocated indirect costs incurred in rendering such services up to a maximum of $6.7 million for 1994, such cap to be increased in subsequent years for inflation and certain changes in the Company's allocation bases with any increase not to exceed 7.5% per year. Approximately $6.6 million was paid under the Services Agreement by the Company to Enron Corp. in 1994. The Services Agreement is for an initial term of five years through December 1998 and will continue thereafter until terminated by either party.

In March 1995, in a series of transactions with Enron Corp. and an affiliate of Enron Corp., the Company exchanged all of its fuel supply and purchase contracts and related price swap agreements associated with a Texas City cogeneration plant (the "Cogen Contracts") for certain natural gas price swap agreements (the "Swap Agreements") of equivalent value. As a result of the transactions, the Company has been relieved of all performance obligations associated with the Cogen Contracts. The Company will realize net operating revenues and receive corresponding cash payments of approximately $91 million during the period extending through December 31, 1999 under the terms of the Swap Agreements. The estimated fair value of the Swap Agreements was approximately $81 million at the date the Swap Agreements were received. The net of this series of transactions will result in increases in net operating revenues and cash receipts for the Company during 1995 and 1996 of approximately $13 million and $7 million, respectively, with offsetting decreases in 1998 and 1999 versus that anticipated under the Cogen Contracts.

The Company has been included in the consolidated federal income tax return filed by Enron Corp. as the common parent for itself and its subsidiaries and affiliated companies, excluding any foreign subsidiaries. Consistent therewith and pursuant to a Tax Allocation Agreement between the Company, the Company's subsidiaries and Enron Corp., either Enron Corp. has paid to the Company and each subsidiary an amount equal to the tax benefit realized in the Enron Corp. consolidated federal income tax return resulting from the utilization of the Company's or the subsidiary's net operating losses and/or tax credits, or the Company and each subsidiary has paid to Enron Corp. an amount equal to the federal income tax computed on its separate taxable income less the tax benefits associated with any net operating losses and/or tax credits generated by the Company or the subsidiary which were utilized in the Enron Corp. consolidated return. Enron Corp. has paid the Company and each subsidiary for the tax benefits associated with their net operating losses and tax credits utilized in the Enron Corp. consolidated return, provided that a tax benefit was realized except as discussed below, even if such benefits could not have been used by the Company or the subsidiary on a separately filed tax return. The Company entered into an agreement with Enron Corp. providing for the Company to be paid for all realizable benefits associated with tight gas sand federal income tax credits concurrent with tax reporting and settlement for the periods in which they were generated. The Tax Allocation Agreement applies to the Company and each of its subsidiaries for all years in which the Company or any of its subsidiaries are or were included in the Enron Corp. consolidated return. To the extent a state or other taxing jurisdiction requires or permits a consolidated, combined, or unitary tax return to be filed and such return includes the Company or any of its subsidiaries, the principles expressed with respect to consolidated federal income tax allocation shall apply. The Tax Allocation Agreement will cease to be effective from the time at which deconsolidation occurs for future periods, but will remain in effect with regard to periods prior to deconsolidation. For issues not addressed in the original agreement, the Company has entered into a supplemental agreement with Enron Corp. clarifying future potential adjustments associated with the final settlement on audit of taxes for periods prior to the deconsolidation. The Company does not believe that the cessation of consolidated tax reporting with Enron Corp. and effectiveness of the Tax Allocation Agreement concurrently with deconsolidation will have a material adverse effect on its financial condition or results of operations.

For a discussion of transactions between the Company and Enron Corp. and its affiliates, see the Company's Annual Report on Form 10-K for the year ended December 31, 1994 incorporated herein by reference. See "Incorporation of Certain Documents by Reference."

Conflicts of Interest

The nature of the respective businesses of the Company and Enron Corp. and its affiliates is such as to potentially give rise to conflicts of interest between the two companies. Conflicts could arise, for example, with respect to transactions involving purchases, sales and transportation of natural gas and other business dealings between the Company and Enron Corp. and its affiliates, potential acquisitions of businesses or oil and gas properties, the issuance of additional shares of voting securities, the election of directors or the payment of dividends by the Company.

Circumstances may also arise that would cause Enron Corp. to engage in the exploration for and/or development and production of natural gas and crude oil in competition with the Company. For example, opportunities might arise which would require financial resources greater than those available to the Company, which are located in areas or countries in which the Company does not intend to operate or which involve properties that the Company would be unwilling to acquire. Also, Enron Corp. might acquire a competing oil and gas business as part of a larger acquisition. In addition, as part of Enron Corp.'s strategy of securing supplies of natural gas or capital, Enron Corp. may from time to time acquire producing properties or interests in entities owning producing properties, and thereafter engage in exploration, development and production activities with respect to such properties or indirectly engage in such activities through such companies. Enron Corp. may also acquire interests in oil and gas properties or companies in connection with its financing activities. For example, in its financing activities Enron Corp. or any entity in which it has an interest may make loans secured by oil and gas properties or securities of oil and gas companies, may acquire production payments or may receive interests in oil and gas properties as equity components of lending transactions. As a result of its lending activities, Enron Corp. may also acquire oil and gas properties or companies upon foreclosure of secured loans or as part of a borrower's rearrangement of its obligations. Such acquisition, exploration, development and production activities may directly or indirectly compete with the Company's business. There can be no assurances that Enron Corp. will not engage directly or indirectly through entities other than the Company, in the natural gas and crude oil exploration, development and production business in competition with the Company.

Joint Energy Development Investments Limited Partnership ("JEDI"), a limited partnership in which Enron Capital & Trade Resources Corp. ("ECT"), a wholly owned subsidiary of Enron Corp., owns a 50% general partner interest, has entered into an agreement to acquire a controlling interest in Coda. Coda is engaged in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in North Texas and Oklahoma. Crude oil accounts for approximately 86% of Coda's proved reserves. At December 31, 1994, Coda reported estimated proved natural gas reserves of 39,808 MMcf and estimated proved crude oil, condensate and natural gas liquids reserves of 39,207 MBbls. Enron anticipates that the transaction will be consummated in early 1996, subject to Coda stockholder approval and other conditions. Conflicts may arise between Coda and JEDI, and if the acquisition of Coda occurs Enron will be required to resolve such conflicts in a manner that is consistent with its fiduciary and contractual duties to other investors in Coda and JEDI and its fiduciary duties to the Company. ECT has entered into an agreement with JEDI and other investors in Coda designed to minimize certain conflicts of interest that may arise and providing, among other things, that the Company has no obligation to offer any business opportunities to Coda.

The Company and Enron Corp. and its affiliates have in the past entered into material intercompany transactions and agreements incident to their respective businesses, and the Company and Enron Corp. and its affiliates may be expected to enter into material transactions and agreements from time to time in the future. Such transactions and agreements have related to, among other things, the purchase and sale of natural gas and crude oil, the financing of exploration and development efforts by the Company, and the provision of certain corporate services. The Company believes that its existing transactions and agreements with Enron Corp. and its affiliates have been at least as favorable to the Company as could be obtained from third parties, and the Company intends that the terms of any future transactions and agreements between the Company and Enron Corp. and its affiliates will be at least as favorable to the Company as could be obtained from third parties.

DESCRIPTION OF COMMON STOCK

Authorized and Outstanding Capital Stock

The authorized capital stock of the Company consists of 160,000,000 shares of Common Stock, $.01 par value, of which 159,799,955 shares were outstanding on October 31, 1995. The following summary description of the capital stock of the Company is qualified in its entirety by reference to the Restated Certificate of Incorporation of the Company, as amended, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part.

The Common Stock possesses ordinary voting rights for the election of directors and in respect to other corporate matters, each share being entitled to one vote. There are no cumulative voting rights, meaning that the holders of a majority of the shares voting for the election of directors can elect all the directors if they choose to do so. The Common Stock carries no preemptive rights and is not convertible, redeemable or assessable, or entitled to the benefits of any sinking fund. The holders of Common Stock are entitled to dividends in such amounts and at such times as may be declared by the Board of Directors out of funds legally available therefor.

Upon liquidation or dissolution, holders of Common Stock are entitled to share ratably in all net assets available for distribution to stockholders after payment of any corporate debts. All outstanding shares of Common Stock are duly authorized, validly issued, fully paid and nonassessable.

The transfer agent and registrar of the Common Stock is First Chicago Trust Company of New York, Jersey City, New Jersey.

Limitation on Directors' Liability

Delaware corporation law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breach of directors' fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, directors must exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by such laws, directors are accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. The Delaware laws enable corporations to limit available relief to equitable remedies such as injunction or rescission. The Restated Certificate of Incorporation, as amended, of the Company limits the liability of directors of the Company to the Company or its stockholders (in their capacity as directors but not in their capacity as officers) to the fullest extent permitted by the Delaware law. Specifically, directors of the Company will not be personally liable for monetary damages for breach of a director's fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

This provision in the Restated Certificate of Incorporation may have the effect of reducing the likelihood of derivative litigation against directors, and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited the Company and its stockholders.

CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES FOR NON-UNITED STATES HOLDERS OF COMMON STOCK

The following is a summary of certain United States federal income tax consequences of the acquisition, ownership and disposition of Common Stock by a holder that, for United States federal income and estate tax purposes, is a Non-United States Holder. For purposes of this discussion, a "Non-United States Holder" means a corporation, individual or partnership that is, as to the United States, a foreign corporation, a non-resident alien individual or a foreign partnership, or a trust or estate other than one the income of which is subject to United States federal income tax regardless of its source. This summary does not address all aspects of United States federal income and estate taxation and does not deal with foreign, state and local tax consequences that may be relevant to Non-United States Holders in light of their specific circumstances. Furthermore, this summary is based on the provisions of the United States Internal Revenue Code of 1986, as amended, and the regulations, rulings and judicial decisions thereunder, all of which are subject to change. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE UNITED STATES TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF COMMON STOCK AS WELL AS ANY TAX CONSEQUENCES THAT MAY ARISE UNDER THE LAWS OF ANY FOREIGN, STATE, LOCAL OR OTHER TAXING JURISDICTION.

Dividends

Dividends paid to a Non-United States Holder generally will be subject to withholding of United States federal income tax at a rate of 30% (or a lower rate prescribed by an applicable tax treaty). If the dividends are effectively connected with the conduct of a trade or business within the United States by the Non-United States Holder, the dividends will be subject to the ordinary United States federal income tax on net income that applies to United States persons and will not be subject to withholding if the Non-United States Holder files a United States Internal Revenue Service Form 4224 with the Company or its dividend paying agent. In the case of corporate holders, such dividends might also be subject to the United States branch profits tax at a rate of 30% (or a lower rate prescribed by an applicable tax treaty). A Non-United States Holder may be required to satisfy certain certification requirements in order to obtain any reduction of or exemption from withholding under the foregoing rules and may obtain a refund of any excess amounts currently withheld by filing an appropriate refund claim with the United States Internal Revenue Service.

Distributions in excess of the Company's current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated first as a return of capital to the extent of the Non-United States Holder's tax basis in the Common Stock (and will be applied against and reduce such holder's tax basis in the Common Stock) and thereafter as gain from the sale of Common Stock. The portion treated as a return of capital will not be subject to United States federal income tax and the portion, if any, treated as gain will be subject to the rules described under " – Gain on Disposition" below. Because the Company will not be able to determine whether a distribution should properly be treated as a dividend or as a return of capital at the time of payment, it is required to treat all distributions as dividends for United States withholding tax purposes. Non-United States Holders will be eligible to claim a refund to the extent that a distribution represents a return of capital and may in certain circumstances be eligible to claim a refund to the extent that a distribution is treated as gain. Non-United States Holders should consult their own tax advisors with respect to distributions in excess of current and accumulated earnings and profits.

Gain on Disposition

General Rule

Subject to special rules for individuals described below, a Non-United States Holder generally will not be subject to United States federal income tax on gain recognized on a sale or other disposition of Common Stock unless (a) the gain is effectively connected with the conduct of a trade or business within the United States by the Non-United States Holder (in which case the United States branch profits tax described above may also apply to corporate holders) or (b) the gain is treated as effectively connected with the conduct of a trade or business within the United States because the Company is or has been a "United States real property holding corporation" for United States federal income tax purposes (in which case, withholding of such tax may also apply). The Company believes that it is currently, and is likely to remain, a United States real property holding corporation. The preceding sentence notwithstanding, under currently effective United States federal income tax laws, gain recognized by a Non-United States Holder will not be treated as effectively connected with the conduct of a trade or business within the United States (or subject to withholding) unless such Non-United States Holder held, directly or indirectly, at any time during the five-year period ending on the date of disposition, more than five percent of the Common Stock. Non-United States Holders should consult applicable tax treaties, which may provide for different rules (including possibly the exemption of certain capital gains from tax).

Individuals

In addition to the rules described above, an individual Non-United States Holder who holds Common Stock as a capital asset generally will be subject to tax on any gain recognized on the disposition of such stock if such individual is present in the United States for 183 days or more in the taxable year of disposition and either (a) has a "tax home" in the United States (as specifically defined under the United States federal income tax laws) or (b) maintains an office or other fixed place of business in the United States to which the gain from the sale of the stock is attributable. Certain individual Non-United States Holders may also be subject to tax pursuant to provisions of United States federal income tax law applicable to United States expatriates.

Federal Estate Tax

Common Stock owned or treated as owned by an individual Non-United States Holder at the date of death will be subject to United States federal estate tax, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

The Company or its designated paying agent (the "payor") must report annually to the United States Internal Revenue Service and to each Non-United States Holder the amount of dividends paid to and the tax, if any, withheld with respect to such holder. That information may also be made available to the tax authorities of the country in which the Non-United States Holder resides.

United States information reporting requirements (other than the reporting of dividend payments described in the preceding paragraph) and United States backup withholding (imposed at a 31% rate) generally will not apply to dividends paid to a Non-United States Holder at an address outside the United States, unless the payor has knowledge that the payee is a United States person. Otherwise, information reporting and backup withholding may apply to dividends paid on the Common Stock to a Non-United States Holder who fails to furnish certain information, including a tax identification number, in the manner required by United States law and applicable regulations.

Payment of the proceeds of a disposition of Common Stock by a United States office of a broker is subject to backup withholding and information reporting, unless the holder certifies to the broker under penalties of perjury as to its name, address and status as a Non-United States Holder or the holder otherwise establishes an exemption. Neither backup withholding nor information reporting generally will apply to a payment of the proceeds of a disposition of Common Stock by a foreign office of a foreign broker that is not a United States Related Person (as defined below). Information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a disposition of Common Stock by a foreign office of a broker that is a United States person or a United States Related Person, unless the broker has documentary evidence in its records that the holder is a Non-United States Related Person and certain other conditions are met, or the holder otherwise establishes an exemption. For this purpose, a "United States Related Person" is (a) a foreign broker, 50% or more of whose gross income for certain periods is effectively connected with the conduct of a trade or business in the United States or (b) a foreign broker that is a "controlled foreign corporation" for United States federal income tax purposes.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against the Non-United States Holder's United States federal income tax liability, provided that required information is furnished to the United States Internal Revenue Service.

PLAN OF DISTRIBUTION

This Prospectus relates to the 11,000,000 shares of Common Stock that may be delivered by Enron Corp. pursuant to the Exchangeable Notes and is Appendix A to the Enron Corp. Exchangeable Notes Prospectus. At maturity of the Exchangeable Notes, the principal amount of each such note will be mandatorily exchanged by Enron Corp. for shares of Common Stock or, at the option of Enron Corp., cash in lieu of such mandatory exchange. For a description of the Exchangeable Notes, see "Description of the Exchangeable Notes" in the Enron Corp. Exchangeable Notes Prospectus.

Enron Corp., the Company and the Company's Chief Executive Officer have agreed that during the period beginning from the date of this Prospectus and continuing to and including the date 270 days after the date of this Prospectus, subject to certain exceptions set forth in the underwriting agreements, they will not offer, sell, contract to sell or otherwise dispose of Common Stock, any securities of the Company which are substantially similar to shares of Common Stock or any securities which are convertible into or exchangeable for Common Stock or such substantially similar securities without the prior written consent of Goldman, Sachs & Co., except for the shares of Common Stock offered in connection with the concurrent Stock Offerings.

In connection with the distribution of the Exchangeable Notes, Enron Corp. and the Company have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Underwriters may be required to make in respect thereof.

VALIDITY OF COMMON STOCK

The validity of the shares of Common Stock deliverable upon exchange of the Exchangeable Notes will be passed upon for the Company by Dennis M. Ulak, Esq., Vice President and General Counsel of the Company, and for the Underwriters by Bracewell & Patterson, L.L.P. Certain matters will be passed upon for Enron Corp. by Vinson & Elkins L.L.P. Mr. Ulak owns substantially less than 1% of the outstanding shares of Common Stock of the Company or common stock of Enron Corp. Bracewell & Patterson, L.L.P. provides services to Enron Corp. and certain of its subsidiaries (including the Company) and affiliates on matters unrelated to the offering of the Exchangeable Notes, the delivery of the Common Stock upon exchange thereof and the Stock Offerings.

EXPERTS

The consolidated financial statements and schedule included in the Company's Annual Report on Form 10-K for the year ended December 31, 1994, incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are incorporated by reference herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said report.

The letter report of DeGolyer and MacNaughton, independent petroleum consultants, included as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, and the estimates from the reports of that firm appearing in such Annual Report, are incorporated by reference herein on the authority of said firm as experts in petroleum engineering and in giving such reports.

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this Prospectus or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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Enron Oil & Gas Company

Common Stock

(par value $.01 per share)

PROSPECTUS

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this Prospectus or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Enron since the date hereof or the information contained herein is correct as of any time subsequent to its date.

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10,000,000 Exchangeable Notes

ENRON CORP

6¼% Exchangeable Notes due December 13, 1998

PROSPECTUS

Goldman, Sachs & Co.

Merrill Lynch & Co.

Salomon Brothers Inc

Representatives of the Underwriters

94-131267

ENRON CORP

Kenneth L. Lay
Chairman and
Chief Executive Officer

P. O. Box 1188
Houston, Texas 77251-1188
(713) 853-6773

February 28, 1994

The Honorable Lloyd Bentsen
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220

Dear Lloyd:

As indicated in the attached press release, Enron Oil and Gas Company and its Indian partner, Reliance Industries, have been awarded the rights to develop and operate the Tapti, Panna, and Mukta fields off the Western coast of India. The strong support for our efforts on this matter from you and others in the Clinton Administration were very instrumental to this outcome.

In his remarks to the Business Council last Wednesday evening, President Clinton made the point that his Administration was committed to promoting U. S. business interests abroad. I believe our success in India is tangible evidence of the results of this policy.

At the same time, I remain concerned that the current relationship between the U. S. and India governments is not as positive as it probably should be. The attached copy of an article from the February 24 *Washington Post* articulates this concern better than I could. I would hope the Administration would take affirmative steps to put these relations between the worlds two largest democracies on a better footing.

I want to again express my appreciation to you and others in the Clinton Administration for supporting our activity in India. We firmly believe the success of this activity will result in significant exports from the United States as well as assist the Indian Government in its efforts to privatize and liberalize their economy. This is clearly a win-win proposition for both countries.

Sincerely,

Ken

rtf30
Attachments
c: The Honorable Warren Christopher, Secretary of State
The Honorable Ronald H. Brown, Secretary of Commerce
The Honorable Thomas F. McLarty, Chief of Staff
The Honorable Robert E. Rubin, Chairman - National Economic Council

ENRON
Oil & Gas Company

NewsRelease

P. O. Box 1188 Houston, Texas 77251-1188

For Further Information Contact:

A. H. Davis
(713) 853-6941

INDIAN GOVERNMENT INDICATES AWARDING OF DEVELOPMENT RIGHTS FOR OIL AND GAS FIELDS OFFSHORE INDIA TO ENRON OIL & GAS/RELIANCE INDUSTRIES JOINT VENTURE

FOR IMMEDIATE RELEASE: Friday, February 25, 1994

HOUSTON -- Enron Oil & Gas Company (EOG) and Reliance Industries Limited (RIL), India's largest private sector corporation, today confirmed that a Government of India background paper indicated the awarding of offshore development and operating rights for the Tapti, Panna and Mukta fields off the western coast of India to their joint venture consortium that also includes the Oil and Natural Gas Commission (ONGC) of India.

EOG expects to own its interest in the joint venture through a yet to be formed subsidiary of its wholly owned subsidiary, Enron Exploration Company. Panna and Mukta are oil fields with current production and Tapti is a large undeveloped natural gas field.

Upon receiving official confirmation within a week, EOG and RIL plan to expedite with the Indian government final negotiation of the production sharing contract, operating agreements and natural gas sales contracts. EOG, whose working interest ownership is expected to be approximately 30 percent, will be operator of this joint venture development project.

"We are very pleased that the Indian government appears to have given us the opportunity to contribute to the further development of its hydrocarbon reserves and to its

-- more --

privatization efforts," said Forrest E. Hoglund, chairman, president and chief executive officer of EOG. "As a low-cost operator with a proven record in offshore oil and gas development of this type, we feel EOG has the capabilities to add significant value to India's assets in a timely fashion."

EOG, with natural gas equivalent reserves of 1.9 trillion cubic feet and 1993 production of 709 MMcf/d, has experience in the Gulf of Mexico offshore Texas and in the Caribbean Sea offshore Trinidad. The company operates 15 platforms currently producing 85 million cubic feet per day (MMcf/d) of natural gas in U.S. waters. It also operates the Kiskadee platform offshore Trinidad which is producing 50 MMcf/d from two wells. Additional Kiskadee wells are being drilled, and an additional platform is being constructed to develop the Ibis field upon conclusion of the Kiskadee development.

"We are particularly proud of our track record in Trinidad where it took us less than one year to have natural gas flowing to the Trinidadian marketplace after signing the original contract with the government of Trinidad and Tobago in November, 1992," Hoglund said. "We anticipate using this same philosophy in India to accelerate the flow of crude oil and natural gas supplies, which should benefit India's rapidly developing economy."

Prior to final negotiation of a production sharing contract with the government, EOG and RIL anticipate cooperating with ONGC immediately to coordinate transfer of operations in the currently producing Panna and Mukta fields. Major commitments for drilling and platform construction will be finalized after the agreement negotiations are completed in the next few months.

Enron Oil & Gas Company is one of the largest independent (non-integrated) oil and gas companies in the United States in terms of domestic proved reserves. The company's reserve base is 85 percent domestic and 93 percent natural gas. EOG is listed on the New York Stock Exchange and is traded under the ticker symbol, "EOG."

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REVIEW & OUTLOOK

Raiding Your 401(k)

In most of America, when something goes horribly wrong people try to help the victims. But inside Washington when they learn about something that's gone wrong, the first instinct is to use the victims as an excuse to regulate the innocent. That's precisely what we're now seeing in the effort to use the Enron debacle to undermine one of the great inventions of modern capitalism: the 401(k).

The tone was set at Senate hearings this week, where Enron employees tearfully related how they had lost their life savings when the fast-living company went belly up earlier this month. Back when Enron was selling for $90 a share and was the darling of Wall Street, this looked like a sure thing. But when Enron hit the skids those who had bet everything on Enron found that they had lost their entire nest egg.

This is tragic but not unheard of. As Ace Greenberg famously said after the 1987 crash, stocks fluctuate. New Jersey Senator Jon Corzine, former co-chairman of Goldman Sachs, stated the obvious when he noted that it is "dangerous to put all your eggs in one basket, so to speak. The key to any retirement plan should be diversification."

And Enron—which did match employee contribution with company stock—did offer employees a number of options for diversifying their holdings, though you might not know it from the headlines. Simply because some of those employees declined to take advantage of those choices doesn't mean other Americans should lose some of theirs.

The Enron collapse comes in the midst of an American investor revolution that is today giving ordinary Americans the same chance to build retirement wealth from the stock market that only the rich had before. The 401(k) and the IRA have been the primary vehicles here. The 401(k) in particular has moved us from a nation of "defined benefit" plans, where employers promise a fixed pension, to "defined contribution" plans, where employers make cash payments and workers then make their own investment decisions. Instead of losing their pension when they leave a company, workers can now take their retirement fund with them wherever they work.

Like most revolutions, this one has occurred despite a political opposition that simply does not believe in entrusting Americans with their own money. And they are today using what happened to Enron 401(k) holders to suggest that this is the same awful fate in store for the rest of us. As James Delaplane of the American Benefits Council says, "We are in danger of policy making by anecdote."

Now, there are some property rights issues that deserve attention. If it turns out that Enron officials did, as some employees charge, freeze their 401(k)s (and hence their ability to dump the stock they bought) right after the company announced a $1.2 billion loss in equity that sent the share price reeling, they have a legitimate grievance. But Enron maintains that access to 401(k)s was frozen for only 10 days—and that it was due to a transfer of fund management that had been set in motion months earlier and had nothing to do with its other woes.

Either way this is not something that is going to be solved by regulation imposing new limits on 401(k) choices. But that's what Senator Corzine and his California comrade, Barbara Boxer, are now proposing. Their bill would fix percentages on how much a 401(k) holder could invest in a single stock. And they would use the tax code to limit companies from using their stock to match employee contributions.

All the latter would do is make it more likely that some companies would refuse to match at all. In any event, most already match in cash. Jack Vander Hei, a Temple professor affiliated with the Employee Benefit Research Institute, points out that less than one half of 1% of all 401(k) plans have the company match in company stock. Most companies have also already responded to employee agitation and are now offering many more investment choices in their 401(k)s; some even give workers access to their pensions through an investment account that offers daily trading.

All of this, of course, involves risk. But there are risks to any investment that seeks to benefit from America's capitalist prosperity. The old fixed pension arrangements so favored by the anti-401(k) brigades carry the risk that the entire company, or industry, can get into trouble. Those pension obligations then become "unfunded," which is worse for workers who have no diversification choice at all. Just ask America's steelworkers.

For that matter, the Senators would do more for workers if they improved the diversification allowed in Social Security. Right now that government pension offers workers only one choice for the tens of thousands of dollars they are forced to pay in payroll taxes; their future benefits depend entirely on the promises of today's politicians that future politicians are supposed to meet. That's at least as risky as investing in one company's stock.

The lesson of Enron's failure for investors is that Americans need more retirement investment options, not fewer.

Death-Row Due Process

Anyone who thinks that there's a lack of due process in the American legal system hasn't been following the case of Mumia Abu-Jamal, celebrity cop-killer and death-row darling of movie stars and European elites.

The former Black Panther and sometime radio journalist was convicted in 1982 of the murder of Philadelphia police officer Daniel Faulkner and sentenced to death. The Pennsylvania Supreme Court upheld his conviction in 1995, and in 1998 it refused to grant his request for a new trial. In 1999 the U.S. Supreme Court declined to review Abu-Jamal's appeal.

You'd think the case would end there, after the highest court in the land had weighed in. But no. This week federal Judge William Yohn Jr. issued a ruling throwing out Abu-Jamal's ...h sentence. In other words, two de... ...fter murdering Officer

... justice is a joke. If there's a death penalty statute on the books it ought to be enforced."

But Judge Yohn took a different view. He decided that Appel had been denied adequate counsel and—13 years after the original conviction, with two key witnesses dead and evidence missing—he called for a new trial. Meanwhile, Appel decided he wanted to live; prison life, he discovered, wasn't so bad after all. Faced with the task of retrying Appel without key witnesses, the district attorney struck a deal with the confessed killer that he would surrender his right to further appeals in return for a life sentence without parole.

Which brings us back to Abu-Jamal. In this case, Judge Yohn refused to grant a new trial, concluding that Abu-Jamal's guilt had been justly proven back in 1982. He did, however, demand that a new sentencing hearing be held

The Real Heroes ...

By John Hillen

Over the past few weeks hundreds of American pilots have been flying countless missions against Taliban and al Qaeda forces in Afghanistan, scores of commandos have been assaulting mountain fortresses in search of Osama bin Laden, and over a thousand Marines have moved into Kandahar, the birthplace of the Taliban. Every day millions of Americans must think to themselves how proud they are of these warriors. And yet hardly an American can name one of them—and probably won't well into the future.

Instead, Americans stand in jeopardy of remembering Geraldo Rivera, Christiane Amanpour or Ashleigh Banfield as the heroes of the Afghan War. Relentlessly narcissistic and buoyed by cloying network anchors at home, reporters such as these have used dramatic license to heighten the sense of personal danger to themselves and thus tacitly direct their reporting towards the inevitable conclusion—"ain't I a hero?"

As the viewing public, we're likely to take them at face value, in part because we know no other Americans who can capture our imagination or inspire us to sacrifices of our own in the war on terrorism. As a consequence we pass our affections on to the millionaire celebrity reporters rather than to the $35,000-a-year Delta Force sergeant crawling around Tora Bora.

It is not the media's fault. It is the military's. Since Vietnam, where the military's adversarial relationship with the press was cemented, the Pentagon has had a mistrustful and ham-handed way of handling the press and any attention that it cannot control. Some services are better than others, but in general the Pentagon's wartime policy is "no pictures and no names, please."

Compounding this is the fact that the military is implacably egalitarian when it comes to individual attention—"all the brothers are equally brave," a commander once told me. It's a bit like the Penn State football teams that never have individual names on the backs of jerseys, except the Pentagon won't even put names in the press guide.

Granted, the current campaign, dominated by Special Operations troops, needs to preserve secrecy. But the Pentagon has eschewed publicity for individual heroes in every conflict since Vietnam, even well after the need for operational secrecy faded. For instance, in the Gulf War one American reconnaissance unit fought a hotly contested battle against the Iraqi Republican Guard on the second day of the ground war. In that fight, known as The Battle of the 73 Easting, one officer in particular, Capt. H.R. McMaster, distinguished himself as a battle leader squarely in the tradition of America's greatest fighting men.

Capt. Jason Ar...
Wounded in Afg...

In that battle, in which I participated, Capt. McMaster's scouts surprised a full strength Republican Guard tank battalion dug in for an ambush of the American advance. While other units in his regiment stopped after initial resistance from the Iraqis, Capt. McMaster personally took the lead in his tank and assaulted into and through the Iraqi forces in a hail of tank fire—destroying the equivalent of an enemy brigade by battle's end.

The battle received a fair amount of press, prestigious medals were awarded, Tom Clancy featured it prominently in a

How the Republicans Lo...

By Kevin A. Hassett
And James K. Glassman

With talks over a stimulus plan nearing a conclusion, the one certainty is that this tax debate has been a disaster for Republicans. The House passed a bill originally designed as a compromise that would be quickly enacted, one that pleased few conservatives and reached for Democratic votes. In exchange Republicans got effective Democratic spin and predictable conservative grumbling. Painful as it may be, it is important to dissect the episode, because a replay next year would give the House back to the Democrats.

A feature of the discourse has been the wide disdain for an idea launched by House Republicans to repeal the Alternative Minimum Tax on corporations. The most damning complaint from Democrats is that repeal would refund AMT payments all the way back to 1986. A typical partisan attack came from Paul Krugman, in the New York Times, who called the bill "lurid," with "huge retroactive tax cuts for big corporations." Sen. Barbara Boxer (D., Calif.) called "this kind of political profiteering" by House Republicans "downright shameful."

It is difficult to find a news story on the Republican plan that does not refer to AMT repeal as a retroactive tax cut. In fact, it is nothing of the kind. But the damage has been done, and the administration has made no attempt to defend an eminently sensible repeal.

How did it go so wrong? The AMT was designed by Democrats in the late 1980s, dismayed that some corporations were paying little or nothing in taxes because of healthy deductions. Think of the current law as a fine that is assessed if a firm is identified as a tax evader. The way the AMT works is that the penalty is assessed if a corporation's deductions are "too large" relative to income. But if a corporation's taxes rise enough that it no longer falls under the penalty system, then the "fine" that it paid in the past gets refunded. A corporation that has paid AMT in the past has credit carryforwards.

How do firms end up on the AMT? Perversely, recession is a leading cause. Suppose a firm was especially optimistic about sales at the start of the year and purchased a lot of new equipment. But assume that the firm made a poor forecast, and the economy, in fact, plunged into recession, because of which income was lower than expected. Yet the deductions for the equipment spending were planned well ahead of time. Deductions, therefore, end up "excessive" relative to income—not because deductions were unusually high, but rather, because income was unusually low. In the last recession, the AMT hit about half of all corporations.

In other words, the AMT tax penalty is poorly timed. Under the law, firms lose the benefits of many of their normal deductions, and the marginal tax on investments rises sharply when AMT kicks in. Despite the partisan rhetoric, no economist has ever made the case that the AMT is a sensible policy, and none ever will.

To B or Not to B?

By Harvey Mansfield

Harvard is now considering what to do about grade inflation. Having at last awakened to the scandal of giving its students 50% A's and A-'s and graduating 91% of them with honors, Harvard is now ready—let's be optimistic—to claim the honor of being the first university to do something about it.

While this happens, we might pause to reflect on how Harvard got into this mess. We could begin with who is responsible. The answer, without hesitation, is America's liberals: Our liberals own our universities. To be a conservative professor in America—and ... cially at the ... ligious ... a lonely ... ing do...

vard; what is the point of abandoning strictness and thus obscuring studen... merit once they arrive?

Actually, there is no idea pre... grade inflation at present. In ... when grade inflation got start... ple on the Left believed ... done to subjugate ... body believed that ... an unintended ... sal profess... stud...

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...ers to the Editor

House Throws a Curve Ball

...ur editorial about baseball's antitrust exemption and economic condition ... National Pastime," Dec. 10, is one ... baseball analogy, swung and missed the ...

In his recent testimony to the House Judiciary Committee, Baseball Commissioner Bud Selig did argue forcefully that increasing government regulation and the involvement of the federal courts in the business of baseball because that would not solve any of the economic and competitive problems currently facing the game and its loyal fans.

H.R. 3288, which would partially remove baseball's antitrust exemption, was apparently introduced as a response to baseball's recent decision to "contract" two teams in markets where local revenue is so low, and has little prospect of improving, that further investment is not justified at this time. That is, of course, a familiar business practice in most industries.

Commissioner Selig testified, correctly, that the proposed bill would not enhance stability in baseball, but rather would undermine the historic basis of baseball's stability: its ability to prevent "franchise free agency" and the willy-nilly transfer of teams to markets that look attractive to an individual owner at any given moment. The bill would also jeopardize a stable minor-league system that traditionally gives hundreds of smaller communities across North America access to professional baseball.

Commissioner Selig, in releasing detailed data on the economic and competitive state of the game, did not testify that "baseball is broke," as you asserted, but rather that its current economic system is broken and needs to be fixed, which is indisputably true.

He cited a comprehensive report issued in July 2000 by four independent and highly respected experts—economist and Yale University President Richard C. Levin, former Federal Reserve Board Chairman Paul A. Volcker, former U.S. Senate Majority Leader George J. Mitchell and commentator/author George F. Will. They spent more than 15 months studying massive amounts of data, including audited financials, and concluded that large and growing revenue disparities among teams are causing problems of chronic competitive imbalance.

They identified a number of structural flaws in baseball's economic structure that are the root causes of competitive imbalance and rampant escalation in salaries and payroll disparities. These, in turn, contribute to inflation of ticket and concession prices, which concerns fans, and to growing operating losses and debt levels, which concern owners. Fans, owners and players are all concerned about the lack of competitive balance, which threatens the long-term popularity, growth and vitality of baseball.

Rather than snide and gratuitous references to the image of baseball owners, your editorial would have better served readers by focusing on the game's real problems and long-term solutions. That is what Commissioner Selig is doing—trying to reform a flawed economic structure so that teams and fans in all major league cities have relatively equal opportunity to win, thereby perpetuating baseball's traditional stature and stability as "the national pastime."

LARRY LUCCHINO
Former President and CEO
Baltimore Orioles
and San Diego Padres

San Diego

The Deranged War Against 'Bad Things'

Commenting on Shelby Steele's indictment of liberalism in a Dec. 10 editorial-page commentary ("Radical Sheik") on John Walker Lindh, Hilton Burton writes in his Dec. 17 Letter to the Editor:

"If these cultural and moral treasons have such subversive power, how come there isn't an American Malcolm X Brigade fighting with the Taliban?" The simple answer is that the youths who would form such a brigade are already on active duty in the anti-globalization war.

To take up arms and face an armed enemy, one must believe strongly in something. Most of the undirected youth affected by the liberal laxity bemoaned by Mr. Steele don't believe strongly in anything. They've just bought into the propaganda that capitalism, private property, America (in the abstract) and governmental authority are Bad Things. Thus they are willing to break windows, throw rocks and Molotov cocktails, and possibly risk a mouthful of tear gas or a baton in the ribs, just as soccer hooligans in parts of Europe are. And like those deranged sports fans, they don't expect to advance any construc...

Legacy of Intolerance In Islamic Countries

In regard to a Dec. 12 Letter to the Editor by Robert J. Barro, "A Gentler View of Islam," criticizing a Dec. 3 editorial-page commentary by Franklin Graham:

As a former staff attorney for a large nongovernment organization, I traveled extensively throughout numerous Islamic countries. Press reports and lengthy discussions with Hindus, Buddhists, Christians and Muslims provide a more contemporary view of Islam as opposed to viewing the issue in terms of the centuries-old conquests by various religions as de...

Enron's Success Story

The Dismal Science

By Susan Lee

The collapse of Enron was many things—a gratifying slap in the face to corporate hubris and an exposure of the Alfred E. Neuman club of stock analysts, rating agencies and the SEC. It may even prove to be a fascinating look into criminal minds. But there is one thing, for sure, it wasn't—a market failure. To the contrary, Enron's implosion was confirmation of the principles that govern competitive markets.

Enron's success and failure ran along the lines set down in any microeconomics text. The company discovered a new product—mostly ways of trading energy in the derivatives market—that allowed producers and users to lay off risk. This new product was wildly popular and, as the innovator, Enron made lovely above-market returns. But those abnormal returns attracted other firms into the business and Enron's advantage was gradually "competed away." Each new market entrant put the squeeze on Enron's margins.

What happened next is still a matter of speculation, but there are several theories that seem reasonable.

• *Bad hedging.* Although Enron started out as a plain vanilla energy company, it shed those hard assets that could have underpinned its financial business and morphed into a trading company and then, quickly, into a hedge fund.

A trading company can make money no matter which direction the market goes by simply trading and taking its money from creating a market. If prices are falling, players rush into the market to get ... that pull down prices. If prices ... g, then users rush in to get contracts. Traders can make money either way. In this model, a volatile market is the best of all possible worlds.

... its margins—and cash—got squeezed, Enron started borrowing and pretty soon it was running ... leverage, thus becoming a hedge fund. When things started to go, Enron's traders quite possibly ... into trying to hit a home run. That is, they started taking big bets on the direction of the market, perhaps ... aggressively long positions in energy. A successful hedge fund, however, ... adequately hedging bets, especially leveraged ones. But as Enron ... to lose money on its big bets, ... that the insufficiency of its hedges began to look lethal.

... are also more complicated theories that argue Enron was hiding its shortfalls in earnings with various accounting strategies.

... Enron's main technique to pump up earnings probably involved ... process for the ... of energy derivatives. Called mark-to-market, the technique involves ... contracts at "fair value" prices. Since ... of these contracts stretched out ... years, the futures market provided ... prices. And, absent a liquid market ... prices, "fair value" became ... game in which companies can ... inflate value.

The unrealized gains, of course, were also ... gains. In September ... , a reporter for the Journal ... a look at Enron's second quarter and found that absent ... earnings Enron would have had a loss. Mr. ... found that for the year as a whole, unrealized trading gains accounted for more than half of the company's originally reported pretax profits. Hardly a confidence builder in the quality of Enron's earnings.

When their derivative strategies started to go sour, this theory runs, Enron removed the contracts from its financial statements and hid them in special entities created for just that purpose.

• *Bad Assets.* Another theory locates Enron's earning problems in their hard assets. Enron had a bunch of huge and underperforming assets, like its broadband company, water company and power plants in India and Brazil. In order to hustle those assets and associated debts off its financial reports, the company created some

> *Enron's implosion was confirmation of the principles that govern competitive markets.*

limited partnerships to buy these dogs—either with bank loans or money provided by Enron itself. These partnerships (allegedly) transferred enough control to third parties to get them off Enron's balance sheet.

Enron guaranteed these deals with "make good" provisions backed by Enron stock—a promise that Enron would make good any losses in the value of the partnerships. When the value of the assets tanked, the make-good provisions kicked in, resulting, for example, in the enormous write-down in shareholder equity in November.

Depending on which theory one accepts, there are two bottom lines.

The first holds that the sagging earnings problem was fatal and that it is entirely possible Enron was in the process of liquidating itself. Jim Chanos of Kynikos Associates hypothesizes that Enron's cost of capital was higher than its returns on invested capital. A second argues that if Enron's managers had been content to accept the fact that in competitive markets their "first mover" advantage was going to be competed away, and had been willing to endure slower earnings growth, it would not be in bankruptcy today.

Enron's collapse also says something valuable about the energy trading markets: Competitive markets worked just as expected. As questions were raised about the quality of Enron's earnings—and, just as important, not answered—investors grew wary. Although the stock opened the year trading in the 80s, it started drifting down as investors bailed. The stock had already lost half its value and was trading below 40 before the company announced a big third-quarter loss and made its first disclosure of accounting "mistakes" in October.

At the same time, traders outside the company had begun to unwind positions and do business with other firms. At the end of September, Enron had 20% of the energy-trading market. Just two months later, its business had disappeared but that disappearance didn't cause the tiniest ripple in the market. The swift collapse of what once was a $71 billion dollar company failed to generate either a price spike or a supply interruption because the market was sufficiently liquid and deep to absorb it.

In short, no matter how one views the purposes or operations of a competitive market, the history of Enron proves that the market works pretty much as expected. And thus the story of Enron is, so far, a success story.

Ms. Lee is a member of the Journal's editorial board.

Holman W. Jenkins Jr. is on vacation.

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Nickoloff, Peter

From: ERisk [ERisk@email.eRisks.com]
Sent: Friday, November 09, 2001 12:48 PM
To: peter.nickoloff@do.treas.gov
Subject: ERisk Essentials

<http://www.erisk.com/images/essential_logo.gif> portal.erisk.com <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0B4Z0AQ>

We've changed our home page! Now, when you type in www.erisk.com, you'll get a better idea of all of ERisk's activities. You'll find all our usual editorially independent news, community and reference resources under the 'Portal' tab.

Weekly Review

In this week's round-up <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0bNX0AM> of economic, banking and P&C insurance news from an enterprise risk management perspective: global rate cuts boost markets, but economic news continues to be gloomy; Enron faces takeover by competitor; the strange case of the mystery credit crunch; tough times for the mortgage industry; legal action continues over World Trade Center claims.

Analysis

The massive scale of claims arising from September 11 has worried many in the P&C insurance market, but harder rates should benefit those who are strong enough to take advantage of them. In this week's analysis <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0bNY0AN>, we look at how Lloyd's of London is struggling to convince rating agencies and insurance regulators that it is sufficiently solvent to bounce back from its World Trade Center losses and to benefit from a stronger market.

Viewpoint

Will Dynegy clinch a cut-rate acquisition of its troubled arch-rival, Enron? You can catch up on some of the background with ERisk's exclusive interviews with their chief risk officers: we spoke to Enron's Rick Buy <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0bNZ0AO> earlier this year, while Dynegy CRO Glenn Labhart <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0Mde0Aa> was the subject of our CRO Profile in August. Find out what both men had to say about risk management at their firms - and keep checking out the site for ongoing coverage of what is sure to be a major risk management story.

Still available: Profiles of FleetBoston CRO Paul Hogan <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0Ota0Ao> and Swiss Re America's Werner Schaad <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0OIW0Av>

Feature

Bank credit processes must be up to scratch if a bank is to retain control over credit quality in its loan portfolios. In "Bank Credit Processes and Operational Risk", an exclusive new feature <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0B4W0AN> for ERisk, Becky Walzak of Boston Portfolio Advisors looks at what can go wrong, explores the increasing cost of failed deals on the secondary credit markets, and offers a solution based on ideas within the Basle II regulatory capital reform proposals.

Still available: full-length articles on Credit Portfolio Stress Testing <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0asT0As> and Real Options and Strategic Business Risk <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0OtZ0Ah>.

Book of the Month

Check out our featured Book of the Month. *Operational Risk - Measurement and Modelling*, by Jack King, is one of the first books dedicated to the cutting-edge problem of modelling bank operational risk. We review it, and you can order it online through our site. Also available in the ERisk Bookstore <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0B4Y0AP>, books on a wide variety of risk management topics, including credit risk, operational risk, enterprise risk and financial debacles.

Still available: Fooled by Randomness <http://email.eRisks.com/cgi-bin10/flo?y=hMSR0DNrM20CjE0bNa0AV>, by Nassim Taleb

<http://email.eRisks.com/cgi-bin10/flosensing?y=MSR0DNrM20CjEH>

Nickoloff, Peter

From: ERisk [ERisk@email.eRisks.com]
Sent: Friday, November 16, 2001 12:54 PM
To: peter.nickoloff@do.treas.gov
Subject: ERisk Essentials

<http://www.erisk.com/images/essential_logo.gif> portal.erisk.com <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0B4Z0Aa>

Weekly Review

In this week's round-up <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0bdx0AQ> of economic, banking and P&C insurance news from an enterprise risk management perspective: markets recover from early nervousness at US plane crash; Dynegy prepares to absorb Enron; disagreements continue over the availability of credit; Japanese banking hits a new crisis; Swiss Re's dispute with World Trade Center leaseholder deepens; Allianz raises its estimate of WTC claims.

Analysis

Just as everything seems to be going nicely for US mortgage lenders, along comes a Federal Reserve official to warn that they need to cut back on lending and concentrate more on their risk management. In this week's analysis <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0bdy0AR>, Duncan Wood reports on the controversy that Edward Gramlich's remarks caused, and looks at why the the Fed governor has chosen to be the ghost at the feast.

Case Study

The collapse of HIH Insurance last spring continues to reverberate. The liquidator recently announced that losses might reach as much as A$5.3 billion (US$2.75 billion), making it Australia's worst-ever corporate failure. The hearings of the Royal Commission into the affair begin on 26 November and this month, HIH's regulator has released a new set of proposed regulations for general insurance, to come into force in 2002. Our latest Case Study <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0bdz0AS> summarises the sorry tale and looks at the key lessons to be learned.
Still available: Case Studies on the California power crisis <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0K7b0Au> and the BCCI <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0JaX0AR> scandal.

Research Archive

This month we update the operational risk <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0Bcl0Af> section of our Research Archive <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0Car0Ak>. This includes links to a recent survey on how quickly new ideas on operational risk management are being adopted by the banking industry, and to an award-winning paper on how pre-claims settlement cash advances, basket insurance products and securitisation might help in the transfer of operational risk. Plus articles on op risk software implementation, and more.
Still available: Recent research papers on credit risk <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0BnB0AA>, market risk <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0bd10AF>, ERM <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0bd20AG> and business risk <http://email.eRisks.com/cgi-bin10/flo?y=hMeJ0DNrM20CjE0bd30AH>.

<http://email.eRisks.com/cgi-bin10/flosensing?y=MeJ0DNrM20CjER>

Nickoloff, Peter

From: Nickoloff, Peter
Sent: Tuesday, December 04, 2001 12:02 PM
To: Carleton, Norman; Schultheiss, Heidilynne
Subject: Some EnronOnline stories from Internetweek.com

In no particular order...

Friday, November 30, 2001, 5:52 PM ET.

UPDATE: EnronOnline Still Trading

By Jade Boyd

While a bankruptcy filing by troubled energy trader Enron Corp. is widely expected, the company says it continues to trade more than 400 products at its online trading exchange, EnronOnline.

An Enron spokesman said Enron traders are still actively making trades via EnronOnline in 472 products. Most trades are in core energy products like natural gas and electricity, but Enron also continues to trade paper and forest products, said company spokesman Eric Thode.

Enron averaged about 5,000 trades per day on its site prior to November. The company conducted about 1,000 trades Thursday, when only 62 products were sold online, Thode said.

Analysts say traders from other companies aren't establishing new positions with Enron, so virtually all of Enron's current trade volume represents trades by people who are closing out existing positions to limit exposure to Enron.

Since Enron did a huge volume of trade online -- about $600 billion since EnronOnline went live in November 1999 -- it may take weeks for trading to wind down completely, said Peter Fusaro, president of the energy consulting firm Global Change Associates.

The bigger question is how long Enron can finance its trading operation. Fusaro said a bankruptcy filing might make it easier for Enron to raise the cash it needs to fund trading operations, but that won't restore trader confidence in the company.

Since Enron is a party to every trade on its site, either as buyer or seller, it's vital that trading partners have confidence in Enron's ability to stand behind the deals it makes. Analysts say that confidence is lacking, and an infusion of cash won't be enough to restore it.

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Wednesday, November 28, 2001, 4:15 PM ET.

UPDATE: Enron-Dynegy Deal Collapses; EnronOnline Temporarily Halts Trading

By Jade Boyd

Dynegy Inc. has cancelled its proposed $8 billion merger offer for fellow energy trader Enron Corp. Trading on Enron's pioneering exchange, EnronOnline, was halted temporarily today in response to the news.

The future of Enron is now in question as credit-rating agencies today downgraded the company's bonds to junk status, triggering the payment of more than $3 billion in outstanding debts.

Enron spokesman Eric Thode said all trading was halted on EnronOnline this morning in the wake of the Dynegy announcement, but trading of core energy products, such as natural gas, resumed this afternoon. At no time was telephone trading suspended, he said.

Enron's online business model is different from most independent exchanges, which link buyers and sellers. Enron is a party to all transactions at its site, acting as either the buyer or seller. Enron makes its profits by buying low and selling high, and employs an army of analysts to compile information that could affect future prices on natural gas, electricity and the 1,500 other commodities it trades online.

Thode declined to comment on reports this week that Enron traders were working to help valued customers by brokering deals between buyers and sellers.

"We're still in the market, and we're still conducting transactions that make commercial sense," said Thode.

Even before halting trading today, activity on Enron's Web-based exchange, EnronOnline, has reportedly fallen steeply in recent weeks as trading partners abandon the site in favor of deals with more stable firms. Dynegy and a number of other energy traders do business online, but none in volumes approaching EnronOnline, which pioneered the field and once saw trade volumes in excess of $4 billion per day.

Enron's Thode, however, said that trade volumes on EnronOnline have not declined signficantly in recent weeks.

Over the past 30 days, the site has averaged about 5,300 trades per day, with a total value of $2.7 billion, Thode said. That's well within the average volumes seen on the site during any 30-day period this year, Thode said.

The New York Stock Exchange halted trading of Enron shares ahead of the Dynegy announcement, but Enron's stock had already lost $2.95, or 71.3 percent of its value on rumors of the dissolution. Trading was halted at $1.19. Enron's stock traded at more than $90 last August.

Dynegy cancelled the deal citing "breaches of representations, warranties, covenants and agreements in the merger agreement."

Dynegy had sought to renegotiate the terms of the merger after Enron's stock price continued to plummet in the wake of the Nov. 9 merger announcement.

Dynegy's announcement came as Standard & Poor's, Moody's Investors Service and Fitch, Inc. downgraded Enron's long-term debt to below investment-grade status. The loss of investment-grade credit means that more than $3 billion in debts to off-balance sheet partnerships are due immediately.

In a prepared statement, Enron said it is "taking actions designed to preserve value in the company's core trading and other energy businesses." Enron said it is temporarily suspending all payments other than those necessary to maintain core operations.

"With Dynegy's termination of the merger and the ratings agency downgrades, we are evaluating and exploring other options to protect our core energy businesses," Enron Chairman and CEO Kenneth L. Lay said in the prepared statement. "To do this, we will work to retain the employees necessary to the continuing operations of our trading and other core energy businesses."

In canceling the proposed merger, Dynegy said it would exercise its option to buy Enron's Northern Natural Gas Pipeline, something it was entitled to because Dynegy's partner, ChevronTexaco, pumped $1.5 billion cash into Enron when the Nov. 9 merger agreement was struck.

Many in the industry believe Enron will be forced to file bankruptcy as a result of the Dynegy pull-out.

Enron would not comment on whether a bankruptcy filing is in the works, but the company says it is reviewing its option to repay Dynegy the $1.5 billion cash, which would allow it to retain Northern Natural Gas Pipeline.

Should Enron file for bankruptcy protection, it would be the largest corporate bankruptcy in U.S. history. Enron's third quarter balance sheet lists $61.8 billion in total assets, which eclipses the $35.9 billion worth of assets Texaco Inc. listed when it filed for bankruptcy in 1987.

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November 26, 2001

Reload

October 30, 2000
www.internetweek.com/transformation2000/coverstory/enron.htm
<http://www.internetweek.com/transformation2000/coverstory/enron.htm>

Enron's Web Retreat

Many of Enron Corp.'s online businesses may not make the cut as the company, exposed to billions of dollars in debt from off-balance-sheet deals, prepares to be acquired.

Enron's pioneering moves in online trading earned the company the cover of InternetWeek's Transformation Of The Enterprise issue in October 2000. At its apex last year, Enron had a market value of around $80 billion, as it posted $100 billion in revenue.

But Enron's stock plunged over the last month amid revelations that company executives had created limited partnerships which reportedly left Enron exposed to $3.3 billion in outstanding notes. With its market value and image decimated, Enron this month accepted an $8 billion buyout offer from rival Dynegy Inc., which has agreed to inject $1.5 billion to keep Enron's trading desk afloat.

Enron pioneered Web trading of energy commodities with EnronOnline, where the company buys and sells futures on up to 1,500 products, doing more than $4 billion in daily transactions. Most of that trading is still in energy products, though Enron had diversified into bandwidth, paper, steel, freight storage and other commodities. With the Dynegy deal, however, Enron plans to focus on "core" energy activities and dump other assets.

The first casualty is Enron Broadband Services, which owns about 15,000 miles of optical fiber and 25 network interconnection facilities in the United States. EBS envisioned buying and selling bandwidth as a pure commodity like natural gas, but bandwidth trading volumes never approached the level needed for a liquid market. Enron is looking to sell EBS, a spokesman says.

Enron has yet to make a decision on its other online trading businesses, including Net Works, the incubator that developed most of the technology that underpins EnronOnline. Each business will be reviewed "based on their capital requirements and near-term growth prospects," the spokesman

says.
-- JADE BOYD <mailto:jcboyd@cmp.com>

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November 30, 2001

The Internet Didn't Kill Enron

By ROBERT PRESTON <MAILTO:rpreston@cmp.com>

"We have a fundamentally better business model."

That's how Jeffrey Skilling, then president of Enron Corp., summarized his company's startling ascendancy a year ago, as Enron's revenues were soaring on the wings of its Internet-based trading model.

It was hard to find fault with Enron's strategy of brokering energy and other commodities over the Internet rather than commanding the means of production and distribution. EnronOnline, its year-old commodity-trading site, already was handling more than $1 billion a day in transactions and yielding the bulk of the company's profits. At its peak, Enron sported a market cap of $80 billion, bigger than all its competitors combined.

See Also
Forum: Enron E-Biz Meltdown: What Went Wrong? <http://www.internetweek.com/forum/enron> More Enron Stories <http://www.internetweek.com/enron.htm>

Today, Enron has filed for bankruptcy, the status of EnronOnline is touch and go, ENE is a penny stock and Skilling is out of a job. Last year's Fortune 7 *wunderkind*, hailed by *InternetWeek* and others as one of the most innovative companies in America, overextended itself to the point of insolvency.

So was Enron's "better business model" fundamentally flawed? With the benefit of 20/20 hindsight, what can Internet-inspired companies in every industry learn from Enron's demise?

For one thing, complex Internet marketplaces of the kind Enron assembled are fragile. Enron prospered on the Net not so much because it had good technology -- though the proprietary EnronOnline platform is considered leading-edge -- but because online customers trusted the company to meet its price and delivery promises.

As Skilling told *InternetWeek* a year ago, "certainty of execution and certainty of fulfillment are the two things people worry about with commodity products." Enron, by virtue of its expertise, networked relationships and reputation, could guarantee those things.

Once it came to light, however, that Enron was playing fast with its financials -- doing off-balance sheet deals and engaging in other tactics to inflate earnings -- customers (as well as investors and partners) lost confidence in the company. And Enron came tumbling down.

Furthermore, advantages conferred by superior technology and information-gathering are fleeting. Competitors learn and mimic and catch up. Barriers to market entry evaporate. Profit margins narrow.

Enron, short of incessant innovation, could never hope to corner Internet market-making, especially in industries, like telecommunications and paper, that it didn't really understand. In its core energy market, perhaps Enron was too quick to eschew refineries and pipelines for the volatile, information-based business of trading.

But it wasn't Internet that killed the beast; it was management's insatiable appetite for expansion and, by all accounts, personal enrichment.

It's too easy to kick Enron now that it's down. It did a lot right. The competition and deregulation and vertical "de-integration" Enron drove are the future of all industries, even energy. Enron was making markets on the Internet well before its competitors knew what hit them.

Was Enron on to a better business model? You bet it was. But like any business model, it wasn't impervious to rules of conduct and principles of economics.

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June 11, 2001

Services

Trader Reaps Benefits Of E-Market Leadership

'Liquidity' is the key to Enron's position at the center of online value chains

By JADE BOYD <MAILTO:jcboyd@cmp.com>

ENRON Headquarters: Houston **Line of business:** Energy production and marketing; online exchange operator **2000 Revenue:** $100.79 billion **2000 Net Income:** $979 million **Percentage of revenue from e-business activity:** N/A **CEO:** Jeffrey K. Skilling **Top e-business executive:** Philippe Bibi, president and CEO, Enron Net Works **E-business highlights:**EnronOnline conducted its millionth transaction in May; total trade volumes on the commodity-trading site have exceeded $550 billion since it was established in November 1999. Enron Broadband Services conducted 580 online transactions in the first quarter, compared with 321 for all of 2000 **E-business challenges:**Re-creating its success in online energy trading in dozens of other commodity businesses including bandwidth, data storage, forest products, metals, coal and freight logistics **Top e-business accomplishment:**With EnronOnline, Enron brought immediate and transparent pricing to energy markets; the site is one of the world's leading e-commerce platforms, with daily trade volumes in excess of $4 billion Services: Industry Leaders <http://www.internetweek.com/100-01/servlead.htm> Services: By The Numbers <http://www.internetweek.com/100-01/serv.htm> ONLINE EXTRA--Reporter's Notebook On Enron <http://www.internetweek.com/100-01/serv-01.htm>

Uncertainty has debilitated many e-businesses, with staffers and managers alike wondering when things will pick up. But optimism is still in the air at Enron Net Works, the e-business arm of Fortune 7 energy company Enron Corp., which continues to expand its electronic trading model into all manner of commodity markets.

Net Works oversees EnronOnline, where Enron buys and sells more than $4 billion a day of mostly natural gas and electric power, plus steel, coal, telecom bandwidth, data storage, freight services and 1,500 other products.

Net Works is also a new-business incubator, repackaging applications Enron originally developed for internal use into revenue-generating online services. For example, EnronCredit.com <http://www.EnronCredit.com>, an offshoot of software Enron created to help its traders manage credit risk, offers a service to some 10,000 companies to quickly determine the cost of extending credit to their own trading partners. EnronCredit.com, which broke even in its first year, is expected to turn a profit this year.

Net Works is part software development house and part IT department, responsible for routine tasks, such as desktop support, and critical functions, such as keeping Enron's e-business infrastructure running. The group, with 1,500 employees, grew some 30 percent in the past year, occupying more than four floors of Enron's downtown Houston headquarters.

"Our job is in two parts," says Net Works COO Greg Piper. "Help Enron expand horizontally in markets for new commodities like forest products and freight services, and build a business around the tools that helped to transform Enron."

E-Commerce Apex

While Enron's e-business gains have been spotty in some areas--it has struggled to create liquid Web markets in bandwidth and on paper, for instance--EnronOnline is one of the most successful e-marketplaces. It conducted its millionth transaction late last month, and the total value of trades on the site exceeds $590 billion. Online trading now accounts for almost 75 percent of Enron's energy transactions in North America, the company says.

Enron counts both purchases and sales in its volume numbers--unlike e-marketplaces that simply take a cut of transactions on their sites--because the company is a "counterparty" to every trade on EnronOnline. Enron makes its money on the spread between what it pays for commodities and what it sells them for.

When a customer clicks to buy gas, electricity, steel or any other commodity, Enron guarantees price and delivery time. The key for Enron isn't to own massive amounts of physical product or storage and delivery capacity, but to arrange for third-party supply and logistics electronically. Enron stays informed about the vast array of factors that can influence price and delivery on a minute-by-minute basis by employing thousands of researchers, analysts, weather forecasters and other market specialists.

Enron isn't just moving physical product on the site. Much of its online deal-making is in financial derivatives and risk management.

For example, Enron is now in the market for DRAM chips. But it doesn't buy and sell the chips; it sells financial instruments that let companies lock in a price for DRAMs for a set period. Ultimately, Enron hopes to buy and sell the chips itself, just as it buys and sells gas, electric-ity and other commodities.

Energy Trading Redone

Enron is reticent about disclosing exact volume figures for the different commodities traded on its sites. The large majority of trades are still conducted in natural gas and electricity.

The Internet is transforming energy trading from something of an art form, dominated by person-to-person deals negotiated over the telephone, to an automated science. By openly displaying its "bid" and "ask" prices--and the spread between them--Enron drove trade volumes through the roof in 2000. Forrester Research estimates that the "notional value" of online energy trades grew 750 percent in 2000, with EnronOnline accounting for most of them.

But competing energy firms are banding together to form online marketplaces of their own. American Electric Power, Aquila, BP Amoco, Duke Energy and others joined with Goldman Sachs and other financial firms to form Intercontinental Exchange, while Axia Energy, Coral, Dominion TXU and Williams have formed TradeSpark.

While these consortia may view each other as competitors, they see EnronOnline as complementary, says Forrester analyst Jim Walker. "Everyone loves to have Enron trade on its site because Enron brings the most valuable thing to the market, which is liquidity," Walker says.

Enron has purchased physical assets to ensure its own supply in several key markets, such as pulp and paper and metals, Piper says. Metals trading, he says, is up to about 1,000 transactions daily, representing about 25,000 metric tons of steel.

Enron conducted 580 bandwidth trades in the first quarter, compared with 321 in the past year, and it expects to handle more than 2,200 trades in 2001.

However, Enron's total online trading volume represents everything from storage services to long-haul circuits to dark fiber to IP services. None of the bandwidth commodities has achieved liquidity yet, notes Kevin

Hannon, president of Enron Broadband Services, which completed an 18,000-mile fiber optic network in 2000 and built 25 "pooling points" to tie in with other provider networks.

A Helping Hand

Enron has plowed ahead so aggressively online that some trading partners that haven't invested in back-office automation simply can't keep up, Piper admits. Enron is responding with CommodityLogic, software modules designed to help trading partners streamline the fulfillment process and reduce data re-entry errors.

Enron will create and maintain a centralized database of information pertaining to trades. Partners access that information with CommodityLogic software modules designed for such tasks as quality assurance, scheduling and invoicing. The three modules in tests are InvoiceLogic; ConfirmLogic, an order confirmation system; and NomLogic, which handles delivery scheduling for natural gas trades.

"Scheduling that natural gas would typically involve three to 10 phone calls and two to three faxes, and for a deal done over the course of a 30-day month, you might have had to repeat that every business day," says Tom Gros, the Net Works vice president in charge of CommodityLogic. "With NomLogic, that process now takes seconds. I enter it on the screen and automatically, if it's a month-long deal, the previous day's data appears for me so I don't have the chance to create an error."

The business model for developing CommodityLogic is the same one Enron used for EnronCredit.com and its other online initiatives: Net Works develops an application to save time or improve efficiency internally and then repackages the app for external use. The software for EnronCredit.com's Cost of Credit service, for instance, was originally developed to help Enron's own traders manage credit risk.

Much of Cost of Credit information is free with registration to EnronCredit.com, but Enron charges a fee to download information or get e-mail alerts of significant changes to the credit risk of companies in a prespecified portfolio. But the main way Enron makes money from the site is by selling "bankruptcy swaps" to enterprises that want a hedge against the possibility that a partner will go out of business.

Whereas EnronCredit.com grew out of software Net Works developed for Enron's commodity trading business, Enron's latest ASP offering, DealBench, came out of software designed to make it easier and faster for Enron to negotiate large structured deals for complex assets, such as power plants.

Enron's procurement department has used the auction functions in DealBench to buy more than $1 billion of goods, everything from broadband networking gear to carpeting for the new 40-story skyscraper Enron is building across the street from its 50-story headquarters in downtown Houston.

DealBench's collaboration tools manage the complex communications that are part of any large structured deal. Features include secure two-way messaging and the ability to deliver multimedia presentations and give participants varying levels of access to sensitive information.

Last month, Enron added Data Room, a document management system that lets companies set up "virtual data rooms" to streamline the bidding process for complex physical assets, such as refineries and manufacturing plants. Normally, companies selling these types of assets have to staff a physical room hosting lawyers and engineers from every potential bidder, each of whom require several days to pore over hundreds of thousands of pages of technical documents. Enron has used Deal Room to syndicate some $3 billion of its own credit to more than 81 financial institutions and sell more than $240 million in assets.

With all DealBench services, companies can host any number of potential bidders simultaneously, giving each participant the exact level of access necessary. Bidders download a piece of client software that decodes encrypted documents on the site, so even if sensitive documents are sent to unauthorized users, they can't be opened, says Jeffrey Bartlett, a principal at DealBench.

Rather than take a percentage of the overall deal, Enron sells DealBench licenses to the deal managers and hosts the platform. Enron wouldn't reveal specifics about pricing, which varies based on the length of contract, number and size of prospective deals and the number of potential bidders.

Centerpiece Of E-biz
For the time being, energy trading--and trading in financial products related to those trades--will remain the centerpiece of Enron's online business. Forrester estimates that notional trading for U.S. natural gas futures and options contracts amounted to about 3.6 times the total quantity of physical trades and 12 times the amount of physical delivery in 2000.

"Electricity in the U.S. is a $300 billion market, but the velocity at which that $300 million is being turned over is increasing," says Bob Christensen, an energy industry analyst with First Albany Corp. "The same power--and all the fuels related to it--can churn and change hands a dozen times a day."

As other companies convert their trading systems to online models, Enron hopes to sell its expertise in this area. (Enron says its own online-enabled back-end systems reduced its marginal cost per transaction by 75 percent in 2000.)

Enron stands to gain twice: first, by providing the services itself, and second, by further increasing online trade volumes in a market where it has a clear ownership stake.

Tracking:	Recipient	Read
	Carleton, Norman	Read: 12/4/01 12:37 PM
	Schultheiss, Heidilynne	

Nickoloff, Peter

From: Lori.Santamorena@bpd.treas.gov
Sent: Monday, December 10, 2001 2:47 PM
To: norman.carleton@do.treas.gov; peter.nickoloff@do.treas.gov
Subject: 1BN) Enron Records at SEC Sought by House Energy and Comme

----- Forwarded by Lori Santamorena/BPD on 12/10/01 02:45 PM -----

"PUBLIC DEBT, US DEPT OF TREASURY" <GSRS@bloomberg.net>

12/10/01 02:34 PM

To: LSANTAMORENA@BPD.TREAS.GOV
cc:
Subject: 1BN) Enron Records at SEC Sought by House Energy and Comme

Enron Records at SEC Sought by House Energy and Commerce Panel
2001-12-10 13:15 (New York)

Enron Records at SEC Sought by House Energy and Commerce Panel

Washington, Dec. 10 (Bloomberg) -- The U.S. House Energy and Commerce Committee asked the Securities and Exchange Commission to produce by next Monday all reviews and reports it has done on Enron Corp. since 1997.

Committee chairman Representative Billy Tauzin and James Greenwood, chairman of the panel's oversight and investigations subcommittee, made the request in a Dec. 7 letter to SEC Chairman Harvey Pitt released by Tauzin's office today.

``The apparent collapse of the company has resulted in the loss of substantially all of the equity value in Enron, and the loss by many participants of sizeable portions of their retirement savings,'' said Tauzin of Louisiana and Greenwood of Pennsylvania, both Republicans. ``It also highlighted the lack of transparency in Enron's derivative positions in the energy market.''

Tauzin and Greenwood requested SEC reviews of all Enron quarterly and annual filings with the agency beginning January 1997 up to the date the SEC launched its own formal probe into Enron. Tauzin and Greenwood also want all proposed adjustments to Enron filings submitted to the SEC by Enron auditors.

--Vicky Stamas in Washington (202) 624-1958, or
vstamas@bloomberg.net /ba

Story Illustration: To compare Enron's stock performance with market indexes, type {ENE US <Equity> COMP <GO>}.

Company news:
ENE US <equity> CN

NI Codes:
NI CNG
NI NRG
NI TX
NI GOV
NI COS
NI US
NI DC
NI CMD
NI GA
NI OIL
NI ELC
NI UTI
NI SEC
NI ACC
NI NYSE
NI BCY
NI GAS
NI PIP

#<7991>#

-0- (BN) Dec/10/2001 18:15 GMT

Nickoloff, Peter

From: Eichner, Matthew
Sent: Thursday, December 13, 2001 2:35 PM
To: Schultheiss, Heidilynne; Nickoloff, Peter; Carleton, Norman
Subject: WSJ on Enron

Here's today's article in electronic form...

wsj.pdf

December 13, 2001

Page One Feature

Enron Lobbied Hard to Limit Oversight of Trading Operations

By MICHAEL SCHROEDER and GREG IP
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON -- A year ago, when most of the political world was obsessed with the deadlocked presidential election, **Enron** Corp. was quietly but aggressively lobbying Congress. Its object: a little-noticed bill shaping federal policy toward the complex financial instruments known as over-the-counter derivatives.

In 1989, the Houston energy giant, originally a utility that produced and transported natural gas and electricity, had begun shifting its focus to energy trading. It soon came to view the burgeoning market for derivatives -- financial instruments that derive their value from an underlying commodity or wager on the future -- as the key to its ambitious expansion plans. And it wanted as little government interference with that market as possible.

The company's lobbying campaign was so aggressive that staff members of one congressional committee asked a lobbyist for an Enron-led industry group to negotiate major aspects of the bill with regulators. In the end, Enron had provisions inserted in the law that blocked federal oversight of some of its major corporate product lines, such as energy and metals derivatives, and its EnronOnline energy-trading network.

Now, once-mighty Enron is in bankruptcy court. Its market value has plunged since last year to about $500 million from more than $77 billion. But one of the most striking features of its rapid decline was that financial regulators had little clue what was going on inside Enron. That's at least partly because Enron -- as much as any company in America -- had invested a lot of time and money over the past decade in keeping government out of its business.

'Crisis of Confidence'

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* * *

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Multiple Standards

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There now is a widespread consensus among policy makers that, at the very least, the nation needs stricter accounting rules that would force companies such as Enron to do a better job of disclosing their financial conditions. Other industry watchers would go further. Enron, they say, was one of the country's leading commodities markets. It had amassed a $19 billion portfolio of derivatives.

In many ways, the Enron debacle raises the same questions that arose three years ago, after the near-failure of hedge fund Long-Term Capital Management -- a private investment fund for wealthy individuals that made leveraged bets on financial markets. Long-Term Capital's misplaced wagers, many based on derivatives, almost triggered a meltdown in global markets during 1998.

In the months following that near-calamity, many policy makers, such as then-Treasury Secretary Robert Rubin, vowed to change the regulatory system to avert similar risks in the future. While they opposed tighter regulation for derivatives trading, they argued there was at least a need for greater disclosure in the derivatives market.

Since then, however, a broad industry coalition including Enron has worked with sympathetic regulators and legislators to beat back pressure for more oversight of over-the-counter derivatives. And in some cases, they have rolled back powers that regulators had had.

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New types of derivatives have emerged in recent years, allowing traders to bet on electricity prices, telecommunications bandwidth and the influence of the weather, all of which Enron dominated. Enron also was a big player in credit derivatives, which act as an insurance policy against corporate bankruptcy by promising to pay back a lender's money in exchange for a premium.

The market for credit derivatives, which barely existed five years ago, has grown to an estimated $360 billion, according to the Office of the Comptroller of the Currency. And it says the nominal value of derivatives on the books of commercial banks soared to $51.3 trillion at the end of September from $6.8 trillion in 1990, with nearly $20 trillion of that growth coming since 1998.

Behind the Times

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Enron -- which started trading natural gas, then expanded to electricity, metals and more-exotic derivatives -- fell through the cracks of this regulatory framework. As a publicly traded company, Enron routinely provided the SEC with general information about its finances. But it wasn't obliged to give the agency any detailed information about its OTC trading activities. In fact, the CFTC's only peek into Enron's vast trading operation was through a tiny registered futures affiliate, Enron Trading Services Inc.

EnronOnline, the electronic marketplace Enron launched in late 1999, also fell outside federal jurisdiction. The exchange came to control a quarter of all wholesale energy trades among U.S. utilities, independent power producers and other market players. In many ways, the Web-based trading system resembled its heavily regulated counterparts, such as the New York Mercantile Exchange.

But Enron and its imitators didn't fit regulations written for the likes of conventional markets such as the Nymex. Those exchanges bring many traders together and cater to a broad range of investors, both large and small. But Enron's marketplace was limited to big, sophisticated players.

Moreover, Enron jealously guarded its independence. While some companies voluntarily discuss their derivatives trading with the CFTC, Enron regularly failed to do so, say people familiar with the agency.

Enron spokesman Mark Palmer says the company's unregulated status was appropriate. "With a deep bilateral market of sophisticated buyers and sellers, that regulation was not needed," he said. Though Enron did some trading for its own account, Mr. Palmer disputes suggestions that his firm was similar to a hedge fund, adding that most of the $19 billion in derivatives contracts on its balance sheet were commitments to deliver, or take delivery of, natural gas or electricity.

In the roaring 1990s, with the deregulation movement at its zenith, few in Washington dared even to suggest more regulatory oversight of derivatives. One of the few who did was Brooksley Born, who President Clinton named to head the CFTC in 1996. Her comments in speeches and in a discussion paper about the need for more oversight and regulation of OTC derivatives triggered an uproar among derivatives dealers -- from J.P. Morgan & Co. to Enron. They quickly complained to Congress and other regulators that the uncertainty Ms. Born was creating could destabilize their markets.

The industry complaints got a sympathetic hearing from many politicians and regulators -- particularly at the Fed and the SEC -- who saw Ms. Born's campaign

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At the industry's urging, then-House Banking Chairman Jim Leach, an Iowa Republican, called a private emergency meeting of the regulators in late June 1998, summoning Ms. Born from Georgetown University Hospital, where her daughter was undergoing knee surgery. The regulatory staff and lawmakers berated Ms. Born for more than two hours in a fruitless effort to persuade her to stop her campaign.

Three months later, the Long-Term Capital Management crisis erupted. "You are welcome to claim some vindication," Mr. Leach told Ms. Born at an October 1998 congressional hearing.

In the subsequent months, Ms. Born intensified her campaign for greater derivatives regulation. And she appeared to be gaining support. Several studies, task forces and panels were formed, recommending lenders perform better due-diligence when dealing with high-risk traders and that trading firms improve risk-management models.

A coalition of regulators, including the Fed, Treasury, CFTC and SEC, meanwhile, wanted to force hedge funds to make public more information about their holdings, a recommendation Rep. Richard Baker, a Louisiana Republican, incorporated into a proposed law. They also recommended extending the powers of both the SEC and the CFTC over unregulated affiliates used by regulated firms to conduct particularly risky trades. That could have brought Enron under the CFTC's jurisdiction, since Enron had a futures brokerage affiliate that was already registered with the agency.

An industry panel with Gerald Corrigan, a former president of the Federal Reserve Bank of New York and now a managing director at **Goldman Sachs Group** Inc., acting as co-chairman made several recommendations. One called on banks and Wall Street dealers to make a quarterly disclosure to their regulators of their 10 biggest exposures in each of several categories of risk. It also called for them to identity the parties on the opposite sides of those transactions.

No Consensus

Though some Wall Street firms, including Goldman, now meet informally with regulators to discuss their exposures, the panel's recommendations were never formally implemented. "There simply was not a consensus" among either regulators or dealers "that it was worth the time, energy and cost to do it," says Mr. Corrigan.

Meanwhile, the derivatives industry was fighting the push for more regulation. The effort was spearheaded by trade groups like the International Swaps and Derivatives Association and the Managed Funds Association, which represents hedge funds. Enron also joined the battle.

Over the years, the company had built a formidable lobbying machine, with a staff of 28 in Washington alone, most of whom have been laid off since the company's recent collapse. Enron also paid $2.1 million last year to about a dozen Washington lobbying firms to work on a range of energy and financial issues, more than double the fees it paid in 1997, according to the Center for Responsive Politics, a nonprofit group that studies the role of money in politics.

To date, the only significant changes in OTC derivatives laws have been those largely endorsed by the industry, such as removing legal obstacles to the creation of common clearing corporations for settling derivative trades among multiple parties. Another change, removing legal obstacles to two participants treating offsetting contracts with each other as a single position, is expected to be part of new bankruptcy legislation.

The reforms opposed by Enron and other derivatives traders were killed. Rep. Baker's proposed hedge-fund disclosure law died in the House Banking Committee. No one introduced any legislation to give the SEC or CFTC more authority over derivatives.

Some of Enron's political muscle comes from well-connected members of its team. In 1993, Enron named Wendy Lee Gramm, a former CFTC chairwoman and wife of Texas Sen. Phil Gramm, to its board. The collapse has put Ms. Gramm, who is chairwoman of the board's audit committee, in the hotseat. One of Enron's key outside lobbyists is Ken Raisler, a former CFTC general counsel and now a law partner at Sullivan & Cromwell in New York. Late last year, Enron hired Linda Robertson, a senior Clinton administration Treasury official, to head its Washington office.

During the last election, Enron made political contributions of $2.4 million, more than double the next-most-generous energy and natural-resource company. Republicans got 72% of Enron's contributions. For the same period, House and Senate agriculture-committee members, who oversee commodities trading, and other key lawmakers received $50,338, up from $38,256 in the previous election cycle.

All of this gave Enron unmistakable clout. In the fall of 1998, after the LTCM debacle, when Ms. Born was gaining support for her effort to press for derivatives regulation, Enron lawyer Mr. Raisler met with one of Ms. Born's supporters, CFTC Commissioner John Tull. Mr. Raisler asserted that Treasury wanted Mr. Tull to oppose Ms. Born's initiatives. Mr. Tull told Ms. Born about the meeting and that he was withdrawing his support at Treasury's request, according to people with knowledge of the meeting.

Mr. Raisler confirms he met with Mr. Tull. "I don't remember what we discussed other than that, I, on behalf of my clients, said we were dismayed at how Brooksley was handling herself during that period," he says. Mr. Tull, who has retired to his Arkansas rice farm, didn't return phone calls. Ms. Born said she couldn't confirm or deny the incident.

In late 2000, Enron won sweeping legislative guarantees against future regulation of its trading businesses. People involved in negotiating the Commodity Futures Modernization Act say that Enron representatives were fanatical about preventing any hint of derivatives regulation. Its refusal to budge put it at odds with some moderate members of its own lobbying coalition, including Goldman Sachs and Morgan Stanley. Mr. Raisler denied that there was any such split.

Enron was so forceful in pushing for energy and metals commodities to be exempted from oversight that the exemption provision was sometimes referred to by Capitol Hill staff as the "Enron Point." That and other Enron-friendly provisions made it into the bill.

Enron's Mr. Palmer says, "We were never shy about our views" on leaving OTC derivatives trading unregulated, but he added that many other market participants felt the same way. "Enron," he adds, "is a bit of a lightning rod."

Michael Greenberger, former director of the CFTC's trading and markets division, blames Congress for giving derivatives dealers a blank check to operate "opaque and nontransparent to the government as a whole."

So little is known about the operations of Enron and other derivatives players that its hard to predict the economic impact of their missteps. "You don't know the leverage of these things. They're playing with fire," adds Mr. Greenberger, now a professor at the University of Maryland law school. "One of these emergencies won't subside."

Write to Michael Schroeder at mike.schroeder@wsj.com[6] and Greg Ip at greg.ip@wsj.com[7]

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Nickoloff, Peter

From:	Nickoloff, Peter
Sent:	Thursday, December 20, 2001 10:16 AM
To:	Carleton, Norman; Schultheiss, Heidilynne
Subject:	Yesterday's Samuelson Op-Ed on Enron

Enron's Creative Obscurity

By Robert J. Samuelson

Wednesday, December 19, 2001; Page A39

The collapse of the energy company Enron has inevitably become a metaphor for many of the sins of modern capitalism. It may be, but the story is more complicated than a simple tale of victims and villains. Capitalism derives its strength from the power of self-interest and the ingenuity of the human spirit. But its weaknesses also stem from human nature, which can convert the quest for riches into self-deception and dishonesty. The dangers mount in periods of economic and financial exhilaration when -- as we've just experienced -- the stock market seems the fastest path to instant wealth. People yearn for their pot of gold and, to get it, stretch rules and lapse into wishful thinking.

The cult of share prices seduced managerial elites, ordinary investors and workers alike, with often disastrous consequences. Among top corporate managers, it led to widespread embellishing and doctoring of financial reports. Accounting rules were twisted or evaded to enhance reported profits, because higher profits would (presumably) mean higher share prices. Creative obscurity became commonplace. The same spirit gripped many investors and workers. People suspended skepticism and counted their paper profits. The dot-com and telecom debacles are well-documented results. Now Enron joins the list.

To work well, capitalism needs accurate information. Even with ideal information, markets make mistakes. Miscalculation is inevitable, because risk implies failure as well as success. But false or misleading information compounds the dangers, and the booming stock market inspired a boom in misleading information. For example, there's EBITA -- earnings (profits) before interest, taxes and amortization (debt repayments). Companies emphasized earnings on this limited basis in their news releases and played down the more complete reports. The justification was that investors wanted to see a company's raw "operating profits" without the clutter of debts or taxes. The trouble, of course, is that companies have to pay debts and taxes.

The Securities and Exchange Commission and the Financial Accounting Standards Board, an accountants' self-policing organization, did little to check these abuses. By and large, people wanted to believe the best, and the temptation to present the glossiest face was Enron's undoing. At its peak, the company's stock traded at $90 a share; now it's selling for about 50 cents. The simplest explanation for its bankruptcy is a loss of credibility in its financial statements. Fitch, the bond-rating agency, gives the following chronology. On Oct. 16, the company announced it would take a $1 billion charge to reflect losses in "broadband" communication and water businesses, among others. It also announced another $1.2 billion loss on a transaction outside its balance sheet. On Nov. 8, the company said its profits from 1997 to 2000 had been overstated by $591 million.

Though large, these losses shouldn't have single-handedly devastated a company that had reported $2.7 billion in profits between 1997 and 2000 and claimed year-end 2000 stockholders' equity of $11.5 billion. But the revelations destroyed the faith of customers and creditors in Enron's numbers. Were other losses lurking? If you fear not being paid, you stop dealing with Enron or lending to it. Once that happened, the company collapsed. The skepticism was warranted. At the end of 2000, Enron reported debts of $10.2 billion on its balance sheet. In its bankruptcy filing, it listed debts of almost $40 billion, including $22 billion on its balance sheet, nearly $7 billion "off balance sheet" and almost $11 billion for "project financings."

Among the collapse's biggest casualties are the workers who lost jobs (about 5,600 so far, including 1,100 in Europe) and had their retirement savings wiped out. Many were dangerously overinvested in the company's stock. About 58 percent of the assets of the company's 401(k) retirement plan were invested in Enron stock, reports a survey by DC Plan Investing, a newsletter. But Enron wasn't exceptional. The survey found that 95 percent of Procter & Gamble's plan was in company stock, 77 percent of General Electric's and 54 percent of Dell Computer's. No matter how well-run the companies, these high dependencies are risky. "A lot of employees invest in the company stock if they like the company," says Louis Berney, the newsletter's editor. "It's a crime perpetrated by the employees against themselves."

Lawsuits may uncover wrongdoing, but outwardly, Enron's 401(k) program seems fairly typical, says Jack VanDerhei, a pension expert at Temple University. According to company spokesman Mark Palmer, Enron matched employee investments with a 50 percent stock contribution: If I invested $5,000, Enron would put up $2,500 in stock. The stock contributed by the company could not be sold until a worker reached 50; but there were 20 investment choices -- including buying Enron stock -- for personal contributions. True, there was a total trading ban from Oct. 29 through Nov. 12, because the plan's outside administrator was being changed. But, says Palmer, investors were informed of a ban in late September and early October. They could have sold then or anytime earlier. Enron's stock had dropped all year, from $68.50 in February to $49.10 in June to $27.23 in September. Obviously, many didn't.

Enron's downfall stemmed mainly from its own mistakes. Whether some corporate officials crossed the line between creative obscurity and illegal concealment is an open question. But in a larger sense, the collapse reflected the financial fever of the past decade. The profit motive -- the promise of reward for risk and effort -- is a great incubator of invention and wealth. But those who glorify capitalism's triumphs often forget that it's also vulnerable to the frailties of human nature. There was a mass merchandising of dreams and delusions that was indiscriminate in its effects. Candor was corroded, judgment clouded. Pursuing self-enrichment, people often follow the path of least resistance. It sometimes leads to a cliff.

Nickoloff, Peter

From: Wiedman, Mark
Sent: Monday, January 07, 2002 10:27 AM
To: Bitsberger, Timothy; Carleton, Norman; Schultheiss, Heidilynne; Nickoloff, Peter
Subject: FW: SECRETARY ON ENRON

From meet the press.

-----Original Message-----
From: Wiedman, Mark
Sent: Monday, January 07, 2002 10:21 AM
To: Wiedman, Mark
Subject: SECRETARY ON ENRON

MR. RUSSERT: Enron, the biggest bankruptcy in our nation's history-people at the top were able to trade out their stock and bring home some money. People at the bottom were not able to do that because of some of the regulations imposed upon them. As secretary of Treasury, will you investigate Enron?

SEC'Y O'NEILL: You know, I think what we've been doing and what we'll do going forward is look and see if there are regulatory actions or rules that could be put in place that would avoid this kind of situation. I think the dust hasn't cleared yet on this case and it's not clear whether the company fulfilled all of its obligations under the existing rules. If they did, it suggests that we need rule change. If, on the contrary, it turns out that they didn't fully comply with all the rules, we have a different issue on our hands.

MR. RUSSERT: That's criminal behavior.

SEC'Y O'NEILL: Well, I don't know. You're jumping to a conclusion. I wouldn't do that.

MR. RUSSERT: If they don't comply with the rules.

SEC'Y O'NEILL: I would tell you from my own experience, again, having run a Fortune 50 corporation, that I thought the rules were very clear on what's required for reporting. And I think we'll see fairly soon from the work that's being done by the SEC and others whether or not the corporation fully complied with its reporting responsibilities.

MR. RUSSERT: Are you going to look into some of the offshore investments?

SEC'Y O'NEILL: Well, I think we need to look at their compliance with rules, and to the extent that takes us to that issue, yes.

MR. RUSSERT: Do you believe the Treasury Department should look at this aggressively because of the political considerations that some are suggesting?

SEC'Y O'NEILL: I think we need to be constantly looking at the rules and the schemes that exist for the way private enterprise operates. With this in mind, investors and the general public need to be able to rely on the truthfulness and completeness of what enterprises report. It's a critical aspect of why our economy has done so much better than the rest of the world. It's because capital believes, people who invest believe, that they can rely on information that's provided to them and the U.S. economy. It's a principle we need to protect and cherish and extend because it is so important to the fundamental operation of our kind of economy.

MR. RUSSERT: Do you think that Enron is a big story, a serious story?

SEC'Y O'NEILL: Well, it's obviously a big and serious story when millions of people are economically impacted by the meltdown of a major corporation. Of course, it's a very important story and it's something that we need to pay attention to. But we need to pay attention to, again, whether or not all the facts have been dutifully reported and people were given the information required under law to make intelligent decisions.

December 13, 2001

Page One Feature

Enron Lobbied Hard to Limit Oversight of Trading Operations

By MICHAEL SCHROEDER and GREG IP
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON -- A year ago, when most of the political world was obsessed with the deadlocked presidential election, **Enron** Corp. was quietly but aggressively lobbying Congress. Its object: a little-noticed bill shaping federal policy toward the complex financial instruments known as over-the-counter derivatives.

In 1989, the Houston energy giant, originally a utility that produced and transported natural gas and electricity, had begun shifting its focus to energy trading. It soon came to view the burgeoning market for derivatives -- financial instruments that derive their value from an underlying commodity or wager on the future -- as the key to its ambitious expansion plans. And it wanted as little government interference with that market as possible.

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In the subsequent months, Ms. Born intensified her campaign for greater derivatives regulation. And she appeared to be gaining support. Several studies, task forces and panels were formed, recommending lenders perform better due-diligence when dealing with high-risk traders and that trading firms improve risk-management models.

A coalition of regulators, including the Fed, Treasury, CFTC and SEC, meanwhile, wanted to force hedge funds to make public more information about their holdings, a recommendation Rep. Richard Baker, a Louisiana Republican, incorporated into a proposed law. They also recommended extending the powers of both the SEC and the CFTC over unregulated affiliates used by regulated firms to conduct particularly risky trades. That could have brought Enron under the CFTC's jurisdiction, since Enron had a futures brokerage affiliate that was already registered with the agency.

An industry panel with Gerald Corrigan, a former president of the Federal Reserve Bank of New York and now a managing director at **Goldman Sachs Group** Inc., acting as co-chairman made several recommendations. One called on banks and Wall Street dealers to make a quarterly disclosure to their regulators of their 10 biggest exposures in each of several categories of risk. It also called for them to identity the parties on the opposite sides of those transactions.

No Consensus

Though some Wall Street firms, including Goldman, now meet informally with regulators to discuss their exposures, the panel's recommendations were never formally implemented. "There simply was not a consensus" among either regulators or dealers "that it was worth the time, energy and cost to do it," says Mr. Corrigan.

Meanwhile, the derivatives industry was fighting the push for more regulation. The effort was spearheaded by trade groups like the International Swaps and Derivatives Association and the Managed Funds Association, which represents hedge funds. Enron also joined the battle.

Over the years, the company had built a formidable lobbying machine, with a staff of 28 in Washington alone, most of whom have been laid off since the company's recent collapse. Enron also paid $2.1 million last year to about a dozen Washington lobbying firms to work on a range of energy and financial issues, more than double the fees it paid in 1997, according to the Center for Responsive Politics, a nonprofit group that studies the role of money in politics.

To date, the only significant changes in OTC derivatives laws have been those largely endorsed by the industry, such as removing legal obstacles to the creation of common clearing corporations for settling derivative trades among multiple parties. Another change, removing legal obstacles to two participants treating offsetting contracts with each other as a single position, is expected to be part of new bankruptcy legislation.

The reforms opposed by Enron and other derivatives traders were killed. Rep. Baker's proposed hedge-fund disclosure law died in the House Banking Committee. No one introduced any legislation to give the SEC or CFTC more authority over derivatives.

Some of Enron's political muscle comes from well-connected members of its team. In 1993, Enron named Wendy Lee Gramm, a former CFTC chairwoman and wife of Texas Sen. Phil Gramm, to its board. The collapse has put Ms. Gramm, who is chairwoman of the board's audit committee, in the hotseat. One of Enron's key outside lobbyists is Ken Raisler, a former CFTC general counsel and now a law partner at Sullivan & Cromwell in New York. Late last year, Enron hired Linda Robertson, a senior Clinton administration Treasury official, to head its Washington office.

During the last election, Enron made political contributions of $2.4 million, more than double the next-most-generous energy and natural-resource company. Republicans got 72% of Enron's contributions. For the same period, House and Senate agriculture-committee members, who oversee commodities trading, and other key lawmakers received $50,338, up from $38,256 in the previous election cycle.

All of this gave Enron unmistakable clout. In the fall of 1998, after the LTCM debacle, when Ms. Born was gaining support for her effort to press for derivatives regulation, Enron lawyer Mr. Raisler met with one of Ms. Born's supporters, CFTC Commissioner John Tull. Mr. Raisler asserted that Treasury wanted Mr. Tull to oppose Ms. Born's initiatives. Mr. Tull told Ms. Born about the meeting and that he was withdrawing his support at Treasury's request, according to people with knowledge of the meeting.

Mr. Raisler confirms he met with Mr. Tull. "I don't remember what we discussed other than that, I, on behalf of my clients, said we were dismayed at how Brooksley was handling herself during that period," he says. Mr. Tull, who has retired to his Arkansas rice farm, didn't return phone calls. Ms. Born said she couldn't confirm or deny the incident.

In late 2000, Enron won sweeping legislative guarantees against future regulation of its trading businesses. People involved in negotiating the Commodity Futures Modernization Act say that Enron representatives were fanatical about preventing any hint of derivatives regulation. Its refusal to budge put it at odds with some moderate members of its own lobbying coalition, including Goldman Sachs and Morgan Stanley. Mr. Raisler denied that there was any such split.

Enron was so forceful in pushing for energy and metals commodities to be exempted from oversight that the exemption provision was sometimes referred to by Capitol Hill staff as the "Enron Point." That and other Enron-friendly provisions made it into the bill.

Enron's Mr. Palmer says, "We were never shy about our views" on leaving OTC derivatives trading unregulated, but he added that many other market participants felt the same way. "Enron," he adds, "is a bit of a lightning rod."

Michael Greenberger, former director of the CFTC's trading and markets division, blames Congress for giving derivatives dealers a blank check to operate "opaque and nontransparent to the government as a whole."

So little is known about the operations of Enron and other derivatives players that its hard to predict the economic impact of their missteps. "You don't know the leverage of these things. They're playing with fire," adds Mr. Greenberger, now a professor at the University of Maryland law school. "One of these emergencies won't subside."

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From: InvestorGuide Daily [daily@investorguide.com]
Sent: Monday, December 31, 2001 10:36 AM
To: peter.nickoloff@do.treas.gov
Subject: InvestorGuide Daily - year end issue

InvestorGuide Daily December 31, 2001

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The following is a special year-end edition of InvestorGuide Daily. Below are links to the best year-in-review and year-ahead finance and investing stories from around the web. InvestorGuide Daily will return to its standard format on Wednesday. Enjoy and have a happy New Year!

Contents:

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m a r k e t   s u m m a r y

Weekly Market Data	Start	End	Change
Dow Jones Industrials:	10035.34	10136.99	+1.01%
Nasdaq Composite:	1945.73	1987.27	+2.13%
S&P 500:	1144.88	1161.01	+1.41%
30-year Treasury Bond:	5.456%	5.542%	+0.086

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l o o k i n g   b a c k :   2 0 0 1   b u s i n e s s

The Economist presents a series of articles on economies and industries from around the globe. Technology, airlines, automobiles, insurance, drugs, and media are all addressed. Descriptions of how these sectors changed and how major companies were affected in 2001 make for a comprehensive reviee of the year. (source: Economist)
http://www.investorguide.com/cgi-bin/weekly.cgi?05524

A lot of companies, business leaders and workers would like to put 2001 behind them. And that's not including the unfortunate employees possessing an Enron 401(k) plan. ABC News sorts out the good, the bad, and the bankrupt. (source: ABC News)
http://www.investorguide.com/cgi-bin/weekly.cgi?05525

Honest CEOs. Harebrained ad campaigns. Appalling outfits. They've all earned a place on Fortune's list of the best and worst of business for 2001. (source: Fortune)
http://www.investorguide.com/cgi-bin/weekly.cgi?05526

It's a big world of charity out there awaiting your year-end, tax-deductible contributions-perhaps too big. The IRS recognizes more

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than 819,000 charities, with 45,000 new ones added in just the past year alone. How to choose? Which of the noble-seeming goals are indeed worthwhile, and which charities work toward them with the skill, innovation, effectiveness, and strategic insight that you'd expect from a for-profit company you would consider investing in or working for? Which charities, in short, are deserving of your support? Worth presents the 100 best charities from the past year (and a few to avoid). (source: Worth)
http://www.investorguide.com/cgi-bin/weekly.cgi?05527

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l o o k i n g   b a c k :   2 0 0 1   i n v e s t i n g

MarketWatch's year-in-review includes sector wrap-ups, winners and losers, and economic analysis. A writer also takes a comprehensive look at the advertising market. Finally, there is some commentary and a look at the year ahead. (source: MarketWatch)
http://www.investorguide.com/cgi-bin/weekly.cgi?05528

CNNMoney presents a series of stories wrapping up 2001, summing it up as "a year of loss." Alongside the top stories of the year and reviews of the markets and the economy are picks and predictions for 2002. (source: CNNMoney)
http://www.investorguide.com/cgi-bin/weekly.cgi?05529

For an instant take on how 2001 treated investors, all you had to do was flick on your TV. Gone were the frenetic performance-touting spots of years past. It was another tough year for investors. At least the turmoil in the markets flushed away some really bad ideas. Fortune presents the best and worst of investing. (source: Fortune)
http://www.investorguide.com/cgi-bin/weekly.cgi?05530

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l o o k i n g   a h e a d :   2 0 0 2   a n d   b e y o n d

Forbes editors and writers lift the lid on 2002. Some of the most-knowing minds in the business give you a head start on running your business better and investing more profitably in the coming year. (source: Forbes)
http://www.investorguide.com/cgi-bin/weekly.cgi?05531

As a public service, this columnist sticks out his neck and proposes a list of 10 potential surprises in the new year. In a show of holiday spirit, they're not even all negative. (source: The Street)
http://www.investorguide.com/cgi-bin/weekly.cgi?05532

There is plenty of evidence to suggest that companies are rejigging their IT budgets in response to the dismal economy and the ongoing terrorist threat. Accordingly, two old buzzwords - return-on-investment (ROI) and security - will be heard more frequently next year. IT budgets may be tight, but finance chiefs can't afford to ignore these ten tech innovations. (source: CFO)
http://www.investorguide.com/cgi-bin/weekly.cgi?05533

That hardy workhorse of capitalism-the joint-stock company-looks surprisingly durable. But pressure on it is increasing. The Economist looks at 'the future of the company'. (source: Economist)
http://www.investorguide.com/cgi-bin/weekly.cgi?05534

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http://www.investorguide.com/daily.html

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From: Nickoloff, Peter
Sent: Friday, November 02, 2001 1:16 PM
To: Carleton, Norman; Schultheiss, Heidilynne
Subject: Another Enron story

The New York Times

November 2, 2001

The Rise and Fall of Enron

Earlier this year, most companies would have loved to have Enron's problems. Californians resented the energy trading company's huge profits during their energy crisis, and Democrats in Washington raised questions about Enron's influence within the White House and about the cozy relationship between Enron's chairman, Kenneth Lay, and Vice President Dick Cheney. Nobody seemed better positioned to thrive during the Bush presidency than this Houston-based apostle of deregulation.

Wall Street was impressed with Enron's strategy of swooping into formerly regulated markets to broker contracts for natural gas, electricity or unused telecom bandwidth. The company was celebrated as a paragon of American ingenuity, a stodgy gas pipeline company that had reinvented itself as a high-tech clearinghouse in an ever-expanding roster of markets. Enron's push to force utilities into the Internet age with its online trading systems, at a seemingly handsome profit, became an epic tale of the dot-com revolution.

It now appears that Enron's tale may be more cautionary than epic. Enron envy has crashed, along with the company's stock price, as serious questions emerge about its bookkeeping. Enron disclosed earlier this month that $1.2 billion in market value had vanished as a result of a controversial deal it entered into with private partnerships run by its chief financial officer, Andrew Fastow.

Most alarming was Enron's reluctance to shed light on management's wheeling and dealing. "Related-party transactions," as the accountants call them, are fraught with conflicts of interest. Though much remains to be learned about these transactions, their scope and lack of transparency suggest that Enron may have in effect created its own private hedge fund to assume some of the risk and mask the losses of its complex trading. The extent to which company insiders profited from the partnerships is not yet clear.

Enron has scrambled to dampen Wall Street's concerns, acknowledging its credibility problem while insisting on the health of its core businesses. On Wednesday it brought in William Powers, the dean of the University of Texas School of Law, to review the transactions. The Securities and Exchange Commission has launched its own formal investigation. Mr. Fastow was forced to resign, following Jeffrey Skilling, the man credited with driving Enron into new cutting-edge businesses, out the door.

Enron's former admirers on Wall Street, mindful of recent scandals involving high-profile companies doctoring their earnings, and of the spectacular collapse of the Long-Term Capital Management hedge fund in 1998, are alarmed. Carole Coale of Prudential Securities summed up the prevailing sentiment when she told The Times: "The bottom line is, it's really difficult to recommend an investment when management does not disclose facts." Analysts, as well as the media, are not entirely blameless. Enron did mention, albeit in passing, the troubling related-party deals as early as March 2000. But few analysts bothered to raise questions at a time when the company's revenues, profits and stock price were soaring.

Harvey Pitt, the new Securities and Exchange Commissioner, must pursue the Enron inquiry aggressively in order to assure investors that he will be as vigilant as his predecessor, Arthur Levitt, when it comes to protecting the integrity of financial markets. Indeed, even if Enron is cleared of any wrongdoing and regains some of its past luster, as it well might, the company that preaches the merits of self-regulating marketplaces has reminded us all of the need for a strong regulator on Wall Street.

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From: Nickoloff, Peter
Sent: Thursday, November 08, 2001 10:46 AM
To: Carleton, Norman; Schultheiss, Heidilynne
Subject: Enron to be acquired

From the New York Times:

November 8, 2001

Dynegy Is Said to Be Near to Acquiring Enron for $8 Billion

By RICHARD A. OPPEL Jr. and ANDREW ROSS SORKIN

The board of Dynegy Inc. (news/quote </redirect/marketwatch/redirect.ctx?MW=http://custom.marketwatch.com/custom/nyt-com/html-companyprofile.asp&symb=DYN>) tentatively approved a deal last night to acquire the Enron Corporation (news/quote </redirect/marketwatch/redirect.ctx?MW=http://custom.marketwatch.com/custom/nyt-com/html-companyprofile.asp&symb=ENE>), the once-mighty energy-trading company laid low by a financial crisis and government investigation, executives close to the transaction said.

A deal would enable Dynegy to buy the much bigger Enron at a fire-sale price - about $8 billion in stock, or roughly $10 a share, for a company that less than a year ago had a market value of nearly $70 billion. But with stock and bond investors fleeing, some of its trading partners refusing to do business with it, Enron had few choices but to talk to Dynegy.

As part of the deal, Chevron (news/quote </redirect/marketwatch/redirect.ctx?MW=http://custom.marketwatch.com/custom/nyt-com/html-companyprofile.asp&symb=CHV>) Texaco (news/quote </redirect/marketwatch/redirect.ctx?MW=http://custom.marketwatch.com/custom/nyt-com/html-companyprofile.asp&symb=TX>), which owns a 27 percent stake in Dynegy, would give Enron a cash infusion of at least $1.5 billion up front and an additional $1 billion when the deal closed.

The executives said the companies hope to finalize the details and announce the deal today.

If completed, a takeover by Dynegy, a company only about one-quarter its size in revenue, would represent a remarkable humbling of Enron, the nation's biggest buyer and seller of natural gas and electricity. Enron had $139.7 billion in revenue for the first nine months of the year.

As recently as last spring Enron was lionized by investors as an innovator that had in many ways created and cleverly dominated the nation's deregulated energy markets. It would also vindicate not only Dynegy, which took a more measured approach to doing business in those markets, but also critics uncomfortable with energy deregulation who said Enron's energy trading was ruthless, its finances murky and its power and influence too extensive.

The company's chairman and chief executive, Kenneth L. Lay, is a close friend of President Bush. He has been one of Mr. Bush's largest campaign contributors, and no other energy company gave more money to Republican causes last year than Enron. Mr. Lay would be on the board of the combined companies, the executives said, but it was unclear if he would have an operational role.

Enron's problems came to light last month when the company disclosed $1 billion in write-downs and an unusual $1.2 billion reduction in shareholder equity. The reduction in equity arose from transactions with investment partnerships involving Andrew Fastow, the chief financial officer, who was forced to resign on Oct.

24. The Securities and Exchange Commission is investigating those transactions.

Enron is expected today to send the S.E.C. answers to questions the agency has posed in its investigation. The answers have been reviewed by Dynegy officials, the executives said, and are expected to be released publicly.

Enron is scheduled to meet its creditors tomorrow about the company's continuing crisis - and about the merger deal, if there is one.
People close to the deal say the company hopes that a deal with Dynegy, and the release of the answers to the S.E.C., will calm the crisis that has engulfed the company and led other energy companies that trade with Enron to curtail their credit exposure to the company.
Besides worries about the huge losses and the S.E.C. investigation, investors and creditors are nervously watching Enron's credit rating. Moody's Investors Service and Standard and Poor's have already cut the rating to two notches above junk status, and on Monday, Fitch Inc. cut it to one notch above junk.
As part of the acquisition, Dynegy would be taking on Enron's $12.8 billion debt load - a number that does not include billions of dollars of other debt, accumulated off the balance sheet, that has played a major role in Enron's current problems. The executives said they expected the deal would lead to the sale of some Enron assets to pay down the $12.8 billion debt.

Should Enron lose its investment grade rating, other energy trading companies could curtail their business with the company even further, and Enron could be forced to issue tens of millions of shares of stock to cover off-balance sheet debts that it has guaranteed.
Early Wednesday, shares of Enron plunged 28 percent, to about $7, on fears that the company was unable to line up new investors.

But the stock took back most of its losses in the afternoon after CNBC reported the talks with Dynegy. Shares of Enron closed at $9.05, off 62 cents. Dynegy shares closed at $33, down $3.

In addition to both companies' very large presence in energy trading, Enron owns the Portland General Electric Company (news/quote </redirect/marketwatch/redirect.ctx?MW=http://custom.marketwatch.com/custom/nyt-com/html-companyprofile.asp&symb=PGB>), a utility in Oregon it had already agreed to sell, and Dynegy owns the Illinova Corporation, a retail electricity and natural gas utility in Illinois.
Regulators may take a hard look at those utilities in reviewing a merger deal, said Jeff Dietert, an analyst with Simmons & Company in Houston. "Then you've got concerns about market power," he said. "It's just a lot of different issues to deal with before we get too excited that this deal is going to get done."
The acquisition would combine Enron, which dominates United States trading of electricity and natural gas and has been shedding its hard assets, with Dynegy, a company that has pursued a much different strategy of using trading to maximize earnings from its power plants.

Enron has always concentrated on sophisticated financial trading strategies, a senior executive at a rival energy-trading firm, said. "Dynegy has always been more of a logistical player of physical assets," he said. "Those are very different cultures and very different mentalities." The executive noted that there had been an immense talent drain from Enron in the last two weeks. "It has become a frenzy," he said.

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From: Nickoloff, Peter
Sent: Friday, November 09, 2001 1:20 PM
To: Carleton, Norman; Schultheiss, Heidilynne
Subject: Interview with Enron's Chief Risk Officer

From Erisk.com

CRO Profile: Rick Buy – Enron Corporation

Asked about the biggest challenge he faces, Enron's chief risk officer could never be accused of aiming low: Rick Buy aims to condense all the risks of Enron Corporation into a single metric. This would comprise operational, market and credit risk and incorporate risk- adjusted return on capital (RAROC), value-at-risk (VaR) and extreme value theory into what Buy calls a single "pseudo capital-at-risk figure" that can be shown to the Enron board of directors.

It's a daunting task for the CRO of a company that encompasses business lines as diverse as running a vast natural gas pipeline network, wholesale power marketing, energy trading, project financing and consulting, as well as engineering and construction. That's without taking into account new ventures such as Enron's entry into the UK water business through Azurix; its involvement with weather derivatives through the launch of temperature-linked bonds; its launch of a B2B exchange for trading bandwidth; and its foray into online credit risk management for third parties, Enron Credit.

Ranked 18th in the Fortune 500 index, with revenues of $100 billion in 2000 (compared with $40 billion in 1999) Houston-based Enron is seeing its list of counterparties growing towards the 20,000 mark, a rise that Buy attributes partly to the development of the Enron Online e-trading platform – which has reputedly turned Enron into the world's biggest e-commerce company since its launch last year.

The size and complexity of Enron's diverse business lines and counterparty list makes the idea of a single risk measurement for the whole firm seem almost incredible. Buy admits that one of his other goals – of achieving enterprise risk management (ERM) across the whole group – is only about 30 per cent complete so far, but says a lot of progress has been made in aggregating risk across the company: "We understand that, for example, credit exposure to Shell in London has to be added to Shell elsewhere, and we routinely assess how exposed we are in this kind of way"

Buy joined Enron from Bankers Trust in 1994, and as CRO now reports directly to president Jeffrey Skilling as well as to the board. He is on Enron's executive committee and heads the risk assessment and controls (RAC) group. Enron's separate risk committee was disbanded a year ago, and the risk function now comprises Buy and his RAC group, the board and senior management. The board sets the firm's appetite for risk, while the RAC group measures and reports on risk throughout the company.

"The board tends to be vague on the details of risk positions, "says Buy. "I try to ascertain their comfort levels with certain market moods and P&L swings. We then try to set our limits structure to accommodate that risk appetite. You have to read between the lines of the board's views to some extent – they know that we need to take on risk, but also they take the view that we're not a pure trading house." Individual transactions to the value of $750,000 and above get referred directly to Buy's RAC group, while anything above the value of $75 million has to be approved by the board.

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Nickoloff, Peter

From: Nickoloff, Peter
Sent: Friday, November 23, 2001 12:08 PM
To: Carleton, Norman; Schultheiss, Heidilynne
Subject: Enron and risk management

From ERisk.com

Walking On Air

Rob Jameson, ERisk <mailto:rjameson@erisk.com>

November 20, 2001

There's a much-loved moment in the world of cartoons when the heroes and villains chase each other way beyond the edge of a cliff or high building, sustained by their momentum. It's only when they notice the drop beneath them that their confidence fails, their legs stop moving and they plummet like a stone.

It's no surprise that the economic boom of the 1990s, followed by the sharp slowdown and geo-political turbulence of the past 12 months, have given rise to a few moments like that in the corporate world. It's more worrying that institutions whose principal skills are to identify and manage risk have also managed to 'walk on air' for an extended period.

The latest air walker to come to grief seems to be international energy giant Enron, which after a difficult few months <http://www.chron.com/cs/CDA/story.hts/business/1138683> is preparing to be swallowed up by Dynegy in an act that will rather resemble a shark being eaten by a goldfish. Commentators began to point out <http://globalarchive.ft.com/globalarchive/article.html?id=011120000978&query=enron> this week that though the deal will probably go through, it's not yet a certainty. It depends upon no adverse material changes becoming apparent with regard to the SEC enquiries, Enron's balance sheet, litigation and so on.

It's too early to be sure at any forensic level what went wrong with Enron. But even more vertiginous drops have happened this year across a spectrum of industries that has, at its heart, the competent management of financial risk. Some headline examples are the collapse of the UK's Independent Insurance, the liquidation of Australia's HIH Insurance <http://www.erisk.com/reference/case/ref_case_hih.asp> and the fall of Superior Bank in the US.

The link between these diverse debacles is a failure in corporate reporting. In a firm that manages risks this is important for two distinct reasons. The first is that most risk management companies - and not just banks, as Enron is discovering - depend heavily upon market confidence in their creditworthiness in order to raise and preserve funding, and to make transactions in the markets that are their lifeblood. When that confidence disappears, a vicious spiral of rising funding costs, asset deterioration, counterparty worries and liquidity risk begins to suck a company down. (The mechanism is discussed in this <http://www.erisk.com/news/features/liquidity.pdf> ERisk feature.)

The second distinct reason is that the way in which companies report risk in internal and external accounts is critical in companies that are, in essence, portfolios of intangible risky assets and liabilities. Last week Ellen Seidman, retiring head of the US Office of Thrift Supervision, used her swansong speech to make that point <http://www.erisk.com/news/daily/news_daily_sm.asp?NE=ambanker_2001_11_15_news_0000-0002-KEYWORD.Missing.xml> with regard to the embarrassing failure of Superior Bank. She said that the approval of Superior's accounts, despite the bank's optimistic valuation of a highly volatile subprime lending portfolio, points to a larger problem with bank accounting.

Across the risk management industries, risk-based transactions and portfolios are becoming more complex, valuations are increasingly based on models and estimates, and in turn risk estimates are increasingly used to justify complex risk retention or risk transfer strategies. Without a framework of sophisticated risk reporting and corporate governance, the books of a firm can prove a world of smoke and mirrors, held together by a collective act of faith in the executives or boards that rule the corporation.

Occasionally, that faith proves unjustified. And when that happens, history shows that equity investors have often walked hand-in-hand with executives to the edge of the cliff.

Investors, unlike other stakeholders, are often happy that a company becomes more risky so long as its prophecies of future rewards are growing even faster. Executives know that leveraging a firm's future risk/reward profile can be achieved by various means: increasing market share at thin risk-adjusted margins; incurring difficult-to-measure long-tail liabilities; shaping a firm's cashflows and liabilities using reinsurance contracts and options; or investing heavily in potentially lucrative but increasingly risky ventures.

There's nothing wrong with any of these, providing a business succeeds in clearly communicating its risk position to investors, has limited stakeholders other than shareholders and does not depend on external perceptions of its soundness to remain in business. Most risk management firms fail on one or all of these caveats, and when things go wrong, analysts suddenly find themselves shifting from a plausible tale of profits to one of losses that don't have a verifiable floor. They begin to suspect they will discover the real answer not in the next conference call, but years later in the dry transcripts of courts, liquidators, regulators and commissions. (The Royal Commission on Australia's HIH Insurance begins sitting next week and will report in mid-2002.)

One answer to the problem of air walking is to strengthen the connection between risk reporting, company statements and the specific duties of boards of directors. A research paper <http://www.newyorkfed.org/rmaghome/econ_pol/2001/801jmac.html> recently published by the Economic Policy Review of the Federal Reserve Bank of New York points out that to become liable for a bank failure in the US, directors have to fail utterly to establish a reporting system for risk. The authors of the paper argue that this is too soft, given the increasingly critical nature of such systems and the variety of stakeholders in a bank. They recommend instead: "In order to avoid liability, directors of banks have a continuing obligation to develop and maintain a detailed and elaborate system for monitoring and oversight."

Elsewhere, the international accounting authorities and the regulators of both the banking and insurance industry are moving to tighten up best practice in company accounts and the reporting of risk. Away from the field of regulatory capital reform, the Basle Committee's accounting task force issued a report <http://www.bis.org/publ/bcbs84.htm> in August on the internal audit function in banks. Among other recommendations, it stressed that a bank's internal audit group should regularly carry out an independent review of the risk management system developed to set the bank's capital levels. The same committee is currently preparing a survey of how internal audit works in practice.

But these are long-term efforts, and to be effective they will have to cross many professional and industry boundaries. Meanwhile, risk officers might ask themselves a simpler question. If a rumour circulates tomorrow that their firm is in trouble, could they convince an outsider that the cogs in their financial reporting, risk reporting and corporate governance systems are all meshed together?

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	Carleton, Norman	Read: 11/23/01 12:08 PM
	Schultheiss, Heidilynne	Read: 1/2/02 11:47 AM

Nickoloff, Peter

From: Nickoloff, Peter
Sent: Monday, December 17, 2001 9:48 AM
To: Carleton, Norman; Schultheiss, Heidilynne
Subject: Enron and Netting

From ERisk...

Unwinding Enron's Tangled Web

Duncan Wood, ERisk <mailto:dwood@erisk.com>

December 12, 2001 Enron's lenders, counterparties and investors have been quick to estimate their exposure to America's biggest corporate bankruptcy, but replacing those estimates with actual losses will take rather longer - and observers suggest two main sources of uncertainty.

First, the sheer scale of Enron's involvement in the derivatives market promises to be the first real test of the industry's preferred method for closing out transactions when one counterparty goes bankrupt - and there's no certainty that the industry will find an ally in the US bankruptcy code.

Despite the best efforts of the International Swaps and Derivatives Association (Isda <http://www.isda.org/index.html>) to promote legislation that would give industry practice legal certainty, lawyers are advising concerned counterparties that their ability to terminate transactions by calculating a net gain or loss is not guaranteed.

Second, the widespread use of Enron's debt as collateral in structured credit <http://www.erisk.com/news/analysis/news_analysis2001-08-16_01.asp> transactions means a long wait for holders of that paper, as Enron's trustees value the company's assets and determine the level of recoveries.

It doesn't end there. The two issues overlap to a considerable extent. Synthetic collateralised debt obligations (CDOs) - the structured credit instruments most badly affected by Enron's bankruptcy - rely on credit default swaps to pass on exposure to investors, and credit derivatives documentation is arguably the most legally unproven of all derivative products.

The most recent commentary <http://www.standardandpoors.com/Forum/MarketAnalysis/Enron/Articles/120601_dispersed2.html> issued by rating agency Standard & Poor's (S&P <http://www.standardandpoors.com/>) on the Enron collapse reflects the difficulty in divining the extent of the exposure faced by the energy firm's lenders, counterparties and investors: "Credit exposure to Enron likely exceeds the $33 billion on Enron Corp's balance sheet." A more precise estimate is not offered.

For investors that have exposure to Enron through structured credit, the picture is perhaps the clearest - all of the rating agencies moved quickly to assess the impact of Enron's demise on the notes they cover. "We currently expect 20 cents on the dollar to be recovered," says Mitchell Lench, manager of Fitch's <http://www.fitchratings.com/> European CDO team in London, who confirms that synthetic CDOs have been hit hardest simply because they tended to incorporate exposure to Enron on a routine basis.

Synthetic CDOs are issued most often by European banks, keen to shift some credit risk to what is usually a small, sophisticated pool of investors, he explains - and in that context, Enron was a favourite name because the banks were expected to build the pool of debt by including representatives from a diverse range of industry sectors, and Enron continued to be seen as one of the strongest energy companies until very recently.

Although synthetic deals are generally composed of up to a hundred names, all of whom will generally be investment-grade, Lench says that Enron's bankruptcy could be enough to prompt a downgrade of the deal. "If Enron is 1 per cent of the deal, and you're losing 80 cents on the dollar, that's 80 basis points of credit enhancement you no longer have."

S&P has been reviewing <http://www.standardandpoors.com/Forum/RatingsCommentaries/CorporateFinance/Articles/113001_enron.html> the status of 44 CDO transactions it has rated, all containing some exposure to Enron and several have since been downgraded <http://www.standardandpoors.com/Forum/MarketAnalysis/Enron/Articles/120601_synthetic.html>, all of them synthetics. Nik Khakee, a director in S&P's structured finance group in New York, says that the total notional value of the 44 deals exposed to Enron is $79 billion - but the total amount of Enron's exposure included in those deals adds up to a relatively small $600 million. Despite Enron's popularity as a component of CDOs, and despite the downgrades suffered as a result, it is clear that investors in synthetic CDOs generally won't be too worried.

However, S&P also rated six transactions called credit-linked notes (CLNs) says Khakee, and the loss potential here is far greater - they represent $2.7 billion in direct exposure to Enron. CLNs use a similar structure to synthetic CDOs: a special-purpose vehicle (SPV) issues notes to investors, accepting their funds in return, and then transacts a credit default swap with the firm that is holding the debt. The big difference is that a single name backs the CLN, rather than a pool of different names. "With these CLNs, the invstor is buying exposure to a pool of one," says Khakee.

Enron also transacted three structured credit deals of its own that were rated by S&P, issuing a total of $3 billion in notional value, says Khakee. "In these deals, Enron is the counterparty - they were one counterparty in a credit default swap and the counterparties on the other side of the deal are facing risk from Enron not because the company is part of their portfolio, but because the deal will have to be terminated."

For investors in Enron's own structured credit, it is unclear what happens next. Khakee suggests that the counterparty will need to seek a replacement value for the terminated default swap, and will potentially have a claim against Enron equal to the net difference between the value of the swap when first transacted and the current market value of a replacement - they will mark the deal to market, and accept either a net gain or loss.

Fitch's Lench, however, says that's not necessarily the case. "It depends on the structure," he says. "My understanding is that, on day one of the transaction, in order to de-link the rating of the notes from Enron, investors' funds would be used to buy sovereign debt. In the event of Enron's bankruptcy, those bonds would be liquidated to repay the investors."

The uncertainty about close-out procedures for Enron's structured credit deals redoubles when attention switches to the company's derivatives activities, which covered the whole gamut of assets from commodities and currencies to interest rates, credit and equity. One area that could have been stickiest was Enron's role as a credit derivative dealer - traders admit that the energy company was a major player in the market, standing alongside some banks in terms of the volume of its deals and appetite for credit risk. Add to that the number of transactions in which other counterparties were buying or selling their own exposure to Enron - contracts now triggered by Enron's default - and you have the biggest event ever to hit the credit derivatives market.

"It's by far the largest default of any US corporate and it's been the largest trigger since Conseco triggered," says Greg Rosen, director and default swap trader with CSFB in New York. "Enron was also a very large seller of protection - definitely a net seller - and we estimate that between $3 and $4 billion was sold to the market."

Firms that have been trading Enron credit risk via the default swap market have been going back through their documentation to check the terms of their transactions and settle the deals - CSFB included. "It's certainly been time-consuming," says Rosen, noting that there could be anywhere up to $8 billion in swaps with Enron as the underlying credit. Nevertheless, he says: "It's been very positive in terms of reassuring people that the products work as advertised. We expect the trades to settle in a timely and orderly manner."

Those firm that had Enron as a counterparty, meanwhile, have had to find new protection - which Rosen expects to result in a large liability for Enron. "Everyone's lost the protection they thought they had, and gone out to find new protection. Spreads are likely to have widened since their original transaction, so they'll have a claim against Enron based on the difference between the original and the replacement," he says.

But what about firms that have a multitude of different derivatives transactions with Enron? The energy giant's presence in a range of derivative markets, and its well-documented appetite for risk means that many counterparties will need to replace not just a default swap, but a whole basket of different transactions, from electricity swaps to forwards to interest-rate swaps and default swaps.

Ideally, counterparties should be able to terminate all of their transactions with Enron, and work out a net sum, to be paid from one party to the other, representing a gain or loss across all of the defaulted deals. At least, that's how the industry would like it to work.

Kimberley Summe, general counsel with Isda in New York, says that industry documentation makes specific provision for cross-product netting, pointing out that all varieties of derivative are recognised and provided for under industry-standard documentation known as the master agreement. But getting the bankruptcy courts to keep up with changes in the derivatives industry hasn't been a simple matter, and some lawyers have been warning their clients for years that cross-product netting may not be enforceable, no matter how much the industry wants it to be.

One lawyer - who asked not to be named because she didn't want to "be seen giving ammunition to the bankruptcy court" - says there's no guarantee that bankruptcy lawyers in the Enron case will recognise the arguments of the derivatives industry.

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"The US bankruptcy code imposes restrictions on all of the things that are essential to the derivatives market - like demanding payment, collateral and netting - but over the years provisions have been added for different derivatives instruments. People have been trading for the last 10 years on the assumption that those provisions will work. Everyone expects them to, but it hasn't been tested," she says.

Bankruptcy law is careful about the allowances made for preferential treatment - the general idea being, says the lawyer, that the goal is to preserve the value of the bankrupt company, and then to divide its assets among creditors. Derivatives market practice, including netting, could place some creditors ahead of others in the queue. The industry has argued that this is essential for the safe functioning of the financial system, and US lawmakers have tended to agree - but the latest legislation that would enshrine the rights of derivatives market participants to net across a range of products has not been passed in its entirety. As things stand, there's a danger that Enron's trustees will see attempts to net across derivative products as a dilution of Enron's value, argues the lawyer.

Most significantly, there's no definite provision for credit default swaps under the existing legislation. "Are they swaps at all?" she asks. "If not, they don't fit into any protected category. People could be sitting there with a useless default swap from Enron - at the same time, they could have other obligations which they have to pay in."

Isda isn't keen on the suggestion that cross-product netting might not work. "The master agreement is intended to cover all types of contracts," says Summe. "Counterparties should be able to net across product types." She concedes that Isda has been trying hard to get netting legislation passed "because we need an update of the definitions," but notes that although Isda produces the industry's legal documents, it does not offer legal opinions. Anyone wanting to know whether cross-product netting will work "would get a better idea from a law firm".

Tracking:	**Recipient**	**Read**
	Carleton, Norman	Read: 12/17/01 10:02 AM
	Schultheiss, Heidilynne	Read: 12/18/01 8:43 AM

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, December 13, 2001 4:42 PM
To: Schultheiss, Heidilynne; Nickoloff, Peter
Subject: Hearing on Dec. 18 -- Enron

December 13, 2001

Senate Commerce Committee Sets Dec. 18 Hearing On Eron

Dow Jones Newswires

WASHINGTON -- The Senate Commerce Committee will hold a hearing Dec. 18 on "issues surrounding the collapse of Enron Corp."

The hearing was announced by Sens. Ernest Hollings, D-S.C., and Byron Dorgan, D-N.D. Hollings chairs the Commerce Committee and Dorgan heads the panel's Cubcommittee on Consumer Affairs.

The committee said a witness list will be made public later.

-By **John Connor**, Dow Jones Newswires; 202-862-9273; John.Connor@dowjones.com

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From: InvestorGuide Daily [daily@investorguide.com]
Sent: Thursday, December 13, 2001 5:44 PM
To: peter.nickoloff@do.treas.gov
Subject: InvestorGuide Daily - December 13, 2001

InvestorGuide Daily December 13, 2001

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Contents:

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m a r k e t   s u m m a r y

The major indices saw steep loses today after the release of retail sales for November, which dropped 3.7%, much lower than the expected 2.9% decline. Tech stocks weighed on the Nasdaq; Lucent and Ciena issued profit warnings for the next few quarters. Even though jobless claims fell, new job cut announcements from Applied Materials, Qwest, McGraw-Hill and Aetna reminded everyone that the weak economy is not yet ready for a speedy recovery. At the close, the Nasdaq lost 64.87 points and the Dow shed 128.36 points.

Dow Jones Industrials:	9766.45	-128.36	-1.30%
Nasdaq Composite:	1946.51	-64.87	-3.23%
S&P 500:	1119.38	-17.69	-1.56%
30-year Treasury Bond:		5.531%	+0.079

For more news and information on the market, investing, and personal finance, please visit http://www.investorguide.com

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b u s i n e s s   n e w s   a n d   a n a l y s i s

Online consumer spending in the U.S. rose to US$5.3 billion in November, a 10 percent increase over 2000 levels, according to a recent report. The growth rate was the smallest monthly increase recorded so far in 2001 by the eCommerce Pulse index, compiled by the two firms. (source: Ecommerce Times)
http://www.investorguide.com/cgi-bin/daily.cgi?05443

Yahoo is making a $436 million unsolicited bid for the career Web site HotJobs in hopes of beating an earlier offer from the parent company of Monster.com. (source: MSNBC)
http://www.investorguide.com/cgi-bin/daily.cgi?05444

Analysis:
American retail sales in November saw the biggest drop in a decade according to the latest government figures. The Federal Reserve cut interest rates again this week, for the eleventh time this year and for the first time since the economy was officially declared to be in recession. Some of the current optimism that a swift and strong recovery is under way may be overdone. (source: The Economist)
http://www.investorguide.com/cgi-bin/daily.cgi?05445

Investors who lost their shirts on Enron don't plan on sticking around in case there is a second act to this tragic comedy, and Enron's former rivals are bearing the brunt of this sudden concern. Shares of energy companies plunged early as investors bailed on the sector, concerned that Enron's misleading accounting could be an industry standard and that other companies could be mini Enrons just waiting to implode. (source: Marketwatch)
http://www.investorguide.com/cgi-bin/daily.cgi?05446

The software giant's antitrust saga now spans two centuries, and the issue just seems to keep going. It is a very significant win for the states and federal government that they were able to brand Microsoft a monopolist, which means it is a company that is subject to special regulation and scrutiny in the future analyst say. (source: The Street)
http://www.investorguide.com/cgi-bin/daily.cgi?05447

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Enron	http://www.investorguide.com/cgi-bin/r.cgi?name=ENE
HotJobs.com	http://www.investorguide.com/cgi-bin/r.cgi?name=HOTJ
Lucent	http://www.investorguide.com/cgi-bin/r.cgi?name=LU
McGraw Hill	http://www.investorguide.com/cgi-bin/r.cgi?name=MHP
Microsoft	http://www.investorguide.com/cgi-bin/r.cgi?name=MSFT
Oracle	http://www.investorguide.com/cgi-bin/r.cgi?name=ORCL
Qwest	http://www.investorguide.com/cgi-bin/r.cgi?name=Q
Yahoo	http://www.investorguide.com/cgi-bin/r.cgi?name=YHOO

You can research any publicly traded company by following this link:
http://www.investorguide.com/research.html

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e a r n i n g s

Oracle posted a second-quarter profit that met revised analyst estimates Thursday, but revenue remained flat and net income fell 12 percent. Excluding one-time costs, Oracle announced a second-quarter profit of $549 million, or 10 cents a share, compared with last year's second-quarter profit of $623 million, or 11 cents a share. Wall Street analysts had expected revised earnings of 10 cents a share. (source: CNET)
http://www.investorguide.com/cgi-bin/daily.cgi?05448

Thursday's major earnings reports:
Company Name (Ticker): actual, expected, same q last year

Adobe Systems (ADBE): $0.14, $0.22, $0.34

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CIENA Corp (CIEN):	$0.05,	$0.05,	$0.14
H.J. Heinz Co (HNZ):	$0.59,	$0.59,	$0.69
Oracle Corp (ORCL):	$0.10,	$0.10,	$0.11
Tektronix (TEK):	$0.12,	$0.09,	$0.38

Friday's major expected earnings reports:

No major earnings scheduled.

For more earnings information, check out
http://www.investorguide.com/earningscalendars.html

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w o r d   o f   t h e   d a y

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incubator - A company or facility designed to foster entrepreneurship and help startup companies, usually technologyrelated, to grow through the use of shared resources and intellectual capital.

For more financial terms, please visit http://www.investorwords.com.

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n o t a b l e   q u o t a b l e

"It is going to be the bargain of the century. It is going to look like we bought the island of Manhattan for $7.5 million and some beads." - eCompanies co-founder Sky Dayton on his $7.5 million purchase of the domain name Business.com in November 1999, in an Internet World interview

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Nickoloff, Peter

From: ERisk [ERisk@email.eRisks.com.treas.gov]
Sent: Friday, December 14, 2001 6:37 PM
To: peter.nickoloff@do.treas.gov
Subject: ERisk Essentials

<http://www.erisk.com/images/essential_logo.gif> portal.erisk.com <http://www.erisk.com/home.asp>

Apologies to those readers who had difficulties reading last week's ERisk Essentials. This was caused by server problems at our email service provider

Weekly Review

In this week's round-up <http://www.erisk.com/news/weekly/news_weekly2001-12-14_01.asp> of economic, banking and insurance industry news from an enterprise risk management perspective: SEC's Pitt fights for accounting regulation; investors deaf to Calpine's pleas; banks fight the law; Ernst & Young braces for Superior firefight; Lloyd's gets bullish; insurers face losses of $25 billion from Enron collapse

Analysis

Enron's derivative counterparties <http://www.erisk.com/news/analysis/news_analysis2001-12-12_01.asp> are operating under the assumption that they will be able to close out all of their trades with a tidy net payment, but lawyers are warning that it may not be so easy. Structured credit investors, meanwhile, may find themselves caught out by a confluence of legal and valuation risks.

Viewpoint

The introduction of a single European currency <http://www.erisk.com/news/viewpoint/news_viewpoint2001-12-11.asp> is a project huge enough to daunt any risk manager. As the deadline for switching over to the new currency draws closer, we look at some of the challenges facing one company, NCR, which aims to convert around half of the ATMs in the eurozone to the new currency.

Feature

It may be years before the problems that brought down Enron are fully understood, but some of the issues that brought down the once-mighty energy giant are already becoming clear. In this exclusive ERisk feature <http://www.erisk.com/news/news_features.asp>, Rob Jameson recounts the history of Enron from its humble origins as an ambitious natural gas trader to its dark final days of crisis and bankruptcy.

Research Archive

This month we've added some interesting papers to the Market Risk <http://www.erisk.com/reference/archive/ref_archive_market.asp> section of our Research Archive <http://www.erisk.com/reference/ref_archive.asp> on topics including the role of liquidity shocks in some market collapses, the problem of whether it makes sense to diversify investments around the world when markets are becoming more integrated, the effect of the Internet on life insurance market prices, how to price digital options, and 'expected shortfall' as an adjunct to value-at-risk methodologies.

Bookstore

Our featured book <http://www.erisk.com/store/store_bookstore.asp> this month is *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*, by the *Washington Post's* Paul Blustein. With Argentina teetering on the edge of another emerging market crisis, Blustein looks at the inner workings of international monetary regulators during the 1997-8 financial crisis in the Far East, later to spread around the world with hair-raising consequences. Check it out in the ERisk Bookstore <http://www.erisk.com/store/store_bookstore.asp>.

The ERisk Essentials is published every Friday by ERisk.com <http://www.erisk.com/home.asp>.

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If you have forgotten your password, follow this link <http://www.erisk.com/util/forgot_pwd.asp> to reset it.
For technical support queries, please email support@erisk.com <mailto:support@erisk.com>

Nickoloff, Peter

From: Info @atm [info@atmarkets.org]
Sent: Monday, December 17, 2001 4:51 PM
To: Info @atm
Subject: @Markets Newsletter

> @Markets Newsletter
> @Markets Association News
> Vol.1, Issue 6
>
> Magazine Preview
>
> Four articles in the November/December issue of @Markets magazine
> have been posted to the Web site, including a case study of an online
> marketplace that found an innovative way to boost transaction volume.
>
> Online Marketplace Acquires Buyer's Coop
> EcFood, a California-based online marketplace serving the industrial food
> industry, has found an innovative way to accelerate the growth of
> transaction volumes. The company bought Master Dairies, a Maryland-based
> buyer's cooperative, and expects the deal to pay off in several different
> ways. Peter Buxbaum reports.
>
> "With the acquisition of Master Dairies comes the need to process
> auctions and negotiations for multiple buyers on a wider variety of
> products. The coop, which is now organized as a division of ecFood, is
> bringing deals to other ecFood customers, thereby aggregating greater
> demand and achieving lower prices for all concerned.
> "Our clients in markets that bump up against Master Dairies members
> are now taking advantage of deals we are putting together for the
> cooperative," says Joe Buchanan, vice president for strategic sourcing at
> ecFood. "When we ran an auction for milk powder, an entire range of other
> ecFood customers wanted in. We had no idea that companies that make juice
> were buying milk powder. We were able to plug them into the coop deal."
>
> For the full text of the article, go to
> www.atmarkets.org/content/currentarticles.asp?a=71
> <http://www.atmarkets.org/content/currentarticles.asp?a=71>
>
> @Markets@Expo
>
> On Nov. 28-30, @Markets Association organized six panel discussions
> on various aspects of online marketplace evolution as part of the annual
> Expo conference in Chicago sponsored by the Futures Industry Association.
> Audio files of the six sessions have been posted on the Web site, as well
> as summaries of three of the panels. More summaries will be posted soon,
> so keep checking the site!
>
> For Conference Program and Audio Files, go to
> www.atmarkets.org/content/@Markets@Expoaudio.asp
> <http://www.atmarkets.org/content/@Markets@Expoaudio.asp>
> For Session Summaries, go to www.atmarkets.org/content/preview.asp
> <http://www.atmarkets.org/content/preview.asp>
>
> Member News
>
> CheMatch Transaction Volumes Surpass Five Million Metric Tons
> http://www.chematch.com/aboutUs/viewPressRelease.jhtml?ReleaseID=%2Freposi
> tories%2FHeadlines%2FCheMatch+Transaction+Volumes+Surpass+Five+Million+Met
> ric+Tons.html>
>
> ChemConnect Signs New Global Partners
> http://www.chemconnect.com/about/press_releases/Nov13-01.html

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>
> CME Expands Benzene Trading Hours
> http://www.hedgeworld.com/news/read_excite.cgi?storyfile=/sections/dail/da
> il5415.html
>
> EMETRA Clarifies Enron Relationship
> http://www.emetracms.com/newsarea/emetranews.htm
>
> RateXchange Successfully Completes $3.25 Million Private Placement
> http://www.ratexchange.com/news/press/pr20011130.html
>
> Refco Announces New Enhancements to MarketVoiceSM
> http://www.refco.com/pr_20001014.html
>
> TriMedia Names New CEO
> http://www.trimedia.com/pr20011210-1.html
>
> Winnipeg Commodity Exchange Completes Demutualization
> http://www.wce.mb.ca/wnew/newsreleases/2001/pr-11-01-01.htm
>
> Legislative/Regulatory Update
>
> Congress Begins Probing Enron Collapse
> The collapse of Enron, until recently the most outstanding example
> of a successful online business-to-business exchange, has sent shockwaves
> through the energy markets and in Washington, where the Securities and
> Exchange Commission and at least four Congressional committees have
> launched investigations.
> Most of Washington's attention to date has focused on Enron's
> accounting practices and the use of certain partnerships to move debt off
> its balance sheet and inflate the company's earnings. However, some
> attention has been drawn to EnronOnline and the larger business of energy
> trading, raising the question of whether more transparency and more
> regulation are needed in this market.
> Several lawmakers have cited Enron as providing another reason for
> approving legislation that would revise the netting provisions of the
> bankruptcy code. Netting refers to the practice, in case of a default, of
> reducing exposures by calculating the amounts due between swaps
> counterparties as one net amount, instead of a much larger flow of
> offsetting payments. The legislation is currently incorporated into a much
> larger bankruptcy reform bill, but swaps industry lobbyists and financial
> regulators are urging Congress to carve out the netting provisions and
> pass them separately.
> The first hearing was held by the House Financial Services Committee
> on Dec. 12 and focused on Enron's accounting practices. Next up will be
> the Senate Commerce Committee, headed by Sen. Fritz Hollings, D-S.C.,
> which hastily called a hearing for Dec. 18 to explore the "issues
> surrounding Enron's collapse."
> Meanwhile, the House Energy and Commerce Committee, chaired by Rep.
> Billy Tauzin, R-La., is laying the groundwork for a hearing in early
> January that is expected to focus on the effect of Enron's collapse on
> energy markets, as well as off-the-balance-sheet partnerships that appear
> to be at the root of Enron's financial problems.
> The Senate Energy and Natural Resource Committee, chaired by Sen.
> Jeff Bingaman, D-N.M., also plans to hold a hearing in January to
> investigate Enron's effect on U.S. energy markets. Bingaman said Nov. 29
> that Enron's downfall highlights the importance of "data transparency and
> competition" in the natural gas and electricity markets, and said his
> committee is "keenly aware of the need for enhanced oversight and market
> monitoring."
> In related news, the SEC on Oct. 31 upgraded an informal inquiry to
> a formal investigation of Enron and its audit firm, Arthur Andersen. The
> SEC has not disclosed what if any violations it is pursuing, but the
> agency's top accountant said on Dec. 5 that Enron's collapse, coming on
> top of several other widely publicized problems and restatements,
> suggested that there is "a threat to the confidence in our system of
> financial reporting and our capital markets."

> Federal prosecutors have expressed interest in monitoring the
> investigation, a sign that they may consider filing criminal charges
> against the company and its officers. And the Department of Labor has
> opened an investigation into questions raised by Enron's handling of its
> workers' retirement benefit plans.
> Enron declared bankruptcy on Dec. 2 under Chapter 11 of the U.S.
> bankruptcy code, which provides companies with some protection from
> creditors while they prepare a repayment plan. Enron also filed a lawsuit
> seeking $10 billion in damages against Dynegy, another Texas energy
> company, for breaching its agreement to acquire Enron.
> Enron's downward spiral began in October with a series of regulatory
> filings revealing the use of questionable accounting practices to move
> debt off its balance sheet and inflate profits by $586 million from 1997
> to 2000.
> The company reportedly is negotiating with Citigroup, UBS and J.P.
> Morgan Chase about the possible sale of its trading operations, which once
> accounted for roughly 25 percent of the trading in natural gas and
> electricity in North America.
>
> Details of Enron Chapter 11 Reorganization
> http://www.enron.com/corp/pressroom/
>
> Enron Presentation to Creditors Committee (powerpoint presentation)
> http://www.enron.com/corp/pressroom/chapter11/creditorpresentation.ppt
>
> Sen. Bingaman Statement on Enron Collapse
> http://energy.senate.gov/ (go to Press section)
>
> House Financial Services Committee Press Release on Enron Hearing
> http://www.house.gov/financialservices/120401pr.htm
>
> Labor Department Statement on Enron Investigation
> http://www.dol.gov/opa/media/press/opa/OPA2001459.htm
>
> SEC Issues Financial Disclosure Cautionary Advice
> http://www.sec.gov/news/headlines/fdadvice.htm
>
> Marketplace Update
>
> Energy Exchanges Report Surge in Trading as EnronOnline Goes Dark
> With traders backing away from EnronOnline because of credit risk
> concerns, two other energy exchanges--InterContinental Exchange and the
> New York Mercantile Exchange--are reporting large increases in turnover.
> Both exchanges are also emphasizing the differences between their market
> models and Enron's.
> ICE, which appears to be the main beneficiary of EnronOnline's
> decline, reported "tremendous growth" in November, with total volumes up
> 65 percent from the previous month and the number of users up 30 percent.
> Power trading at ICE set a record of 16.7 million megawatts on December
> 11.
> "We believe the inherent credit concerns in the OTC market have
> spawned interest in a many-to-many trading platform opposed to a
> one-to-many platform," Jeffrey Sprecher, CEO of Intercontinental, said in
> a statement Nov. 29.
> The Atlanta-based exchange recently launched several additions in
> the electricity complex, including power for delivery into AEP and into
> Southern hubs as well as hourly, off-peak, and weekend power markets at
> several hubs in the West and the East.
> At NYMEX, natural gas futures hit a new volume record on Nov. 29 and
> natural gas options hit a record the next day. NYMEX also has expanded its
> line of products in the natural gas arena, with particular emphasis on its
> clearing capabilities. The exchange has launched new products such as
> cash-settled natural gas swaps and exchange of futures for swaps, and has
> begun permitting "large order execution" in natural gas futures during
> certain parts of the open outcry session.
> "Recent events in the natural gas market have served to reinforce
> the necessity of counterparty credit risk management and have accelerated

> the Exchange's plans to introduce a full array of risk management tools
> under the umbrella of our clearinghouse," NYMEX President J. Robert
> Collins said in a statement released Oct. 30.
>
> ICE Statement on Growth Trend
> https://www.intcx.com/pressnov01d.html
>
> NYMEX Announces OTC Clearing Plans
> http://www.nymex.com/news/pr_detail.cfm?id=399
>
> NYMEX Pulls the Plug on eNymex Platform
> In separate but related news, NYMEX has quietly decided to shelve
> further development of eNymex, its long-awaited online commodities
> exchange. Instead, NYMEX is putting its resources into ACCESS, an existing
> electronic trading platform that was originally designed for after-hours
> trading of NYMEX futures. NYMEX says it intends to use this platform to
> attract traders who formerly used EnronOnline, and has opened the system
> to a wider range of traders.
> The plan to create eNymex was announced in May of 2000, at a time
> when online business-to-business exchanges were proliferating rapidly.
> NYMEX officials said at the time that eNymex would trade a wide range of
> commodities, starting with energy and metals, and predicted that the
> exchange would be up and running in the third quarter of that year.
> ACCESS came into its own in September, when the terrorist attacks on
> the World Trade Center forced NYMEX to evacuate its building and close its
> trading floor. Urgently seeking some way to reopen its markets, the
> exchange decided to accelerate a pre-existing plan to open the ACCESS
> system to Internet trading.
> NYMEX subsequently reopened its trading floor, which is located just
> two blocks from ground zero, and resumed trading futures through the
> traditional open outcry method. However, many firms are continuing to rely
> on ACCESS to handle their futures trades, and the average daily trading
> volume on the system has risen 23 percent since before the attacks.
>
> CMX to Clear Metals Trading through BOTCC
> The Board of Trade Clearing Corporation, the oldest independent
> clearing organization in the futures industry, has announced a partnership
> with Commodities Management Exchange, an online metals trading exchange
> with close ties to the auto industry. BOTCC will process and administer a
> guarantee of certain OTC transactions listed on the CMXchange, which will
> assist the exchange's customers in their price risk management and FAS
> Compliance. With customers including DaimlerChrysler, Ford and General
> Motors, the CMXchange currently provides Internet-based spot and forward
> trading in a number of base metals, and expects to begin trading aluminum
> and other metals swaps transactions cleared by BOTCC during the first
> quarter of next year.
>
> http://www.botcc.com/members/pressreleases/011128cmxchange.html
> http://www.cmxchange.com/BMExchange/About/Press_Releases/press_releases.CF
> M
>
> PartMiner Names New CEO
> PartMiner Inc., an online marketplace for electronic components, has
> named Christopher Meyer as CEO, replacing Daniel Nissanoff, the founder of
> the company. Meyer has served on PartMiner's board since March 1999 and
> comes to PartMiner from IHS Inc., a supplier of technical information,
> where he was president and chief operating officer. Nissanoff will remain
> with PartMiner as chairman of its board of directors.
> PartMiner also announced that it will begin charging a subscription
> fee for access to its component database, which previously was provided
> for free.
>
> www.partminer.com <http://www.partminer.com> (go to Dec. 10 press release)
>
> Omnexus, Elemica Share Technology
> Omnexus, an online plastics marketplace, has formed a "strategic
> alliance" with Elemica, the chemicals network backed by an industry

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> consortium. The alliance, which was announced on Dec. 4, will allow both
> marketplaces and their customers to share technology in e-procurement and
> supplier chain integration.
>
> <http://www.omnexus.com/omnexus/eng/closed/html/OmnexusNews_pr_12_04_01.ht
> ml>
>
> Rolfe & Nolan Joins with TruExchange in Processing Partnership
>   Rolfe & Nolan, a leading software provider for the futures and
> options industry, has announced a partnership with TruExchange, a vendor
> of trading and matching engines for electronic exchanges. The two
> companies plan to offer a Straight Through Processing (STP) solution for
> the derivatives industry. This new solution will be an integration of the
> TruExchange trading engine and the market data system managed by Rolfe &
> Nolan. This product will be jointly marketed and will handle front-end
> order capture, exchange routing/access, trade matching, execution,
> back-office clearing, and settlement.
>
> http://www.truexchange.com/news_events/press_releases/pr-rn1128.html
> http://engine.solid8.com/servlet/SolDisplay?purpose=viewpressrelease&press
> id=94&username=rolfe&username2=1456465891
>
> GTWA Survey Finds Transaction Volume Dramatically Higher
>   The Global Trading Web Association, a group representing online
> marketplaces associated with Commerce One, issued a report on Nov. 12
> finding strong growth in transaction and sales volume among its members.
> The group, now up to 33 members, projected a total of more than 2.1
> million transactions and $6.2 billion in sales on member exchanges by the
> end of the year.
>
> <http://www.gtwa.net/news/20011112_growth.html>
>
> Aberdeen Group Issues Report on "Best Practices" Among Online Markets
>   Aberdeen Group, a Boston-based consulting firm, has recently
> published several reports of interest to @Markets Association members,
> including an analysis of what factors play a critical role in making some
> online markets successful and a report on the "second coming" of net
> markets.
>
> <http://www.aberdeen.com/ab%5Fcompany/hottopics/netmarkets2001/thankyou.ht
> m>
>
> ---
> ---------------------------------
>
> If you would like this newsletter sent to others within your firm, please
> contact David Bruderle at dbruderle@atmarkets.org
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> mailto:optout@atmarkets.org or by writing us at 2001 Pennsylvania Avenue
> N.W., Suite 600, Washington, DC 20006.
>
> Comments and suggestions may be sent to David Bruderle at
> dbruderle@atmarkets.org
>

Nickoloff, Peter

From: Byrne, Kathleen
Sent: Tuesday, December 18, 2001 8:05 AM
To: _DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Enrique Perez (E-mail); Eric H. Otto (E-mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin
Subject: AM Global Financial Markets - December 18, 2001

-- The themes of broad yen weakness, selling of longer-dated U.S. Treasuries, and thin, end-of-year trading conditions persist.

Foreign Exchange: The yen is weaker across the board, moving convincingly above the Y 128 level against the dollar to fresh three-year lows. Participants cited yesterday's comments by Japanese FinMin Shiokawa and Vice FinMin Kuroda conveying apparent acceptance of a weaker yen, and discounted EconMinTakenaka's lone assertion that the yen's exchange rate was nearing levels compatible with fundamentals. Although shorter-term speculative accounts took profits above the Y128 level, dealers continue to expect a fairly rapid move in dollar/yen above Y130, once rumored options barriers around that level are broken through. Although the dollar and the euro are little changed against most other currencies, market talk that British Petroleum may buy Enron-owned gas stations in Germany was cited as future support for the euro; dealers took in stride today's Financial Times reports of a possible flood of counterfeit euro notes produced by eastern European countries and noted that euro notes will be accepted at stores in the United Kingdom after Jan. 1.

Japan: Participants are focusing on the BOJ's two-day policy meeting, which concludes tomorrow. FinMin Shiokawa said today that "we are strongly asking the BOJ to provide abundant liquidity to the banking system" and called on the central bank to provide more than 14 trillion yen in liquidity in the run-up to year-end, comments which foreign exchange market participants also took as tacit approval to sell the yen.

Emerging Asia: In contrast to recent weeks, emerging Asian currencies are beginning to respond negatively to the yen's depreciation. Today, the New Taiwan dollar fell to a four-month low against the U.S. dollar. After outperforming the yen for a number of weeks, the Korean won depreciated 0.6% yesterday and was little changed overnight.

Europe: Euro-area consumer price inflation for November was on expectations, but area industrial production fell by more than expected. As a result, euro-area sovereign debt is rallying, with yields 1 to 7 bps lower and short ends outperforming. Implied yields on near-dated euribor futures contracts (March and June) are 3 to 4 bps lower.

Commodities: In very thin trading, crude oil prices are consolidating ahead of the release of API data late this afternoon.

U.S. Assets Overnight
The front-month DJIA, Nasdaq 100, and S&P 500 futures contracts are all trading moderately higher, suggesting positive movement in prices at the New York open. Treasury prices are little changed to modestly lower, the long bond outperforming. The ten-year yield rose to a five-month high, reflecting hedging activity by mortgage investors.

Today's Events:	**Actual**	**Consensus Expectation**	**Previous Period**
Two-day BOJ board meeting starts -- no change expected but a few contacts look for tinkering at the margins to increase liquidity.			
ECB President Duisenberg gives quarterly testimony before the European Parliament at 10:30 AM.			
Euro-area CPI, Nov. final	2.1%	2.1%	2.4%
Euro-area industrial production, Oct	-1.4% m/m	-1.0% m/m	-0.5% m/m
U.S. housing starts, Nov.	8:30 a.m.	1540K	1552K
Two-day Brazilian COPOM meeting starts -- no change in SELIC rate expected			

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AM Global Financial Markets

December 18, 2001 — Treasury Market Analysis Unit, 622-2850

12/18/01 8:01 AM

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USD versus	8:01 AM	Change
Japanese yen	128.06	0.48%
Euro	$ 0.9014	0.04%
Sterling	$ 1.4560	0.20%
Canadian dollar	1.5688	0.00%
Aussie dollar	$ 0.5162	0.12%
Thai baht	43.8	-0.05%
Indonesian rupiah	10140	-0.44%
Korean won	1281.9	-0.12%

Other cross rates	8:01 AM	Change
Euro/yen	115.43	0.41%
Euro/sterling	0.619	0.16%

Equities	8:01 AM	Change
S&P Futures	1,139	0.00%
Nikkei-225	10,432	1.05%
Thailand	292.87	-0.22%
Indonesia	374.69	0.49%
Malaysia	664.12	0.32%
Hong Kong	11,487	0.18%
S. Korea	643.76	-0.70%
Taiwan	5,329	-2.37%
German Dax	5,078	0.20%
French CAC-40	4,482	-0.87%
U.K. FTSE	5,160	0.47%
Russia RTS	238.11	1.12%
Poland WIG	13,682	0.69%

U.S. Treasuries	8:01 AM	Change bps
3-month bill	1.75%	-1
6-month bill	1.85%	0
2-year	3.15%	1
5-year	4.48%	0
10-year	5.19%	1
30-year	5.57%	2

Credit Overseas	8:01 AM	Change bps
3-month Euribor	3.35%	0
10-yr German bund	4.85%	-2
3-month J-Bills	0.04%	0
10-yr JGB	1.35%	unchanged
3-month U.K. bills	3.90%	unchanged
10-yr U.K. gilt	4.87%	-2

Commodities	8:01 AM	Change
Gold	$279.00	$1.30
Oil (Brent)	$18.53	-$0.04

Today's Events:	Actual	Consensus Expectation	Previous Period
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Treasury Market Room 622-2650
Timothy DuLaney, Director

GLOBAL FINANCIAL MARKETS
12/18/01 7:45 AM

$ PERFORMANCE	18-Dec	17-Dec	18-Dec	Friday's close	This week	This year
Yen	128.12	127.53	0.46%	127.38	0.58%	-11.59%
Euro	0.9018	0.9025	0.08%	0.9041	0.26%	-4.33%
Sterling	1.4558	1.4591	0.22%	1.4550	-0.06%	-2.50%
Swiss	1.6353	1.6336	0.10%	1.6297	0.34%	-1.50%
Canadian $	1.5691	1.5691	0.00%	1.5602	0.57%	-4.67%
Australian $	0.5167	0.5174	0.14%	0.5198	0.60%	-7.53%
Korean won	1286.9	1288.5	-0.12%	1280.9	0.47%	-1.73%
Indonesian rupiah	10155	10195	-0.39%	10195	-0.39%	-4.96%
Philippine peso	51.55	52.06	-0.97%	52.06	-0.97%	-3.10%
Thai baht	43.90	43.87	0.07%	43.78	0.29%	-1.15%
Taiwan $	34.66	34.53	0.38%	34.45	0.61%	-4.65%
Polish zloty	3.976	3.970	0.14%	4.006	-0.75%	3.80%
Russian ruble	30.34	30.34	0.00%	30.34	0.00%	-6.29%
South African rand	12.265	12.040	1.87%	12.200	0.53%	-61.59%
Mexican peso	9.105	9.113	-0.08%	9.110	-0.05%	5.56%
Brazilian real	2.346	2.355	-0.40%	2.376	-1.28%	-20.28%
COMMODITIES						
Gold	$279.60	$278.15	0.52%	$278.45	0.41%	2.64%
European Brent	$18.58	$18.58	0.00%	$18.54	0.22%	-17.71%
Near Nymex futures	$19.40	$19.18	1.15%	$19.23	0.88%	-27.61%
CRB Index	$190.94	$190.94	0.00%	$191.07	-0.07%	-16.19%
EQUITIES						
Dow Jones	9,892	9,892	0.00%	9,811	0.82%	-8.30%
Nasdaq	1,987	1,987	0.00%	1,953	1.76%	-19.55%
S&P 500	1,134	1,134	0.00%	1,123	1.01%	-14.08%
Nikkei 225	10,432	10,323	1.05%	10,512	-0.76%	-24.33%
Japan Topix	993	989	0.37%	1,007	-1.41%	-22.67%
German DAX	5,092	5,068	0.47%	4,909	3.72%	-20.85%
French CAC-40	4,489	4,485	0.09%	4,340	3.44%	-24.25%
U.K. FTSE-100	5,165	5,136	0.55%	5,061	2.05%	-17.00%
H.K. Hang Seng	11,487	11,466	0.18%	11,466	0.18%	-23.91%
Korean Kospi	644	648	-0.70%	665	-3.22%	27.57%
Taiwan Weighted	5,329	5,456	-2.33%	5,487	-2.87%	12.34%
Polish Wig	13,685	13,588	0.72%	13,542	1.06%	-23.32%
South African JSE	10,523	10,406	1.13%	10,406	1.13%	24.29%
Mexican Bolsa	6,271	6,271	0.00%	6,139	2.16%	10.96%
Brazilian Bovespa	12,912	12,912	0.00%	12,959	-0.36%	-15.38%

G-7 FIXED INCOME	US	Change	Japan	Change	Germany	Change	U.K.	Change	France	Change	Italy	Change	Canada	Change
Overnight rate	1.80	-12	0.05	0	3.30	0	4.58	-3	3.30	0	3.30	0	2.16	0
3-month bill	1.75	-1	0.04	0	3.25	0	3.90	0	3.23	-2	3.35	0	2.01	-1
2-year bond	3.15	1	0.11	0	3.62	-7	4.63	-1	3.69	-5	3.69	-6	3.36	0
5-year bond	4.48	0	0.48	0	4.30	-7	4.95	-1	4.33	-5	4.39	-4	4.80	1
10-year bond	5.19	1	1.33	0	4.84	-3	4.86	-2	4.93	-1	5.11	-2	5.54	0
30-year bond	5.58	2	2.49	-1	5.25	0	4.56	-3	5.30	-1	5.55	-1	5.76	1

US FIXED INCOME	2-year Fannie	10-year Fannie	10-year swap spread	2-10 year UST spread	2-30 year UST spread
Current	0.00	5.88	80	205	243
Bps change	unchanged	-2	-15	0	2

EMERGING FIXED INCOME	Korea '08	Thailand '11	Indonesia '06	Russia MinFin '07	Poland PDI
Current	6.05	4.70	11.08	12.81	7.02
Bps change	4	-12	unchanged	unchanged	-1
	Argentina Par	Brazil C	Mexico Par	Venezuela DCB	
Current	96.68	13.51	8.51	16.67	
Bps change	365	-9	2	-20	

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Treasury Market Room
TimDulaney, Director
622-2052

Currencies

	Unit Change (In local currency terms)		Percent Change (In Dollars per Unit Terms)						
	18-Dec	**17-Dec**	**18-Dec**	**17-Dec**	**This week**	**This month**	**This year**	**In '00**	**In '99**
Japan	128.12	127.53	-0.5%	-0.1%	-0.6%	-3.8%	-12.0%	-11.9%	11.3%
Euro	0.9018	0.9025	-0.1%	-0.2%	-0.3%	0.6%	-4.4%	-6.3%	-14.3%
EuroYen	115.53	115.08	0.4%	0.0%	0.4%	4.4%	7.3%	4.4%	-22.3%
UK	1.4558	1.4591	-0.2%	0.3%	0.1%	2.1%	-2.5%	-7.7%	-2.5%
Germany	2.1690	2.1672	-0.1%	-0.2%	-0.3%	0.6%	-4.5%	-6.8%	-13.8%
Australia	0.5167	0.5174	-0.1%	-0.9%	-0.6%	-1.0%	-7.5%	-14.9%	-0.5%
Canada	1.5691	1.5691	0.0%	0.0%	-0.6%	0.2%	-4.7%	-3.7%	-1.0%
Gold	279.60	278.15	0.5%	0.3%	0.4%	1.9%	2.6%	-5.5%	-0.4%
Thailand	43.90	43.87	-0.1%	-0.2%	-0.3%	0.1%	-1.2%	-15.7%	-2.3%
Indonesia	10,155	10195	0.4%	0.0%	0.4%	3.0%	-5.0%	-38.5%	14.5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Philippines	51.55	52.06	1.0%	0.0%	1.0%	0.8%	-3.1%	-24.1%	-4.2%
South Korea	1,287	1289	0.1%	-0.6%	-0.5%	-1.5%	-1.7%	-11.4%	6.0%
Taiwan	34.66	34.53	-0.4%	-0.2%	-0.6%	-0.7%	-4.6%	-5.5%	2.7%
Singapore	1.8396	1.8370	-0.1%	0.0%	-0.1%	-0.4%	-6.1%	-4.1%	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2.3455	2.3550	0.4%	0.9%	1.3%	6.0%	-20.3%	-8.0%	-33.1%
Mexico	9.1050	9.1125	0.1%	0.0%	0.1%	1.3%	5.6%	-1.4%	4.1%
Chile	662.75	665.45	0.4%	0.8%	1.2%	3.4%	-15.5%	-8.3%	-10.7%
Colombia	2,305.00	2305.00	0.0%	0.7%	0.7%	-0.3%	-3.1%	-19.3%	-17.3%
Venezuela	752.25	752.25	0.0%	-1.0%	-1.0%	-0.7%	-7.5%	-7.8%	-13.0%
Poland	3.9755	3.9700	-0.1%	0.9%	0.7%	2.2%	3.8%	0.1%	-15.1%
Hungary	271.70	272.32	0.2%	0.3%	0.5%	3.2%	3.2%	-11.0%	-14.5%
Czech	35.123	35.383	0.7%	1.9%	2.6%	4.9%	6.7%	-5.1%	-15.7%
Russia	30.335	30.335	0.0%	0.0%	0.0%	-1.3%	-6.3%	-3.6%	-25.2%
South Africa	12.2650	12.0400	-1.9%	0.4%	-0.5%	-19.5%	-41.6%	-23.5%	-4.5%
Turkey	1,450,000	1,452,000	0.1%	0.0%	0.1%	2.0%	-116.3%	-23.6%	-41.9%
Greece	377.88	377.59	-0.1%	-0.2%	-0.3%	0.6%	-4.6%	-10.2%	-13.9%

Equities (In local currency terms)

	Unit Change		Percent Change						
	18-Dec	**17-Dec**	**18-Dec**	**17-Dec**	**This wk**	**This mo**	**This yr**	**In '00**	**In '99**
Dow	9892	9892	0.0%	0.8%	0.8%	0.4%	-8.3%	-6.2%	25.2%
Nasdaq	1987	1987	0.0%	1.8%	1.8%	2.9%	-19.6%	-39.3%	85.6%
Nikkei	10432	10323	1.1%	-1.8%	-0.8%	-2.5%	-24.3%	-27.2%	36.8%
FT-SE 100	5165	5136	0.6%	1.5%	2.0%	-0.7%	-17.0%	-10.2%	17.8%
DAX	5092	5068	0.5%	3.2%	3.7%	2.0%	-20.9%	-7.5%	39.1%
CAC-40	4489	4485	0.1%	3.3%	3.4%	0.3%	-24.2%	-0.5%	51.1%
Thailand	293	294	-0.2%	-0.2%	-0.4%	-3.2%	8.8%	-44.1%	35.4%
Indonesia	375	375	0.0%	0.0%	0.0%	-1.5%	-10.0%	-38.5%	70.1%
Malaysia	664	664	0.0%	0.0%	0.0%	4.1%	-2.3%	-16.3%	38.6%
Philippines	1124	1126	-0.1%	0.0%	-0.1%	-0.4%	-24.8%	-30.3%	8.8%
Hong Kong	11487	11466	0.2%	0.0%	0.2%	1.8%	-23.9%	-11.0%	68.8%
South Korea	644	648	-0.7%	-2.5%	-3.2%	0.0%	27.6%	-50.9%	82.8%
Taiwan	5329	5456	-2.3%	-0.6%	-2.9%	20.0%	12.3%	-43.9%	31.6%
Singapore	1584	1558	1.6%	0.0%	1.6%	7.1%	-17.8%	-22.3%	78.0%
China	172	168.43	2.4%	1.0%	3.4%	4.3%	92.6%	136.2%	32.0%
Brazil*	12912	12912	0.0%	-0.4%	-0.4%	-0.2%	-15.4%	-10.7%	151.9%
Argentina*	257	257	0.0%	1.5%	1.5%	26.7%	-38.4%	-24.3%	28.0%
Mexico*	6271	6271	0.0%	2.2%	2.2%	7.5%	11.0%	-20.7%	80.1%
Chile	110	110	0.0%	0.0%	0.0%	-0.2%	13.8%	-32.6%	41.8%
Colombia	954	954	0.0%	0.1%	0.1%	2.6%	33.8%	-28.6%	-9.3%
Venezuela	6490	6490	0.0%	1.1%	1.1%	1.7%	-4.9%	26.0%	14.8%
Poland	13685	13588	0.7%	0.3%	1.1%	-2.5%	-23.3%	-1.3%	41.3%
Hungary	7161	7192	-0.4%	0.0%	-0.4%	0.5%	-8.8%	-11.0%	39.8%
Czech	382	384	-0.5%	-1.7%	-2.2%	-2.8%	-20.3%	-2.3%	24.2%
Russia	238	235	1.2%	2.7%	3.9%	5.2%	66.3%	-18.2%	197.4%
South Africa	10523	10406	1.1%	0.0%	1.1%	11.5%	26.4%	-2.5%	57.3%
Turkey	12762	12762	0.0%	0.0%	0.0%	9.7%	35.2%	-37.9%	485.4%
Greece	2555	2563	-0.3%	-0.3%	-0.7%	-5.2%	-24.6%	-38.8%	102.2%

* 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: InvestorGuide Daily [daily@investorguide.com]
Sent: Tuesday, December 18, 2001 5:40 PM
To: peter.nickoloff@do.treas.gov
Subject: InvestorGuide Daily - December 18, 2001

InvestorGuide Daily December 18, 2001

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Contents:

- Market Summary
- Business News and Analysis
- Earnings
- Word of the Day
- On this Date
- Notable Quotable

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m a r k e t   s u m m a r y

After a big jump at the open powered by an encouraging increase in housing starts, the markets lost momentum and traded sideways for much of the day. However, investors jumped on buying opportunities in the late afternoon and pushed the major indices to some of the loftiest territory of the session. The Dow especially benefited from a GE announcement detailing an aggressive expansion plan for the coming years that is expected to offset any slowing of the economy. At the close, the Nasdaq was up 17 points, and the Dow managed a triple-digit gain of 106.

Dow Jones Industrials:	9998.39	+106.42	+1.08%
Nasdaq Composite:	2004.76	+17.31	+0.87%
S&P 500:	1142.92	+8.56	+0.75%
30-year Treasury Bond:		5.526%	-0.130

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b u s i n e s s   n e w s   a n d   a n a l y s i s

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Taking advantage of unseasonably warm weather, homebuilders began construction on new houses at a stronger-than-expected pace in November, the government said on Tuesday, a sign of the housing market's resiliency in the face of a recession. (source: Fox News)
http://www.investorguide.com/cgi-bin/daily.cgi?05473

General Electric's new chief, Jeff Immelt, on Tuesday laid out an aggressive expansion strategy for 2002 and 2003, saying growth from cost savings and acquisitions would offset the drag of a weak economy and any potential slowdown in the global power market. (source: Yahoo)
http://www.investorguide.com/cgi-bin/daily.cgi?05474

Analysis:
Smack-dab in the middle of the holiday season, the economic statistics are beginning to register more pluses than minuses. This doesn't mean that the U.S. economy is about to come roaring back, but it does suggest that we will enter 2002 in better shape than many expect. (source: MarketWatch)
http://www.investorguide.com/cgi-bin/daily.cgi?05475

On Monday, the Nasdaq announced that it would be kicking 13 slumping tech firms out of the much-followed Nasdaq 100 index, on which the exchange-traded fund called the QQQ is based. Of the replacements, 8 are health-care and biotech companies. According to this columnist, the Nasdaq's rejiggering of the Nasdaq 100 makes the index an even less reliable proxy for tech than it already was. (source: CNNMoney)
http://www.investorguide.com/cgi-bin/daily.cgi?05476

Did Enron have something contagious? On one hand, it makes sense that Dynegy and others in the energy industry would get a hard second look after the dramatic implosion of its strongest player. On the other hand, wasn't Enron, in both its glory and its fall, supposed to be a unique beast, a unicorn in a world of hogs and heifers? (source: Forbes)
http://www.investorguide.com/cgi-bin/daily.cgi?05477

In Brief:
- Wireless technology leader Motorola announced that it would suffer a loss this quarter and cut 9,400 jobs, but that it expects to be profitable in 2002.

If you have any friends or colleagues who would appreciate getting this news every day, follow this link (or if you prefer, simply forward this issue to them):
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Dynegy	http://www.investorguide.com/cgi-bin/r.cgi?name=DYN
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Motorola	http://www.investorguide.com/cgi-bin/r.cgi?name=MOT

You can research any publicly traded company by following this link:
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e a r n i n g s

Tuesday's major earnings reports:

Company Name (Ticker):	actual,	expected,	same q last year
3Com Corp (COMS):	-$0.14,	-$0.23,	-$0.15
Best Buy (BBY):	$0.37,	$0.35,	$0.27
Cintas Corp (CTAS):	$0.34,	$0.33,	$0.33

Circuit City (CC):	$0.10,	$0.06,	-$0.32
Micron Tech (MU):	-$0.44,	-$0.41,	$0.58
Red Hat (RHAT):	$0.01,	$0.00,	-$0.01

Wednesday's major expected earnings reports:
Company Name (Ticker): expected, same q last year

Coldwater Creek (CWTR):	$0.14,	$0.64
FuelCell Energy (FCEL):	-$0.14,	-$0.05
InterVoice (INTV):	$0.04,	$0.03
Morgan Stanley (MWD):	$0.68,	$1.06
Palm Inc (PALM):	-$0.07,	$0.04
Quiksilver (ZQK):	$0.09,	$0.42
Riverstone Ntwrks (RSTN):	$0.02,	N/A
Saba Software (SABA):	-$0.10,	-$0.32

For more earnings information, check out
http://www.investorguide.com/earningscalendars.html

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w o r d   o f   t h e   d a y

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agreement among underwriters - A contract between members of a syndicate, appointing the originating investment bank as the lead underwriter, defining the members' proportionate liability, and authorizing the manager to allocate units to a selling group.

For more financial terms, please visit http://www.investorwords.com.

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o n   t h i s   d a t e

December 18, 1899: The Dow Jones Industrial Average suffers its 5th worst single-day drop, 8.7%.

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n o t a b l e   q u o t a b l e

"When the forecast comes in close to the actual, one or the other is suspect." - Economist Edgar Fiedler

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Nickoloff, Peter

From: ERisk [ERisk@email.eRisks.com.treas.gov]
Sent: Friday, December 21, 2001 12:34 PM
To: peter.nickoloff@do.treas.gov
Subject: ERisk Essentials

<http://www.erisk.com/images/essential_logo.gif> portal.erisk.com <http://www.erisk.com/home.asp>

[redacted]

The ERisk Portal will be taking a break over the holiday season; the site will next be updated on January 7. The Essentials will return on January 12. We wish happy holidays and a prosperous New Year to all of our readers.

The Year in Review

In a departure from our usually Weekly Review, ERisk journalists and editors take a look back at 2001, from the California power crisis to the September 11 attacks and Enron's fall from grace. Put the year in perspective with our Year in Review <http://www.erisk.com/news/weekly/news_weekly2001-12-21_01.asp>, including the challenges of banking risk management in 2001.

Reflections on Risk

For this special feature <http://www.erisk.com/news/features/ERisk2001YearInReview.pdf>, bank risk managers including the president of a US community bank, the CFO of a savings & loan, chief risk officers of two of the world's largest banks, and specialists in market, credit and operating risks told ERisk's Duncan Wood what had preoccupied them and their institutions in 2001. You can read what they had to say in our Reflections on Risk feature.

Viewpoint

After Enron's collapse, other energy firms came under scrutiny as investors began worrying about endemic weakness. Calpine - an ambitious independent power producer - suffered the most, despite the company's protestations. In our latest CRO profile <http://www.erisk.com/news/viewpoint/news_viewpoint2001-12-20.asp>, ERisk talks to Enrique Mejorada, newly promoted head of Calpine's risk controls function, and profiles Calpine's turbulent year.

Still available: NCR's Ian Buxton <http://www.erisk.com/news/viewpoint/news_viewpoint2001-12-11.asp> on the introduction of the euro and Deutsche Bank's Kevin Rodgers <http://www.erisk.com/news/viewpoint/news_viewpoint2001-11-21.asp> on macroeconomic derivatives and conversations with many more leading figures <http://www.erisk.com/news/news_viewpoint.asp> in risk.

Feature

It may be years before the problems that brought down Enron are fully understood, but some of the issues that brought down the once-mighty energy giant are already becoming clear. In this exclusive ERisk feature <http://www.erisk.com/news/news_features.asp>, Rob Jameson recounts the history of Enron from its humble origins as an ambitious natural gas trader to its dark final days of crisis and bankruptcy.

Other Enron coverage on ERisk: Our February 2001 interview with chief risk officer Rick Buy <http://www.erisk.com/news/viewpoint/news_viewpoint2001-02-01.asp> and our analysis of the company's tangled web <http://www.erisk.com/news/analysis/news_analysis2001-12-12_01.asp> of credit.

The ERisk Essentials is published every Friday by ERisk.com <http://www.erisk.com/home.asp>.

From: InvestorGuide Daily [daily@investorguide.com]
Sent: Wednesday, January 02, 2002 6:27 PM
To: peter.nickoloff@do.treas.gov
Subject: InvestorGuide Daily - January 2, 2002

InvestorGuide Daily January 2, 2002

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Contents:

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m a r k e t   s u m m a r y

After a day of mixed trading, the major indices finished in the plus column to start the year. Economic news provided some confidence as the Institute of Supply Management Index came in at a better-than-expected 48.2%, still contracting, but at a slower pace. Leading the Nasdaq was the semiconductor sector; tech stocks showed signs of recovery, pushing higher after favorable news from the World Semiconductor Trade Statistics that reported the global DRAM market grew 17% in November. Despite a few brokerage downgrades, stocks saw increased buying interest late afternoon; the Dow managed a 51.90 point gain and the tech index finished up 28.85 points.

Dow Jones Industrials:	10073.40	+51.90	+0.52%
Nasdaq Composite:	1979.25	+28.85	+1.48%
S&P 500:	1154.67	+6.59	+0.57%
30-year Treasury Bond:		5.564%	+0.086

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Manufacturing activity shrank for the 17th consecutive month in December but beat expectations, raising the prospect of a slow rebound, reported by the Institute of Supply Management. (source: Washington Post)
http://www.investorguide.com/cgi-bin/daily.cgi?05535

After 10 years of planning, the euro changeover moved smoothly through its first day across the continent, and few of the 300 million residents of the eurozone lamented the loss of their national currencies. (source: USA Today)
http://www.investorguide.com/cgi-bin/daily.cgi?05536

As some current and former Enron officials try to distance themselves from controversial partnerships that played a role in the company's demise, internal Enron documents show top management and directors viewed the partnerships as integral to maintaining the energy-trading giant's rapid growth in recent years. (source: MSNBC)
http://www.investorguide.com/cgi-bin/daily.cgi?05537

Analysis:
Even with last year's dismal stock market, and the year before that, equity prices are still "priced for perfection," as they say on Wall Street. One false step by the world's leading economy, the United States, and the stock market will be churning sour cream. (source: MarketWatch)
http://www.investorguide.com/cgi-bin/daily.cgi?05538

With portfolio companies underperforming, much of existing management is walking away, leaving a serious skill shortage, particularly in the financial areas. Private equity fund partners often help out during the start-up phase, but with anywhere from 5 to 10 companies to manage, there are limits. (source: CFO.com)
http://www.investorguide.com/cgi-bin/daily.cgi?05539

Most software firms had to work harder to sell less during 2001, and this year could prove to be maddeningly similar, even if a general recovery is in the cards. The reason? Some analysts wonder how quickly software customers, weary from the ongoing recession, will want to spend money on new technology if their own businesses are just starting to improve. (source: The Street)
http://www.investorguide.com/cgi-bin/daily.cgi?05540

In Brief:
- The American Petroleum Institute said that gasoline inventories declined for the third straight week by 312,000 barrels during the last week in December.
- Homestore.com announced that it overstated its revenues for the first three quarters of 2001 by $95 million.
- Microsoft will go to court next week to ask for a four month extension since the penalties proposed by nine states differ from the company's settlement with the Justice Department

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Microsoft	http://www.investorguide.com/cgi-bin/r.cgi?name=MSFT

You can research any publicly traded company by following this link:
http://www.investorguide.com/research.html

t o m m e n t s

One of the best ways to become a better investor is to attempt to predict what will happen, record your predictions and your rationale, and then look back later to see whether you were right or wrong and why, in order to increase your chances for success next time. The turning of the calendar is a great time to do this, so if you have ten minutes free sometime this week or next, jot down a few predictions on where some of the stocks and indices that are important to you will be one year from now, along with your rationale. You might also want to specify a confidence interval (for example, the range that you are 75% sure the price will fall within)... no one is right all the time, but successful investors are able to judge when they're most confident about a prediction so they can place bigger bets at those times.

For additional investing ideas and insight from the CEO of InvestorGuide.com, visit http://www.tomments.com

e a r n i n g s

Wednesday's major earnings reports:
Company Name (Ticker): actual, expected, same q last year

No major earnings reports.

Thursday's major expected earnings reports:
Company Name (Ticker): expected, same q last year

No major earnings reports scheduled.

For more earnings information, check out
http://www.investorguide.com/earningscalendars.html

w o r d o f t h e d a y

Negative Pledge Clause - A covenant in a bond agreement whereby the borrower agrees not to pledge any assets if such pledging would result in less security for the agreement's bondholders. also called covenant of equal coverage.

For more financial terms, please visit http://www.investorwords.com.

o n t h i s d a t e

January 2, 1863: The New York Stock and Exchange Board is renamed the New York Stock Exchange (NYSE).

n o t a b l e q u o t a b l e

"Why shouldn't the American people take half my money from me? I took all of it from them." - Edward A. Filene

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Nickoloff, Peter

From:	Sharer, James
Sent:	Wednesday, January 09, 2002 8:24 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

--Global equity markets were mixed. Cisco and Oracle indicate "the worst is over" in the tech sector, expect gains in the second quarter.
--The yen firmed against the major currencies overnight as Japanese and South Korean officials expressed some discomfort with the recent swift depreciation in the yen.

FX: The yen retraced to Y 132.30 after falling to a low of Y133.37, which prompted Japanese officials to express discomfort with the speed of the yen's recent depreciation. Government spokesman Fukada acknowledged that the yen's recent decline had been "a bit rapid" but "this is a level which is manageable." However, earlier in the Tokyo session, the MOF's Kuroda stated that the country's forex policy "remains unchanged despite the yen's rapid decline. South Korean officials continued to complain about the weaker yen. The dollar was little changed against the euro.

Japan: Japan's leading diffusion index rose to 25 in November from a zero reading in October, while November household spending was up 0.9%. The Nikkei 225 index and the TOPIX index were down 0.3% and 0.7% as bank stocks weakened further. The TOPIX bank index fell 1.8%. JGB yields were unchanged to down 2 bps. The JGB 10-year auction was well bid, with a coupon of 1.4% and the highest coverage ratio since 1989 at 11.35 times.

Emerging Asia: Emerging Asian stock markets were mixed. The Hang Seng and Singapore indexes were off 2.3% and 1.1%. The Taiwan and Kospi indexes were up 1.0% and 2.3%, aided by strength in semiconductor stocks. Hynix Semiconductor rose 15.0%, bolstered by talk of an offer from Micron Technology for the South Korean chipmaker.

Europe: German unemployment rose a smaller-than-expected 6,000 in December. The Euro area business climate index fell to -1.23 in December, its lowest level since 1996. Euro area 3Q01 labor costs rose a larger than expected 3.3%. The BOE policy committee began a two-day series of meetings. European stock bourses were mostly lower. The FTSE underperformed, pressured by declines in retail store and oil issues. HSBC was downgraded by an analysts, citing exposure to Enron and Argentina. German bund yields were up 1 to 6 bps on strong Euro area economic data. U.K. gilt yields were higher by 4 to 10 basis points.

Turkey: Turkey's National 100 index was down 3.1% to 14,421 on some profit-taking. The lira weakened 0.3%. The Turkish EMBI+ sub-index spread narrowed 6 bps to 660 bps, while the overall EMBI+ spread narrowed 3 bps to 700 bps.

Latin America: The Argentine EMBI+ sub-index spread fell 4 bps to 4316 bps, while Brazil's EMBI+ sub-index rose 3 bps to 835 bps.

Commodities: Brent crude oil is currently down $0.50 to $20.52 a barrel following news of a build in both crude oil and distillate inventories.

U.S. Assets Overnight
Treasury coupon prices are currently down 1/8 to 1/4 point in light trading. There are no major U.S. economic statistics scheduled for release today. Treasury will auction at 1 PM $6.0 billion 10-year inflation-indexed notes. The Dow, S&P 500 and Nasdaq index futures are indicating no clear direction at the New York open.

Today's Events:	**Actual**	**Consensus Expectation**	**Previous Period**
JPN Prelim. Leading Diffusion index, Nov.	25	40.1	0 (was 16.7)
JPN Household Spending, Nov.	+0.9% y/y	+0.1% y/y	+0.4% y/y
GER Unemployment, Dec.	+6,000	+20,000	+17,000
EUR 3Q01 Labor Costs	+3.3%	+2.8%	+2.7% (was +2.8%)
EUR Business Climate Index, Dec.	-1.23	-1.17	-1.20 (was -1.18)

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AM Global Financial Markets

January 9, 2002

Treasury Market Analysis Unit, 622-2660

1/9/02 7:49 AM

--Global equity markets were mixed. Cisco and Oracle indicate "the worst is over" in the tech sector, expect gains in the second quarter.
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USD versus	7:46 AM	Change
Japanese yen	132.31	-0.33%
Euro	$ 0.8921	0.10%
Sterling	$ 1.4414	-0.19%
Canadian dollar	1.5948	-0.06%
Aussie dollar	$ 0.5225	0.25%
Thai baht	44.09	0.07%
Indonesian rupiah	10410	-0.05%
Korean won	1301.9	0.18%

Other cross rates	7:46 AM	Change
Euro/yen	118.07	-0.40%
Euro/sterling	0.6186	-0.27%

Equities	7:46 AM	Change
S&P Futures	1,163	0.01%
Nikkei-225	10,664	-0.30%
Thailand	319.24	0.19%
Indonesia	391.50	0.98%
Malaysia	700.47	1.19%
Hong Kong	11,441	-2.33%
S. Korea	751.61	2.29%
Taiwan	5,109	-3.76%
German Dax	5,252	0.30%
French CAC-40	4,564	-0.08%
U.K. FTSE	5,219	-0.60%
Russia RTS	291.73	1.04%
Poland WIG	15,586	2.88%

U.S. Treasuries	7:46 AM	Change bps
3-month bill	1.68%	unchanged
6-month bill	1.77%	-1
2-year	3.06%	1
5-year	4.37%	2
10-year	5.10%	1
30-year	5.55%	2

Credit Overseas	7:46 AM	Change bps
3-month Euribor	3.33%	1
10-yr German bund	4.88%	3
3-month J-Bills	0.01%	0
10-yr JGB	1.38%	-2
3-month U.K. bills	4.01%	8
10-yr U.K. gilt	4.97%	5

Commodities	7:46 AM	Change
Gold	$279.00	$0.20
Oil (Brent)	$20.52	-$0.50

Today's Events:	Actual	Consensus Expectation	Previous Period
JPN Prelim. Leading Diffusion index, Nov.	25	40.1	0 (was 16.7)
JPN Household Spending, Nov.	+0.9% y/y	+0.1% y/y	+0.4% y/y
GER Unemployment, Dec.	+6,000	+20,000	+17,000
EUR 3Q01 Labor Costs	+3.3%	+2.8%	+2.7% (was +2.8%)
EUR Business Climate Index, Dec.	-1.23	-1.17	-1.20 (was -1.18)

For Internal Use Only

Jim Sharer
1/9/02 8:19 AM

01740

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Treasury Market Room 622-2650
Timothy DuLaney, Director

GLOBAL FINANCIAL MARKETS
1/9/02 7:45 AM

$ PERFORMANCE	9-Jan	8-Jan	9-Jan	Friday's close	This week	This year
Yen	132.33	132.83	-0.38%	131.00	1.01%	-0.47%
Euro	0.8923	0.8934	0.12%	0.8948	0.28%	0.20%
Sterling	1.4418	1.4394	-0.17%	1.4474	0.38%	-0.89%
Swiss	1.6576	1.6542	0.21%	1.6534	0.25%	0.22%
Canadian $	1.5954	1.5961	-0.04%	1.5956	-0.01%	-0.13%
Australian $	0.5226	0.5235	0.17%	0.5207	-0.36%	2.67%
Korean won	1306.9	1304.5	0.18%	1304.5	0.18%	0.50%
Indonesian rupiah	10420	10425	-0.05%	10415	0.05%	-0.19%
Philippine peso	51.55	51.70	-0.29%	51.63	-0.15%	0.00%
Thai baht	44.11	44.09	0.06%	43.91	0.47%	0.28%
Taiwan $	35.00	34.99	0.03%	34.95	0.14%	-0.04%
Polish zloty	3.985	3.962	0.59%	3.905	2.05%	-0.57%
Russian ruble	30.54	30.62	-0.26%	30.54	0.02%	-0.15%
South African rand	11.330	11.421	-0.80%	12.109	-6.43%	5.47%
Mexican peso	9.199	9.191	0.09%	9.162	0.40%	-0.50%
Brazilian real	2.376	2.374	0.08%	2.331	1.93%	-2.81%
COMMODITIES						
Gold	$279.25	$279.05	0.07%	$278.95	0.11%	0.11%
European Brent	$20.52	$21.03	-2.43%	$21.20	-3.21%	6.05%
Near Nymex futures	$20.78	$21.22	-2.07%	$21.45	-3.12%	4.76%
CRB Index	$195.03	$195.03	0.00%	$193.82	0.62%	2.32%
EQUITIES						
Dow Jones	10,151	10,151	0.00%	10,260	-1.06%	1.29%
Nasdaq	2,056	2,056	0.00%	2,059	-0.18%	5.40%
S&P 500	1,161	1,161	0.00%	1,173	-1.01%	1.10%
Nikkei 225	10,664	10,696	-0.30%	10,871	-1.91%	1.15%
Japan Topix	1,025	1,032	-0.66%	1,054	-2.75%	-0.69%
German DAX	5,250	5,236	0.27%	5,319	-1.28%	1.76%
French CAC-40	4,565	4,568	-0.07%	4,683	-2.52%	-1.29%
U.K. FTSE-100	5,217	5,250	-0.63%	5,324	-2.00%	0.00%
H.K. Hang Seng	11,441	11,714	-2.33%	11,702	-2.23%	0.38%
Korean Kospi	752	735	2.29%	748	0.52%	8.35%
Taiwan Weighted	5,109	5,109	0.00%	5,109	0.00%	0.06%
Polish Wig	15,588	15,149	2.90%	15,013	3.83%	11.96%
South African JSE	10,653	10,767	-1.07%	10,800	-1.37%	2.03%
Mexican Bolsa	6,641	6,641	0.00%	6,612	0.44%	4.22%
Brazilian Bovespa	14,168	14,168	0.00%	14,332	-1.15%	4.25%

G-7 FIXED INCOME	US	Change	Japan	Change	Germany	Change	U.K.	Change	France	Change	Italy	Change	Canada	Change
Overnight rate	1.73	8	0.05	0	3.35	0	4.02	2	3.35	0	3.35	0	2.19	-3
3-month bill	1.68	0	0.01	0	3.33	1	4.01	9	3.25	2	3.33	1	1.90	0
2-year bond	3.06	-1	0.13	1	3.69	6	4.83	10	3.74	5	3.89	4	3.15	0
5-year bond	4.38	2	0.59	0	4.34	4	5.09	8	4.46	5	4.62	4	4.65	1
10-year bond	5.10	1	1.38	-2	4.88	3	4.98	6	4.96	4	5.13	3	5.41	3
30-year bond	5.55	2	2.54	0	5.27	1	4.69	5	5.33	1	5.57	1	5.66	1

US FIXED INCOME	2-year Fannie	10-year Fannie	10-year swap spread	2-10 year UST spread	2-30 year UST spread
Current	0.00	5.70	67	203	249
Bps change	unchanged	4	3	2	3

EMERGING FIXED INCOME	Korea '08	Thailand '11	Indonesia '06	Russia MinFin '07	Poland PDI
Current	5.76	4.56	11.08	12.05	6.98
Bps change	-2	1	unchanged	unchanged	0
	Argentina Par	Brazil C	Mexico Par	Venezuela DCB	
Current	137.55	12.99	8.41	17.07	
Bps change	466	5	-4	11	

01741

Global Emerging Markets Performance
1/9/02 7:45 AM

Treasury Market Room
TimDulaney, Director
622-2032

Currencies

	Unit Change (In local currency terms)		Percent Change (In Dollars per Unit Terms)						
	9-Jan	8-Jan	9-Jan	8-Jan	This week	This month	This year	In '01	In '00
Japan	132.33	132.83	0.4%	-1.3%	-1.0%	-0.5%	-0.5%	-15.1%	-11.9%
Euro	0.8923	0.8934	-0.1%	0.0%	-0.3%	0.3%	0.3%	-5.6%	-6.3%
EuroYen	118.04	118.64	-0.5%	1.2%	0.7%	1.1%	1.1%	8.4%	4.4%
UK	1.4418	1.4394	0.2%	-0.1%	-0.4%	-0.9%	-0.9%	-2.6%	-7.7%
Australia	0.5226	0.5235	-0.2%	-0.9%	0.4%	2.7%	2.7%	-8.9%	-14.9%
Canada	1.5954	1.5961	0.0%	0.0%	0.0%	-0.1%	-0.1%	-6.3%	-3.7%
Gold	279.25	279.05	0.1%	0.3%	0.1%	0.1%	0.1%	2.4%	-5.5%
Thailand	44.11	44.085	-0.1%	-0.5%	-0.5%	0.3%	0.3%	-1.9%	-15.7%
Indonesia	10,420	10425	0.0%	-0.5%	0.0%	-0.2%	-0.2%	-7.5%	-38.5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Philippines	51.55	51.70	0.3%	-0.5%	0.1%	0.0%	0.0%	-3.1%	-24.1%
South Korea	1,307	1305	-0.2%	-0.6%	-0.2%	0.5%	0.5%	-3.8%	-11.4%
Taiwan	35.00	34.99	0.0%	-0.3%	-0.1%	0.0%	0.0%	-5.6%	-5.5%
Singapore	1.8460	1.8485	0.1%	-0.2%	-0.1%	0.0%	0.0%	-6.5%	-4.1%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2.3760	2.3740	-0.1%	-2.0%	-1.9%	-2.8%	-2.8%	-18.5%	-8.0%
Mexico	9.1990	9.1908	-0.1%	-0.5%	-0.4%	-0.5%	-0.5%	5.1%	-1.4%
Chile	667.15	663.15	-0.6%	-1.2%	-2.2%	-0.9%	-0.9%	-15.2%	-8.3%
Colombia	2,310.90	2311.00	0.0%	-0.5%	-0.4%	-1.5%	-1.5%	-1.9%	-19.2%
Venezuela	763.50	763.50	0.0%	-0.1%	-0.1%	-0.8%	-0.8%	-8.3%	-7.8%
Poland	3.9852	3.9618	-0.6%	-1.0%	-2.1%	-0.6%	-0.6%	4.1%	0.1%
Hungary	273.75	273.30	-0.2%	-0.3%	-0.4%	0.5%	0.5%	2.0%	-11.0%
Czech	36.175	36.130	-0.1%	-0.7%	-1.4%	-1.5%	-1.5%	5.2%	-5.1%
Russia	30.542	30.622	0.3%	-0.3%	0.0%	-0.2%	-0.2%	-6.8%	-3.6%
South Africa	11.3300	11.4210	0.8%	0.4%	6.4%	5.5%	5.5%	-57.9%	-23.5%
Turkey	1,397,000	1,392,500	-0.3%	0.3%	1.2%	4.0%	4.0%	-117.1%	-23.6%

Equities (In local currency terms)

	Unit Change		Percent Change						
	9-Jan	8-Jan	9-Jan	8-Jan	This wk	This mo	This yr	In '01	In '00
Dow	10151	10151	0.0%	-0.5%	-1.1%	1.3%	1.3%	-7.1%	-6.2%
Nasdaq	2056	2056	0.0%	0.9%	-0.2%	5.4%	5.4%	-21.1%	-39.3%
Nikkei	10664	10696	-0.3%	-2.3%	-1.9%	1.2%	1.2%	-23.5%	-27.2%
FT-SE 100	5217	5250	-0.6%	-0.8%	-2.0%	0.0%	0.0%	-16.2%	-10.2%
DAX	5251	5236	0.3%	0.1%	-1.3%	1.8%	1.8%	-19.8%	-7.5%
CAC-40	4565	4568	-0.1%	-1.0%	-2.5%	-1.3%	-1.3%	-22.0%	-0.5%
Thailand	319	319	0.2%	0.3%	1.1%	5.1%	5.1%	12.9%	-44.1%
Indonesia	391	388	1.0%	-0.3%	1.6%	-0.1%	-0.1%	-5.8%	-38.5%
Malaysia	700	692	1.2%	-0.7%	1.0%	0.6%	0.6%	2.4%	-16.3%
Philippines	1184	1187	-0.3%	-0.4%	-0.5%	1.3%	1.3%	-21.8%	-30.3%
Hong Kong	11441	11714	-2.3%	-1.5%	-2.2%	0.4%	0.4%	-24.5%	-11.0%
South Korea	752	735	2.3%	-2.2%	0.5%	8.3%	8.3%	37.5%	-50.9%
Taiwan	5109	5109	0.0%	0.0%	0.0%	0.0%	0.0%	7.7%	-43.9%
Singapore	1686	1704	-1.0%	0.5%	0.4%	3.9%	3.9%	-15.7%	-22.3%
China	156	161.01	-3.2%	-4.6%	-7.8%	-9.1%	-9.1%	91.5%	136.2%
Brazil*	14168	14168	0.0%	-1.5%	-1.1%	4.3%	4.3%	-11.0%	-10.7%
Argentina*	343	343	0.0%	0.0%	0.0%	16.2%	16.2%	-29.1%	-24.3%
Mexico*	6641	6641	0.0%	1.2%	0.4%	4.2%	4.2%	12.7%	-20.7%
Chile	99	99	-0.1%	-1.8%	-3.1%	-9.6%	-9.6%	13.2%	-32.6%
Colombia	1059	1059	0.0%	0.7%	0.7%	-1.1%	-1.1%	50.2%	-28.6%
Venezuela	6612	6612	0.0%	-0.2%	-1.4%	0.6%	0.6%	-3.7%	26.0%
Poland	15588	15149	2.9%	-0.4%	3.8%	12.0%	12.0%	-22.0%	-1.3%
Hungary	7392	7326	0.9%	-0.1%	0.7%	3.7%	3.7%	-9.2%	-11.0%
Czech	403	401	0.3%	-0.8%	1.1%	2.1%	2.1%	-17.5%	-2.3%
Russia	292	289	1.0%	4.3%	5.4%	12.2%	12.2%	81.5%	-18.2%
South Africa	10653	10767	-1.1%	-0.1%	-1.4%	2.0%	2.0%	25.4%	-2.5%
Turkey	14421	14879	-3.1%	-0.8%	1.0%	4.6%	4.6%	46.0%	-37.9%
Greece	2575	2602	-1.0%	-1.4%	-2.7%	-0.6%	-0.6%	-23.5%	-38.8%

* 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.

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From: InvestorGuide Daily [daily@investorguide.com]
Sent: Thursday, January 10, 2002 6:09 PM
To: peter.nickoloff@do.treas.gov
Subject: InvestorGuide Daily - January 10, 2002

InvestorGuide Daily January 10, 2002

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Contents:

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m a r k e t   s u m m a r y

The major market indices managed to pull up from earlier losses and close near break-even. Mixed reports on holiday retail sales kept the indices near their opening levels. A couple of economic reports were released today, including the Commerce Department's November report on wholesale inventories and the Labor Department's weekly report on new jobless claims. Inventories fell by 1.1% while the number of new jobless claims fell by 56,000. The Dow blue-chip index closed 26.23 points lower (-0.26%) while the Nasdaq tech index gained 2.35 points (+0.11%).

Dow Jones Industrials:	10067.86	-26.23	-0.26%
Nasdaq Composite:	2047.24	+2.35	+0.11%
S&P 500:	1156.55	+1.41	+0.12%
30-year Treasury Bond:		5.413%	-0.087

For more news and information on the market, investing, and personal finance, please visit http://www.investorguide.com

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b u s i n e s s   n e w s   a n d   a n a l y s i s

The number of Americans filing new claims for unemployment benefits dropped during the first week of the new year, suggesting the huge wave of layoffs triggered by the recession and the terrorist attacks may be abating. (source: MSNBC)
http://www.investorguide.com/cgi-bin/daily.cgi?05583

The controversy over the Enron bankruptcy and the energy company's dealings with the Bush administration expanded this morning as the White House acknowledged that senior Bush officials received early warning from Enron and suggested that Enron wanted the government to intervene to protect its bondholders. (source: Washington Post)
http://www.investorguide.com/cgi-bin/daily.cgi?05584

Analysis:
Technology began 2002 as the darling of the stock market, even heralded as the "first baby of the New Year" by Lipper Inc., the mutual fund research firm. The early sprint raised investors' hopes that the sector will lead the market higher, but analysts caution that the outlook for tech — and tech funds — is still quite uncertain. (source: ABC News)
http://www.investorguide.com/cgi-bin/daily.cgi?05585

The Enron debacle won't be President Bush's Whitewater. It will be much worse. Unlike the Whitewater deal that dogged the last administration, the collapse of the nation's largest energy trader into the nation's largest bankruptcy last month is set to go straight to the heart of exposing what is wrong with the way the Bush administration is conducting itself these days. (source: MarketWatch)
http://www.investorguide.com/cgi-bin/daily.cgi?05586

Don't look for Yahoo! to follow the path set by rival America Online and merge with a larger partner -- at least not just yet. A year after America Online and Time Warner completed their $108 billion mega deal, Yahoo! is still flying solo. The Internet portal, now under the guidance of CEO Terry Semel, is no longer the struggling dot.com of last year. (source: CnnMoney)
http://www.investorguide.com/cgi-bin/daily.cgi?05587

In Brief:
- The report on wholesale inventories from the U.S. Department of Commerce indicated that inventories fell 1.1% to $290.4 billion in November.

If you have any friends or colleagues who would appreciate getting this news every day, follow this link (or if you prefer, simply forward this issue to them):
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e a r n i n g s

Thursday's major earnings reports:

Company Name (Ticker):	actual,	expected,	same q last year
AVX Corp (AVX):	$0.02,	$0.02,	$0.94
Cree (CREE):	$0.08,	$0.09,	$0.18
Infosys Tech (INFY):	$0.32,	$0.31,	$0.26
Rambus (RMBS):	$0.06,	$0.05,	$0.12
Rational Sftwr (RATL):	$0.07,	$0.06,	$0.20

Friday's major expected earnings reports:

Company Name (Ticker):	expected,	same q last year
BB&T Corp (BBT):	$0.62,	$0.58

For more earnings information, check out
http://www.investorguide.com/earningscalendars.html

w o r d   o f   t h e   d a y

emerging market - A financial market of a developing country, usually a small market with a short operating history.

For more financial terms, please visit http://www.investorwords.com.

o n   t h i s   d a t e

January 10, 2001: U.S. regulators approve the merger between America Online and Time Warner, creating the AOL Time Warner media powerhouse.

n o t a b l e   q u o t a b l e

"Necessity never made a good bargain." - Benjamin Franklin

InvestorGuide Daily is designed to keep you informed of the latest investing news. It includes a market summary, top news, IPOs, earnings and more...everything you need to invest better, every day. You can also find this newsletter every evening at
http://www.investorguide.com/daily.html

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Nickoloff, Peter

From: ERisk [ERisk@email.eRisks.com]
Sent: Friday, January 11, 2002 12:40 PM
To: peter.nickoloff@do.treas.gov
Subject: ERisk Essentials

<http://www.erisk.com/images/essential_logo.gif> portal.erisk.com <http://email.eRisks.com/cgi-bin10/flo?y=hNu50DNrM20CjE0B4Z0AW>

Weekly Review

In this week's round-up <http://email.eRisks.com/cgi-bin10/flo?y=hNu50DNrM20CjE0dyp0Ab> of economic, banking and insurance industry news from an enterprise risk management perspective: Argentina devalues, and the banking sector counts the cost; the Enron plot thickens; Merrill Lynch cuts staff and takes a $2.2 billion restructuring charge; there's a change of management at American Re; California refuses to allow terror cover exclusions.

Analysis

The prospects for the growth of alternative risk transfer (ART) have never been better, many insurance industry experts believe. And credit insurance <http://email.eRisks.com/cgi-bin10/flo?y=hNu50DNrM20CjE0dw40AZ>, in turn, has been touted as potentially the fastest-growing area of ART. But will the rise in defaults and credit downgrades discourage reinsurers from writing new credit protection, or is credit insurance still a profitable business to be in?

Viewpoint

Can psychological profiling be used to freeze criminals out of the banking system? The developers of new product Risk Values believe so, and in our current Q&A <http://email.eRisks.com/cgi-bin10/flo?y=hNu50DNrM20CjE0dw50Aa> they argue that focusing on the motivation of bank customers is an inherently better approach than traditional transaction monitoring.
Still available:
Our CRO Profile <http://email.eRisks.com/cgi-bin10/flo?y=hNu50DNrM20CjE0dQn0Al> of Enrique Mejorada, head of risk control at energy firm Calpine.

Reflections on Risk

As part of our review of 2001, we invited a group of bank risk managers to tell us about the major issues that concerned them last year. Read this special feature <http://email.eRisks.com/cgi-bin10/flo?y=hNu50DNrM20CjE0dQm0As> by ERisk's Duncan Wood, including contributions from risk managers at CSFB, Lloyds TSB, KeyCorp and CIBC.

Events Calendar

Our featured event <http://email.eRisks.com/cgi-bin10/flo?y=hNu50DNrM20CjE0JaY0AO> for January is IIR's Best Practice in Capital Allocation <http://email.eRisks.com/cgi-bin10/flo?y=hNu50DNrM20CjE0dw60Ab>, a three-day conference that promises to cover capital from a strategic perspective, and features speakers from AON, Rabobank, Deutsche Bank and Merrill Lynch. Other events in January include conferences and seminars on modelling credit risk in emerging markets, weather risk, collateral management and operational risk. Plus, details of other risk management events taking place throughout 2002.

The ERisk Essentials is published every Friday by ERisk.com <http://email.eRisks.com/cgi-bin10/flo?y=hNu50DNrM20CjE0B4Z0AW>.

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For technical support queries, please email support@erisk.com <mailto:support@erisk.com>

<http://email.eRisks.com/cgi-bin10/flosensing?y=Nu50DNrM20CjEN>

From: InvestorGuide Daily [daily@investorguide.com]
Sent: Friday, January 11, 2002 5:34 PM
To: peter.nickoloff@do.treas.gov
Subject: InvestorGuide Daily - January 11, 2002

InvestorGuide Daily January 11, 2002

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m a r k e t   s u m m a r y

The major indices fell under selling pressure during afternoon trading after Federal Reserve Chairman Alan Greenspan commented on the economy when he spoke at the Bay Area Council in San Francisco. Although his remarks were expected, they had a negative effect on stocks. The day started with the release of the Producer Price Incex that fell 0.7% in December, lower than the expected 0.2%. The primary reason was the steep decline in energy prices. Although volume was low, the Dow fell below the 10,000 mark loosing 80.33 points while the Nasdaq lost 24.78 points.

Dow Jones Industrials:	9987.53	-80.33	-0.80%
Nasdaq Composite:	2022.46	-24.78	-1.21%
S&P 500:	1145.42	-11.13	-0.96%
30-year Treasury Bond:		5.360%	-0.053

For more news and information on the market, investing, and personal finance, please visit http://www.investorguide.com

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b u s i n e s s   n e w s   a n d   a n a l y s i s

Ford Motor Company unveiled a sweeping overhaul involving 22,000 job losses in North America, five plant closures there and a $4.1 billion restructuring charge. Including previously announced job losses elsewhere in the world, Ford will shed 35,000 jobs. (source: Financial Times)
http://www.investorguide.com/cgi-bin/daily.cgi?05588

The U.S. economy faces "significant risks in the near term," Federal Reserve Chairman Alan Greenspan said Friday while pointing to some signs of recovery. (source: MarketWatch)
http://www.investorguide.com/cgi-bin/daily.cgi?05589

Analysis:
A wave of controversy stirred up by the collapse of energy giant, Enron, has washed up at the front door of the White House. Amid a series of potentially embarrassing revelations, the Bush administration faces a new test. (source: The Economist)
http://www.investorguide.com/cgi-bin/daily.cgi?05590

Around midyear, investors will be getting a better look at corporate balance sheets, thanks to new accounting rules covering goodwill and how to reflect its impairment. (source: CFO.com)
http://www.investorguide.com/cgi-bin/daily.cgi?05591

As the White House steps up scrutiny of 401(k) plans, lawmakers are threatening legislation to curb company stock holdings and employers are reviewing their plans. (source: USA Today)
http://www.investorguide.com/cgi-bin/daily.cgi?05592

In Brief:
- UBS Warburg was the winning bidder in Enron's trading operations; Enron will retain ownership of 49% of the business.

If you have any friends or colleagues who would appreciate getting this news every day, follow this link (or if you prefer, simply forward this issue to them):
http://www.investorguide.com/cgi-bin/recommenddaily.cgi

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Ford	http://www.investorguide.com/cgi-bin/r.cgi?name=F
UBS Warburg	http://www.investorguide.com/cgi-bin/r.cgi?name=UBS

You can research any publicly traded company by following this link:
http://www.investorguide.com/research.html

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e a r n i n g s

Friday's major earnings reports:

Company Name (Ticker):	actual,	expected,	same q last year
BB&T Corp (BBT):	$0.63,	$0.62,	$0.58

Monday's major expected earnings reports:

Company Name (Ticker):	expected,	same q last year
Charles Schwab (SCH):	$0.08,	$0.22
E*Trade (ET):	$0.04,	$0.02
Fannie Mae (FNM):	$1.39,	$1.13
Northern Trust (NTRS):	$0.54,	$0.54

For more earnings information, check out
http://www.investorguide.com/earningscalendars.html

w o r d   o f   t h e   d a y

floater - A fixed income instrument which has a coupon rate or interest rate that varies based on a short term rate index. A floater is generally advantageous when interest rates are rising. opposite of inverse floater.

For more financial terms, please visit http://www.investorwords.com

o n   t h i s   d a t e

January 11, 1737: Alexander Hamilton, the first U.S. Secretary of the Treasury, is born.

n o t a b l e   q u o t a b l e

"Foreign Aid: Taxing poor people in rich countries for the benefit of rich people in poor countries." - Bernard Rosenberg

Nickoloff, Peter

From: Sharer, James
Sent: Tuesday, January 15, 2002 4:43 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

-- U.S. equities moved higher, bolstered by strength in financial and bank stocks.
-- Treasury prices moved higher ahead of tomorrow's slate of U.S. economic data.

U.S. equity markets closed with modest gains in active trading, aided by strength in financial and bank issues. Analysts await earnings news after the close from Intel Corp. and Juniper Networks. The NYSE suspended trading in Enron Corp. and plans to delist the stock following the financial collapse of the firm late last year. K-Mart fell 13.7% to $2.45 and is down 55% since December 31 on expectations the firm may soon file for bankruptcy. The best stock performers today were financial, bank, software, oil, insurance and computer issues.

Analysts expect tomorrow's CPI report for December will be unchanged following an unchanged report in November. The December core CPI is seen up 0.2% after rising 0.4% in November. The December industrial production report is expected to be unchanged, while capacity utilization is seen edging down to 74.6% from 74.7% in November. The Fed's "Beige Book" report is scheduled for release at 2 PM tomorrow.

Treasury coupon prices were unchanged to up 5/8 point in moderate trading. Traders noted reduced concerns over inflation, the unwinding of corporate hedges and remained influenced by Fed Chairman Greenspan's recent words of caution regarding the U.S. economy. Treasury auctioned today $6.0 billion 4-week T-bills to pay down $6.0 billion. The results were as follows:
Awarded rate: 1.605% Coverage ratio: 4.59 times
Today's awarded rate compares with last week's awarded rate of 1.660%.

The January Federal funds futures contract was unchanged at 1.72%, while the February and March contracts rose 2 bps and 1 bp to 1.61% and 1.59%, respectively.

The February crude oil contract edged up $0.01 to $18.90 a barrel ahead of API oil inventory data tonight. The February natural gas contract rose $0.04 to $2.29 per million btu. Spot gold fell $1.00 to $284.10 an ounce.

The dollar appreciated 1.3% against the euro and was 0.5% weaker against the yen. The dollar was 0.6% firmer against the British pound and 1.0% firmer against the Swiss franc. The Canadian dollar firmed 0.4% following today's BOC 25 bps easing. The BOC has eased eleven times since the start of 2001 for a total of 375 bps.

Latin American equity markets closed mixed, with the Bolsa outperforming by climbing 2.9%. Mexico's peso firmed 0.3% on news that Fitch boosted the country's debt rating to investment grade (to BBB- from BB+). The Argentine peso was bid at 1.90. Brazil's real firmed 0.8% and Bovespa edged lower by 0.9%.

The EMBI+ spread widened 3 bps to 732 bps over the comparable Treasuries. Other EMBI+ sub-indexes narrowed on the day, including Argentina (-38 to 4639), Brazil (-9 to 863). Mexico's sub-index was flat at 319, while Turkey's sub-index rose 15 bps to 702 bps.

Tomorrow's Events:	**Time**	**Consensus Expectation**	**Previous Period**
JPN BOJ Policy Board Meeting			
UK Claimant Jobless, Dec.		+7,000 m/m	+4,800 m/m
US CPI, Dec.	8:30 AM	unch	unch
US Business Inventories, Nov.	8:30 AM	-0.7%	-1.4% m/m
US Industrial Production, Dec.	9:15 AM	unch	-0.3% m/m

Jan15PM.pdf

Closing Global Financial Markets

January 15, 2002 — Treasury Market Analysis [illegible]

1/15/02 4:10 PM

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Equities	4:07 PM	Change
DJIA	9,924	0.33%
Nasdaq	2,001	0.50%
S&P 500	1,146	0.69%
Wilshire Tot Mkt	10,626	0.68%
DJIA Vol.	164,639,900	
Canadian TSE	7,644	0.27%
Mexican Bolsa	6,573	2.90%
Brazilian Bovespa	13,011	-0.89%
German Dax	5,062	-0.08%
French CAC-40	4,518	1.45%
U.K. FTSE	5,166	1.03%
Nikkei-225	10,208	-2.24%

U.S. Treasuries	4:07 PM	Change bps
1-month bill	1.61%	1
3-month bill	1.60%	2
6-month bill	1.65%	2
2-year	2.78%	1
5-year	4.10%	-1
10-year	4.85%	-4
30-year	5.34%	-4

Money Markets	4:07 PM	Change bps
Overnight rate	1.81%	unchanged
February Fed Funds contract imp yld	1.60%	1

USD versus		4:07 PM	Change
Japanese yen		131.28	-0.53%
Euro	$	0.8830	1.27%
Sterling	$	1.4396	0.64%
Swiss franc		1.6721	1.01%
Canadian dollar		1.5883	-0.38%
Mexican peso		9.18	-0.29%
Brazilian real		2.374	-0.84%

Other cross rates	4:07 PM	Change
Euro/yen	115.92	-1.78%
Euro/sterling	0.613	-0.65%

Commodities	4:07 PM	Change
Gold	$284.10	-$1.00
Oil (Brent)	$18.86	-$0.02
Near-dated NYMEX contract	$18.90	$0.01

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
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Drafted by: Jim Sharer
1/15/02 4:39 PM

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Closing Global Financial Markets

January 15, 2002 Treasury Market Analysis Unit, 622-2650

1/15/02 4:10 PM

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US Industrial Production, Dec.	9:15 AM	unch	-0.3% m/m

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Drafted by: Jim Sharer
1/15/02 4:39 PM

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Nickoloff, Peter

From: InvestorGuide Daily [daily@investorguide.com]
Sent: Tuesday, January 15, 2002 6:17 PM
To: peter.nickoloff@do.treas.gov
Subject: InvestorGuide Daily - January 15, 2002

InvestorGuide Daily January 15, 2002

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m a r k e t   s u m m a r y

The day began with a release of economic news and showed December retail sales declined only 0.1%, better than the expected 1.2%. Throughout the day, the major indices vacillated, but, in the end, they managed a modest gain in anticipation of after-the-close earnings reports. The early news is good; eBay reported fourth-quarter operating earnings of 14 cents, beating estimates, and Intel announced a profit of 15 cents per share, also better than expected. At the close, the Dow had gained more than 32 points, and the Nasdaq finished up 10 points.

Dow Jones Industrials:	9924.15	+32.73	+0.33%
Nasdaq Composite:	2000.91	+10.17	+0.51%
S&P 500:	1146.02	+7.61	+.067%
30-year Treasury Bond:		5.336%	-0.041

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b u s i n e s s   n e w s   a n d   a n a l y s i s

Dire predictions of holiday sales gloom failed to come true in

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December as sales at U.S. retailers slipped a smaller-than-expected 0.1 percent in the month, according to a report from the Commerce Department released on Tuesday. (source: Washington Post)
http://www.investorguide.com/cgi-bin/daily.cgi?05613

TechNet, which represents about 250 high-tech heavy hitters, released a report Tuesday asking the Bush administration to jump-start the adoption of affordable high-speed Internet access through a series of initiatives that include offering tax incentives and removing regulatory hurdles. (source: CNET)
http://www.investorguide.com/cgi-bin/daily.cgi?05614

Analysis:
Most of the attention paid to Enron's finances has focused on its balance sheet--in particular how it hid debt by allocating it to supposedly independent private partnerships. But the jet engine of Enron's share-price rise was not its asset and liability picture, but its otherworldly increase in revenue: Between 1996 and 2000, Enron reported an increase in sales from $13.3 billion to $100.8 billion. (source: Forbes)
http://www.investorguide.com/cgi-bin/daily.cgi?05615

Andersen is not the only Big Five accounting firm in hot water with the Securities and Exchange Commission. The government's top financial cop censured KPMG for auditor independence violations because apparently, KPMG audited a company it had an investment in. (source: CFO.com)
http://www.investorguide.com/cgi-bin/daily.cgi?05616

Tech stocks pour on the bubbly. As the market heads into a challenging earnings season, tech valuations already look too good to be true. (source: Business 2.0)
http://www.investorguide.com/cgi-bin/daily.cgi?05617

In Brief:
- The New York Stock Exchange said it would delist Enron shares.

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http://www.investorguide.com/cgi-bin/recommenddaily.cgi

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eBay	http://www.investorguide.com/cgi-bin/r.cgi?name=EBAY
Enron	http://www.investorguide.com/cgi-bin/r.cgi?name=ENE
Intel	http://www.investorguide.com/cgi-bin/r.cgi?name=INTC

You can research any publicly traded company by following this link:
http://www.investorguide.com/research.html

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t o m m e n t s

A time-tested principle of investing is to zig when others are zagging... if you avoid the herd mentality, you will be better off, on average. The same applies to business itself. In the recent economic downturn, conditions became more challenging for just about every company, but companies that are built to last turned this to their advantage. They found it easier to hire great employees who were being laid off indiscriminately at struggling companies. They found it cheaper to acquire struggling competitors. They found it cheaper to advertise, especially online. And in general, they found it easier to cut more favorable deals, because their partners were desperate. When times are tough, companies with vision look for and find

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opportunities, and long-term investors can benefit from identifying and investing in such companies.

For additional investing ideas and insight from the CEO of InvestorGuide.com, visit http://www.tomments.com

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e a r n i n g s

Tuesday's major earnings reports:

Company Name (Ticker):	actual,	expected,	same q last year
Charles Schwab (SCH):	$0.08,	$0.08,	$0.11
Check Point Sftwr (CHKP):	$0.30,	$0.29,	$0.31
DoubleClick (DCLK):	-$0.48,	-$0.05,	$0.00
eBay (EBAY):	$0.14,	$0.13,	$0.09
Forest Labs (FRX):	$0.47,	$0.44,	$0.36
Handspring (HAND):	-$0.16,	-$0.14,	-$0.07
Intel (INTC):	$0.15,	$0.11,	$0.38
Juniper Ntwks (JNPR):	$0.05,	$0.05,	$0.24
Mellon Bank (MEL):	$0.38,	$0.38,	$0.37
MIPS Techs (MIPS):	-$0.05,	-$0.05,	$0.14
Pervasive Sftwr (PVSW):	$0.08,	n/a,	-$0.06
RF Micro Device (RFMD):	$0.02,	$0.02,	$0.05
SBS Tech (SBSE):	-$0.83,	n/a,	$0.32
Tyco Intl (TYC):	$0.74,	$0.72,	$0.57
Visual Networks (VNWK):	-$0.01,	-$0.03,	-$0.31
Wells Fargo (WFC):	$0.69,	$0.68,	$0.65

Wednesday's major expected earnings reports:

Company Name (Ticker):	expected,	same q last year
Abbott Labs (ABT):	$0.52,	$0.48
Advanced Micro (AMD):	-$0.18,	$0.53
AMR Corp (AMR):	-$4.93,	$0.34
Apple Computer (AAPL):	$0.11,	-$0.73
Bank One (ONE):	$0.65,	-$0.44
Brio Tech (BRIO):	-$0.04,	-$0.01
Compaq (CPQ):	-$0.01,	$0.30
Continental Air (CAL):	-$4.56,	$0.61
DigitalThink (DTHK):	-$0.06,	-$0.17
Extreme Networks (EXTR):	$0.01,	$0.11
Genentech (DNA):	$0.20,	$0.16
General Motors (GM):	$0.53,	$1.15
Harris Corp (HRS):	$0.28,	$0.30
Inktomi (INKT):	-$0.11,	$0.01
JP Morgan Chase (JPM):	$0.33,	$0.37
Knight Trading (NITE):	$0.10,	$0.28
Macromedia (MACR):	-$0.14,	$0.29
Mercury Computer (MRCY):	$0.15,	$0.30
Redback Ntwrks (RBAK):	-$0.22,	$0.05
Sonus Networks (SONS):	-$0.05,	$0.00
SouthTrust (SOTR):	$0.42,	$0.37
Symantec (SYMC):	$0.64,	$0.78
Travelocity.com (TVLY):	$0.10,	-$0.05
Yahoo! (YHOO):	$0.01,	$0.13

For more earnings information, check out http://www.investorguide.com/earningscalendars.html

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w o r d   o f   t h e   d a y

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rate-improvement - A fixed rate mortgage provision which gives the borrower a onetime option to reduce the interest rate, without refinancing, near the beginning of the mortgage.

For more financial terms, please visit http://www.investorwords.com.

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n o t a b l e   q u o t a b l e

"It's given new meaning to me of the scientific term black hole." - Time, Inc. CEO Don Logan when asked how much Time Inc. had spent developing its Pathfinder web site

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Nickoloff, Peter

From: alert@stratfor.com
Sent: Tuesday, January 15, 2002 6:36 PM
To: redalert@stratfor.com
Subject: Intelligence Briefing by STRATFOR: Japan, United States, Argentina

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15 January 2002

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F R E E   I N T E L L I G E N C E   B R I E F I N G:

Japan's Disarming Return to Asia

Japan is about to ratchet up efforts to prevent the spread of small arms and land mines in Asia. In disarming Asia, which will require sending self-defense troops abroad, it appears Tokyo hopes to soothe foreign opposition to its growing global defense role.

Click below to read the STRATFOR analysis:
http://www.stratfor.com/home/giu/archive/011502.htm

N E W   O N   S T R A T F O R   T O D A Y:

Media and War, Appearance and Reality

In portraying the "war on terrorism," the media and military have swapped their historical roles: The media have become cheerleaders, creating expectations of replicable victories, while the military has been objective and restrained, saying the war will be long and hard.

http://www.stratfor.com/northamerica/commentary/0201151930a.htm

Argentine Default Forcing Discipline in Capital Markets

Argentina's financial downfall is reminding international investors and creditors to be more cautious when evaluating risk versus reward. The new calculus will encourage better decision-making by both investors and debtors.

http://www.stratfor.com/latinamerica/commentary/0201152240.htm

Militant Links May Inflame Singapore-Malaysia Tensions

Singapore and Malaysia have been working to improve bilateral relations. But developing details linking Jemaah Islamiyah, a Muslim militant group based in Singapore, to individuals or groups in Malaysia may subvert recent efforts to reduce tensions and revive their respective economies.

http://www.stratfor.com/asia/commentary/0201152130.htm

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Enron's off-balance machine

Enron's failure is likely to provoke years of mud-slinging and legal suits. Do we need to wait for the gory details, asks Rob Jameson, or are the most important lessons are already apparent?

On December 2, 2001, Enron Corporation filed for bankruptcy protection from its creditors in the largest financial failure the US has ever seen. It was an ironic end for a company that had become one of the US equity markets' brightest stars in the past decade by pioneering new instruments and concepts in financial risk management across energy, telecom and credit markets.

Enron was the sixth-largest energy company by market capitalisation in the world, with revenues of $101 billion and assets of $47.3 billion in 2000. Its failure has marred the reputations of its top executives and hurt all its stakeholders.

Shareholders who stayed loyal saw the price of an Enron share slide from a high of around $90 a share in August 2000 to well under 50 cents a share in November 2001. Major creditors such as US banks and credit insurers were left exposed to potential losses of hundreds of millions of dollars, and losses rippled around the world to banks that had taken part in Enron's syndicated borrowings, and to funds that had bought Enron's debt and equity.

Enron's corporate customers were left trying to unwind long-term risk management agreements with a counterparty that might not be able to pay up. The energy markets that Enron had helped to create faced the credit risk, disruption and liquidity shock of losing their biggest and best-capitalised participant.

And many of Enron's 21,000 employees in the US and around the world found themselves not only without a job, but losing a portion of pension plans that had been invested in their employer.

History suggests that failures as precipitous at that of Enron are rarely the result of a single risk event or bad practice. So how did Enron become a company that could not afford to stall? And what mechanisms made the task of pulling the firm out of its death spiral so impossible for its feted corporate pilots?

A star is born

Enron became a business legend not only because it made money and grew fast, but because it evolved from being a company with a rather dull set of physical assets in a regulated market into a financially sophisticated risk management company that shaped its own trading environment. It was a trick that analysts later believed the company might carry off in many more markets around the world from power, to water, to metals and bandwidth.

The company was formed from the merger of Houston Natural Gas and InterNorth of Omaha, Nebraska, in July 1985, the year that the US Federal Energy Regulating Commission issued an order that required pipelines to provide open access to pipeline capacity. With other regulatory developments over the next several years, the order encouraged the growth of a market in short-term gas supply contracts, and eventually a true spot market for natural gas. It was a market that Enron came to dominate through the development of its own physical pipeline assets, and through its emerging expertise in the management of portfolios of contracts for natural gas, the most volatile major commodity market in the world.

The key moments in Enron's development can be seen in our accompanying timeline, as its self-proclaimed accomplishments grew ever bigger: "the premier natural gas pipeline" (1985); "the world's first natural gas major" (1990) and "the world's leading energy company" (1995). But it was the skills the company had gained in risk management that fed this vision. They allowed the company to build a trading operation, to transfer its intellectual skills to other markets, and to begin to offer high-margin risk management services.

Enron first began to market this skill with the launch of its GasBank service in 1989, which allowed producers and wholesalers to buy firm future gas supplies and to hedge their natural gas price risk. The choice of terminology was not accidental. Over the years, the company continued to see itself as an 'energy bank' and to position its image and skills as similar to those of the investment banks on Wall Street that were applying rocket

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science to purely financial contracts to lucrative effect during the 1990s. Like the best of those banks, Enron would take money as an intermediary and provider of liquidity, rather than retaining energy price risk on its books.

Unlike banks, however, Enron remained unregulated after the emerging energy derivatives industry successfully fought off attempts by the Commodity Futures Trading Commission to extend its powers to the market in the early 1990s. The firm remained answerable only to its shareholders and debtholders for its capital structure and risk management, and to their proxies the Securities & Exchange Commission and the rating agencies for the accuracy of the limited information that it chose to disclose.

This was always disconcerting for analysts. After all, they were recommending the company to investors precisely because it was the pre-eminent financial wizard of its sector in terms of the interaction between physical assets and cashflow; the management of complex contract portfolios and asset volatility; and the shaping of risk and leverage to extract the maximum value from capital.

It was an open secret in the corporate world that accounting standards and company reporting across the risk management industries had not kept pace with new techniques in off-balance sheet financing, financial engineering and contract technology. In the energy trading sector, in particular, the values of unrealised gains and losses that might be included in a company's accounts were dependent upon many assumptions. The potential for a gap between financial reality and company reporting was growing in an industry-wide trend that leveraged the importance of a company's chief financial officer, and of corporate credibility in general.

Meanwhile, through the 1990s Enron repeatedly hit its earnings targets and then set itself tough new goals in a manner that made it the darling of Wall Street's equity analysts. Enron's special skills in commodity market development and price risk management seemed to offer the firm an embarrassment of riches in terms of investment opportunities in the US and around the world from the mid 1990s as power and other regulated utility markets in the UK, US and elsewhere followed the same path toward deregulation.

While Enron retained strategic ownership of some physical assets, such as power plants and pipelines in the US energy industry and abroad, the company believed its future lay in spearheading deregulation and trading in energy and other commodity markets around the world, while also developing high-margin risk management services.

Occasionally, Enron admitted to stumbling in its home territory of energy contract risk management, notably in the case of the J-Block episode. This deal left Enron dangerously exposed to falling gas prices in the UK after it signed a massive 'take-or-pay' gas contract in 1993 with companies operating the J-Block gas field in the UK North Sea. Enron finally had to reach a settlement with its suppliers in 1997. The episode cost the company some $537 million after tax in 1997, and led to serious questions being

Timeline

July 1985: Enron formed by merger of Houston Natural Gas and InterNorth, an Omaha, Nebraska-based natural gas pipeline company. Company works its way through the liberalisation of the natural gas market in the US to become an open-access transporter of gas.

1988: Enron begins construction of power plant in UK.

1989: Enron launches its GasBank to allow producers and wholesalers to buy firm future gas supplies and to hedge their natural gas price risk.

June 1994: Enron North America begins to trade electricity.

December 1996: Dabhol Power Project, of which Enron is a principal stakeholder, begins construction of a liquefied natural gas power plant.

June 1997: Enron records a charge of $450 million to bring to a close the problems underlying the J-Block contract, which had committed it to natural gas prices that were out of line with the market.

August 1997: Enron says it has sold its first weather derivative contract. It's the first of many attempts to build risk management markets outside the energy markets to exploit Enron's perceived commodity risk management intellectual capital and expertise. In the next three years Enron invests significant capital and management time in trying to develop traded risk management markets in bandwidth (first trade, December 1999), pulp and paper, plastics, coal, and in moving into existing metals risk management markets.

September 1997: Enron Energy Services is formed to provide energy outsourcing services to commercial and other consumers.

December 1998: Enron buys the UK's Wessex Water and creates a "global water company" that it calls Azurix. Enron works to extend its electricity wholesale marketing influence from the UK's power market into Europe.

May 1999: Phase 1 of the troublesome Dabhol Power Project begins 'commercial operation'.

November 1999: EnronOnline is launched as a global commodity trading site and Enron is positioned as a 'new economy' company.

May 2000: Enron acquires MG plc, a London-based metals trader, to extend its commodity market capabilities.

August 2000: Enron's stock reaches high-water mark at around $90 per share.

January 2001: Enron's stock still at $80, and executives continue to talk up the shares to analysts, saying in late January that $126 a share might prove a reasonable target price. Through the early spring the price of shares in the company falls, but the share price to earnings ratio continues to indicate that investors think Enron will grow profits much faster than any of its energy market competitors.

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asked at board level about control over large transactions.[1]

But it was not energy price risk management that was to bring the company down. There were more fundamental problems developing in its business strategy, corporate-level financial engineering and strategic investments.

It was clear from the mid-1990s that not all of Enron's investments and new markets were going to pay off. The most notorious single investment was its 65 per cent stake in India's Dabhol Power Project, which began construction in December 1996 but led to a running battle with the project's only customer, a state utility, in the late 1990s. Other physical assets that were part of Enron's strategic vision turned out to offer little in the way of profit or cashflow – and not only in the power markets. Enron's foray into the world water and waste management industry, via purchases such as Wessex Water in the UK, offered pedestrian returns while sucking up valuable capital.

Indeed, by the late 1990s there was a danger that Enron would be seen as an awkward conglomeration of three businesses: a collection of physical assets that offered returns that varied from pedestrian to loss-making; a profitable energy trading and risk management business that made money and offered exciting, but not exponential, growth; and an investment portfolio of entirely speculative and capital-hungry bright ideas. Meanwhile, the core energy trading and risk management business that held the company together was critically dependent upon Enron's continuing management credibility and creditworthiness.

To make its dreams real, and meet its self-inflicted earnings and share price targets, the company knew that it had to recycle the capital tied up in mundane assets into more exciting investments in new commodity markets, electronic trading infrastructures, and expensive human skills.

So, like many other major corporations in the 1990s, Enron began to take many of its assets and liabilities off its reported balance sheet. It did so using a series of special purpose entities and limited partnerships that enabled Enron to gain financing in various novel ways. The company was open about the fact that it used off-balance sheet vehicles to access capital and to hedge risk. But it also knew that if it followed certain accounting rules it would not have to reveal many details about these 'structured financings', or the complicated transactions that they spawned.

Meanwhile, the growing market capitalisation of the energy giant was turning into a honey trap. With the Internet boom in full swing, Enron shares started to be described as an 'Internet play', as the company stressed its investments in the broadband industry that would support the 'New Economy', and its development of online trading. By 2000, Enron Online had become established as a leading web-based service that offered traders in energy and other markets information, transaction services and trading tools. The company was also trying to become a market-maker and price risk management provider in bandwidth trading in the same way that it had become dominant in natural gas as that industry deregulated. It

Timeline

February 2001: Jeff Skilling, one of the architects of the company's strategy, takes over as chief executive officer.

March 2001: *Fortune* runs a story, 'Is Enron Overpriced?' that brings some analysts' concerns to a wider audience and makes it clear how little credit analysts seem to understand about the financial engineering and true level of earnings success of the company. Story quotes one analyst as saying that if Enron does not meet its earnings expectations, its stock price "could implode". Most analysts still rate Enron strongly, but are disappointed when a deal under which Enron would have distributed Blockbuster movies over the Internet falls apart.

April 2001: Cracks begin to appear in confidence about Enron as it discloses that it is owed $570 million by the bankrupt Californian power utility PG&E. Enron CEO Jeff Skilling becomes irate with a hedge fund analyst for asking critical questions about the value of assets that secure Enron's off-balance sheet financing vehicles. Some analysts are becoming concerned that Enron CFO Andy Fastow suffers a conflict of interest from his personal stake in some of the off-balance sheet vehicles that Enron has deployed.

August 14: Jeff Skilling resigns as Enron CEO after only six months in the job, citing personal reasons; chairman Kenneth Lay resumes the CEO job that he'd held before Skilling took over, for however long it might take to find a successor. Stock at $42.93.

August 2001: Enron's stock falls below $40, as analysts fear ever worse things about the degree of behind-the-scenes financial engineering and the 'quality' of reported earnings.

October 16, 2001: Enron admits in an earnings report that it will have to write off $1.01 billion on investments, and some millions as a result of complex financing partnerships set up by Fastow and approved by the board. On October 22, Enron acknowledges the SEC is investigating its off-balance sheet activities.

October 23, 2001: Enron CEO Lay holds a conference call that undermines Enron's credibility still further. Analysts are dismayed by the offhand way in which the company mentions an additional $1.2 billion equity writedown, in addition to the $1.01 investment writedown, as a result of terminating investment partnerships that had been set up by Fastow.

October 23, 2001: Moody's puts the rating of Enron's debt on watch. By now, many of Enron's counterparties in its core energy and other markets are reassessing its creditworthiness. At exactly the time that it has become clear that Enron's value lies in its core energy markets and its trading relationships, those components of the company are being corroded by the growing credit and corporate governance scandal. The liquidity trap is closing fast.

October 24, 2001: Fastow takes 'leave of absence'.

October 25, 2001: Enron says that it is drawing on a billion-dollar credit line in an attempt to reassure the markets it will not run out of money.

October 31, 2001: SEC investigation becomes a formal enquiry as Enron's stock price hits a nine-year low of around $11.

even planned to use its skills and assets to offer whole new distribution channels to lucrative entertainment industries.

Later on, in autumn 2001, as the company faced disaster, its top executives were forced to admit that they had used the debt capital raised on and off-balance sheet during the boom years to make some poor investments in non-core businesses.[2] To many, it seemed that Enron had bought its Internet and other new economy dreams by mortgaging its chances of survival as a more mundane company.

By then it had been revealed just how complicated some of the off-balance sheet transactions really were. On November 8, 2001, Enron, having broken accounting rules, was obliged to reveal a small fraction of its off-balance sheet transactions. It's not clear from Enron's restatement of its accounts what the economic motivation was for complicated transactions such as that described in Box A (see page 5). But one thing became clear as trouble brewed in the summer of 2001: complicated off-balance sheet transactions such as this made it difficult to convince analysts that the company was being straightforward in its attempt to meet earnings targets.

Analysts also began to realise they had no way to be certain whether or not cash booked upfront had come with a hidden price tag in the form of future credit risk or other liabilities.

Off-balance sheet transactions can be used to shape the risk and leverage profile of a company in more profound ways. For example, the Marlin special purpose entity that was created to raise money from Enron's water company assets, issued some $900 million in debt to investors, due in 2003, that is backed by its water company assets. But if the book value of the water company assets, such as Wessex Water, fell before the debt was repaid, then Enron was likely to have to make up the shortfall by means of a charge against its own earnings. Osprey, a vehicle for raising finance using Enron's energy and other assets, has a similar structure.

In addition, creditors that funded some of the special purpose vehicles were promised early repayments in cash or collateral if Enron's credit rating fell below a certain level. This kind of clause is increasingly common in corporate finance as investors in debt instruments hope it will reduce the risk that they will end up holding credit risky 'junk' bonds. But while agreeing to these clauses helped Enron gain the financing that it needed at a competitive rate, the contingent nature of the funding significantly reduced the chances of the company surviving any crisis that triggered flows of stock, cash or salable assets back to its financing partners.

In a report on the potential danger of ratings downgrade triggers, released after the Enron bankruptcy on December 7, Moody's Investors Service noted that as Enron's ratings were downgraded, it triggered a number of cash or collateral demands. These included, says Moody's, "a $690 million note payable to a limited partnership which, absent collateral, is a demand obligation. Moreover, Enron must repay, refinance, or cash collateralise additional facili-

Timeline

November 8, 2001: Enron formally restates its earnings for 1997 to 2001, to account for the $1.2 billion reduction to shareholders' equity that has already caused it so much trouble. It admits that "certain off-balance sheet entities should have been included in Enron's consolidated financial statements". Including them means that Enron's declared debt burden increased by hundreds of millions of dollars in the period, and its net income is likewise reduced.

November 9, 2001: Staring disaster in the face, Enron announces that it has agreed to a takeover by ChevronTexaco-backed Dynegy. The company would be led by Dynegy's Chuck Watson, who reassures investors that the new company would "keep a strong balance sheet and straightforward financial structure as key priorities". Under the deal, ChevronTexaco advances Dynegy $1.5 billion to buy a share in the Northern Natural Gas pipeline, giving Enron the cash infusion it needs to stay afloat and preserve its credit ratings. Dynegy gains the right to purchase the whole of the pipeline if the deal fell through. Rather hopefully, the press announcement describes the takeover as "unleashing the value of Enron's core energy businesses".

November 12, 2001: Enron downgraded, which it admits on November 19 will require it to pay off early $690 million of debt that would otherwise mature in 2003. Shares fall again, and though by November 21 the company has succeeded in renegotiating the debt, market commentators are starting to say that Dynegy might invoke material adverse change (MAC) clauses in the merger agreement, and breaches of representation, to free itself of the deal. Signs are growing that Enron's core energy trading business will soon be crippled by the uncertainty.

November 21, 2001: Between November 16-21, Enron arranges a $1 billion credit line from JPMorgan Chase and Citigroup, secured against its pipelines. The company continues desperate negotiations with its other creditors to preserve its funding and liquidity.

November 28, 2001: Dynegy Inc says it has terminated the merger agreement and will exercise its option to purchase Enron's interest in the Northern Natural Gas Company. The main rating agencies downgrade Enron's rating to below investment grade, which in turn triggers harmful clauses in Enron's debt obligations. Lay says there will be a temporary suspension of all payments except those necessary to protect the company's core energy franchise. Over the next few days, Enron's shares trade between 45 and 25 cents, down from their high of $90 in 2000.

December 2, 2001: Enron files for chapter 11 bankruptcy protection from the courts, saying it intends to sue Dynegy for $10 billion for breach of contract. Its executives continue to struggle to salvage some of the value of its core energy business, hoping to set it up as a new entity. But from this date, the lawyers and the US bankruptcy court hold the whip hand over a corporation that had rarely missed its earnings targets.

December 3, 2001: Thousands of employees in Houston are laid off as commentators speculate on the chance of Enron finding enough financing and market credibility to preserve its core natural gas and power trading businesses, for the benefit of its creditors.

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ties totaling \$3.9 billion which primarily consist of \$2.4 billion of debt in Osprey Trust and \$915 million of debt in Marlin Water Trust".[3]

This kind of contingent funding was liable to be particularly damaging in the case of Enron, because ratings triggers were also present in many of Enron's wholesale energy trading contracts. Indeed, investors and creditors knew that the whole of the cashflow from Enron's counterparty-based businesses were contingent upon confidence in both Enron's short-term liquidity and the continuance of its investment grade credit rating.

A. Example off-balance sheet deal

"In June 2000, LJM2 [one of the private investment partnerships formed in 1999 to make off-balance sheet transactions with Enron] purchased dark fibre optic cable from Enron for a purchase price of \$100 million. LJM2 paid Enron \$30 million in cash and the balance in an interest-bearing note for \$70 million. Enron recognised \$67 million in pre-tax earnings in 2000 related to the asset sale. Pursuant to a marketing agreement with LJM2, Enron was compensated for marketing the fibre to others and providing operation and maintenance services to LJM2 with respect to the fibre. LJM2 sold a portion of the fibre to industry participants for \$40 million, which resulted in Enron recognising agency fee revenue of \$20.3 million. LJM2 sold the remaining dark fibre for \$113 million in December 2000 to an SPE [special purpose entity] that was formed to acquire the fibre. In December 2000, LJM2 used a portion of the proceeds to pay in full the note and accrued interest owed to Enron. At the time of LJM2's sale of the fibre to the SPE, Enron entered into a derivative contract which served as credit support for the benefit of some of the debt holders of a third-party investor in the SPE. This credit support provided the lender with a specified rate of return. As a result, Enron's credit exposure under the \$70million note was replaced with \$61 million in remaining exposure under the derivative contract. LJM2 earned \$2.4 million on its resale of the fibre."
Enron, restatement of accounts, see http://www.enron.com/corp/sec

Structured financings aren't only a question of liquidity, but also of trust. Analysts know that if such deals are not structured appropriately, they can allow companies to retain economic risks that are not reported elsewhere. There is a danger, therefore, simply in the impenetrability of complicated off-balance sheet financing.

Enron's on-balance sheet levels of debt did not look especially unhealthy in spring 2001, and the ratios of debt-to-equity and so on of the company were considerably below the ratios that it had once endured as a heavily indebted pipeline company. But as the share price fell, and uncertainty about the level of off-balance sheet commitments increased, the credibility of Enron's top executives became increasingly vital.

The trap closes

Much of Enron's strategic vision began to fall apart with the bursting of the dotcom bubble and the travails of the global telecommunications industry, but there was a delayed reaction in the equity markets to the significance of all this. In April 2001, however, the company started to cut hundreds of jobs from its broadband unit, and as the cuts continued they underlined how long Enron might have to wait for payback on its expensive investments.

Through early 2001 the price of Enron's shares took a tumble but few of the hedge funds that had started to sell Enron's stock short thought that the energy giant was likely to go bust. Surely, most analysts thought, its profitable core energy and trading services business would support the shares at around \$30 a share or some such?

The softening up of confidence in Enron was under way, however. It's clear with hindsight that an important moment was when analysts' uncertainty began to be voiced in mainstream publications such as Fortune in March 2001.

The questions began to be asked with renewed force when Jeff Skilling, appointed as CEO in February, resigned just six months later. Skilling's August departure raised questions about Enron's management structure. Much worse, it gave credibility to analysts who had been wondering out loud for some months about the propriety of how Enron had structured its off-balance sheet vehicles. Worst of all, the person at the centre of some of the most pointed questions was Enron's chief financial officer Andrew Fastow, who had overseen its off-balance sheet activities.

Oddly, Fastow and other executives had taken personal stakes in some of the investment partnerships that formed the counterparties to Enron's off-balance sheet deals.[4] That meant that, as Enron moved into a crucial stage of crisis management in late 2001, Fastow and other key executives could not credibly reassure the market about the size, structure and purpose of Enron's liabilities and particularly its off-balance sheet machine. Setting aside Enron's auditors, these executives were also the only real guarantors of Enron's reported earnings since the late 1990s.

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All the pieces were now in place for a crisis that could not be managed. The final countdown to disaster over the two months leading up to Enron's Chapter 11 bankruptcy filing on December 2 is charted in our timeline. By the time that Enron had adjusted its crisis management to cope with its corporate governance failures, its liquidity time-bomb was ticking much too fast.

The company formally restated its earnings on November 8 to account for a $1.2 billion reduction to shareholders' equity. It was obliged to admit "certain off-balance sheet entities should have been included in Enron's consolidated financial statements pursuant to generally accepted accounting principles".

Including them meant Enron's declared debt burden increased by hundreds of millions of dollars in the period, and its net income was likewise reduced. Enron's own summary of the restatement is given in Box B, but the numbers weren't as important as its own terse admission that the original "financial statements for these periods and the audit reports relating to the year-end financial statements for 1997 through 2000 should not be relied upon".

Conclusion

Already, observers of the Enron bankruptcy have taken divergent views on its causes. Those who give the benefit of the doubt to Enron's top executives suspect that while the company might inevitably been heading for a fall in terms of its share price, it was catapulted into bankruptcy by panic-stricken investors. The argument says that investors failed to recognise that Enron's accounting and corporate governance problems had inflicted relatively trivial damage on an essentially healthy company.

Those of a more cynical bent have suggested that Enron was a star performer only in the sense of putting on a good act. For these commentators, Enron's ability to meet earnings targets, and report other figures and ratios that pleased the market, was the result of the over-clever – not necessarily illegal – shaping of cashflows. That's a charge that can only be finaly settled by a minute examination of the company's books, and by the SEC investigation now under way.

The chief executive officer of Andersen, the accounting firm that audited Enron, has already sought to deflect criticism by pointing to a general failure of the accounting profession. He says that today's company accounts are too backwards-looking, that they offer only intermittent disclosure, that they fail to come to terms with off-balance sheet special purpose vehicles, and that they should support a wider range of key performance indicators.[5]

The various enquiries into the Enron failure are likely to probe deep and long. By that time, though, we will have far more information to hand than did investors as they dumped Enron's shares, or creditors as they enforced contingent clauses to pull their capital out from the company.

This suggests that we must look for a simpler explanation of Enron's $80-to-26-cent death spiral.

Perhaps Enron's shareholders sold out on the company because they believed that to finance its dreams and make its targets, the company had engineered away any chance of a more mundane existence. There was no floor to the share price because as the stock fell, investors and creditors came to suspect that mechanisms were already in place that would drain any $40-a-share core business of the liquidity and reputation that it depended upon. They already knew that the company's accounts would be of little use in such a situation. And they no longer believed the only people who could quickly fill in the gaps. ■

B. Enron's restatement of its 1997–2001 accounts

"The restatement will include a reduction to reported net income of approximately $96 million in 1997, $113 million in 1998, $250 million in 1999 and $132 million in 2000, increases of $17 million for the first quarter of 2001 and $5 million for the second quarter and a reduction of $17 million for the third quarter of 2001. These changes to net income are the result of the retroactive consolidation of JEDI and Chewco beginning in November 1997, the consolidation of the LJM1 subsidiary for 1999 and 2000 and prior year proposed audit adjustments. The consolidation of JEDI and Chewco also will increase Enron's debt by approximately $711 million in 1997, $561 million in 1998, $685 million in 1999 and $628 million in 2000."

Enron, summary of restatement of accounts, see http://www.enron.com/corp/sec

Notes

1 ERisk "CRO Profile: Rick Buy - Enron Corporation", February 2001

2 "Enron Plans Asset Sell-Off to Slash Debt", Houston Chronicle, November 15, 2001

3 Moody's Special Comment, "The Unintended Consequences of Rating Triggers", December 7, 2001.

4 Enron, preambles to restatement of accounts, see http://www.enron.com/corp/sec

5 Joe Berodino, "A Wake-Up Call", *The Wall Street Journal*, December 4, 2001

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m a r k e t s u m m a r y

For investors, today was a bad day with a worse ending. The major indices started in the red and seemed content to coast along for the bulk of the day until another slide brought them to their lowest levels at the close. The economy and earnings continue to be the chief concerns with Intel bringing about some of today's pessimism by announcing a decrease in capital spending for the coming year. At the finish, the Nasdaq had fallen 56 points, and the Dow had lost 211.

Dow Jones Industrials:	9712.27	-211.88	-2.13%
Nasdaq Composite:	1944.44	-56.47	-2.82%
S&P 500:	1127.56	-18.63	-1.63%
30-year Treasury Bond:		5.345%	+0.009

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b u s i n e s s n e w s a n d a n a l y s i s

Beleaguered discount retailer Kmart's shares plunged to a 35-year low on Wednesday after Standard & Poor's said it would drop the discount retailer from its S&P 500 index, as bankruptcy worries mounted. (source: Fox News)
http://www.investorguide.com/cgi-bin/daily.cgi?05618

Yahoo President and Chief Operating Officer Jeff Mallett announced Wednesday that he would resign, as the Web portal reported fourth-quarter earnings that exceeded Wall Street expectations. (source: CNET)
http://www.investorguide.com/cgi-bin/daily.cgi?05619

Analysis:
Wedding bells could be ringing again by this spring, as more technology companies warm up to the idea of getting hitched with a merger partner. This year, companies are expected to focus on growth, rather than just survival. Acquisitions should be a little more frequent, and so should acquisition-based stock gains. (source: MarketWatch)
http://www.investorguide.com/cgi-bin/daily.cgi?05620

What sort of devices will define the market for wireless technology in the United States? Let's face it, no one really knows. To date, the only firsthand experience many Americans have had with wireless technology has been downloading stock quotes or sports scores on a cumbersome, Web-enabled phone. While devices such as Research in Motion's Blackberry have had some success attracting wireless customers in niche markets (mainly corporate users), the wireless industry has, for the most part, failed to offer consumers much in the way of compelling technology. This could begin to change in 2002. (source: Business 2.0)
http://www.investorguide.com/cgi-bin/daily.cgi?05621

The aftershocks from the collapse of Enron, a Texan energy-trading firm, in history's biggest corporate bankruptcy, may yet destroy the firm's auditors, Andersen, reducing the Big Five of global accountancy to the Big Four. The survivors might find themselves facing a harsher regulatory climate. About time too. (source: Economist)
http://www.investorguide.com/cgi-bin/daily.cgi?05622

In Brief:
- As a result of falling energy costs, the Consumer Price Index, a measure of inflation, dropped 0.2% in December, fueling expectations of more interest rate cuts.

If you have any friends or colleagues who would appreciate getting this news every day, follow this link (or if you prefer, simply forward this issue to them):
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You can research any publicly traded company by following this link:
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e a r n i n g s

Wednesday's major earnings reports:
Company Name (Ticker): actual, expected, same q last year

Abbott Labs (ABT):	$0.52,	$0.52,	$0.48
Advanced Micro (AMD):	-$0.05,	-$0.18,	$0.53
AMR Corp (AMR):	-$4.75,	-$4.93,	$0.34
Apple Computer (AAPL):	$0.11,	$0.11,	-$0.73
Bank One (ONE):	$0.65,	$0.65,	-$0.44
Brio Tech (BRIO):	-$0.03,	-$0.04,	-$0.01
Compaq (CPQ):	$0.06,	-$0.01,	$0.30
Continental Air (CAL):	-$3.81,	-$4.56,	$0.61
DigitalThink (DTHK):	-$0.06,	-$0.06,	-$0.17
Extreme Networks (EXTR):	$0.02,	$0.01,	$0.11
Genentech (DNA):	$0.20,	$0.20,	$0.16
General Motors (GM):	$0.60,	$0.53,	$1.15
Harris Corp (HRS):	$0.30,	$0.28,	$0.30
Inktomi (INKT):	-$0.06,	-$0.11,	$0.01
JP Morgan Chase (JPM):	$0.12,	$0.33,	$0.37
Knight Trading (NITE):	$0.11,	$0.10,	$0.28
Macromedia (MACR):	-$0.17,	-$0.14,	$0.29
Mercury Computer (MRCY):	$0.16,	$0.15,	$0.30
Redback Ntwrks (RBAK):	-$0.20,	-$0.22,	$0.05
Sonus Networks (SONS):	-$0.04,	-$0.05,	$0.00
SouthTrust (SOTR):	$0.42,	$0.42,	$0.37
Symantec (SYMC):	$0.78,	$0.64,	$0.78
Travelocity.com (TVLY):	$0.09,	$0.10,	-$0.05
Yahoo! (YHOO):	$0.03,	$0.01,	$0.13

Thursday's major expected earnings reports:

Company Name (Ticker):	expected,	same q last year
Avaya (AV):	-$0.03,	$0.16
Bank of NY (BK):	$0.46,	$0.50
Boise Cascade (BCC):	-$0.05,	$0.29
Briggs & Stratton (BGG):	$0.32,	$0.92
Citigroup (C):	$0.73,	$0.65
Echelon (ELON):	$0.13,	$0.03
Ford Motor (F):	-$0.50,	$0.64
General Electric (GE):	$0.39,	$0.36
IBM (IBM):	$1.32,	$1.48
Iomega (IOM):	-$0.07,	$0.15
Legg Mason (LM):	$0.54,	$0.61
Microsoft (MSFT):	$0.45,	$0.47
Network Assoc (NETA):	$0.08,	-$0.87
Nortel Networks (NT):	-$0.17,	$0.30
PNC Bank (PNC):	$1.01,	$1.06
R.J. Reynolds (RJR):	$0.93,	$0.99
SABRE Grp (TSG):	$0.02,	$0.25
Sage (SAGI):	-$0.08,	-$0.01
Sears, Roebuck (S):	$1.97,	$1.91
SmartForce (SMTF):	$0.04,	-$0.03
Transmeta (TMTA):	-$0.18,	-$0.20
Unisys Corp (UIS):	$0.11,	$0.41
Willamette (WLL):	$0.41,	$0.78

For more earnings information, check out
http://www.investorguide.com/earningscalendars.html

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inverted market - A futures market in which nearby month contracts are selling at higher prices than those of deferred months; except for an interest rate futures market, which is inverted when distant contracts are at a premium to near month contracts.

For more financial terms, please visit http://www.investorwords.com.

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n o t a b l e   q u o t a b l e

"I have traveled the length and breadth of this country and talked with the best people, and I can assure you that data processing is a fad that won't last out the year." - Prentice-Hall's business books editor, 1957

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Schultheiss, Heidilynne

From: Randall Dodd [RDodd@Econstrat.org]
Sent: Wednesday, November 28, 2001 5:13
To: Randall Dodd
Subject: DSC Enron Nov 2001.htm

Derivatives Study Center

Randall Dodd
560
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202 326 8555

1401 H Street, NW, Suite
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November 28, 2001

Dear Colleagues:

You have probably been reading about the failure of Enron, but you may not have focused on its impact on derivatives markets. Enron was a major dealer in energy derivatives, and operated an electronic online derivatives trading platform. That trading and market making activity was *excluded* from federal derivatives regulations under last December's Commodity Futures Modernization Act of 2000. Now, Enron's online derivatives trading facility appears to be shutdown, and its ability to conduct other over-the-counter derivatives trades is severely curtailed by its loss of creditworthiness.

The next few days and weeks will no doubt provide more information about the causes and impact of this major energy derivatives dealer. It will likely provide an important lesson about the impact of last December's legislation. In the meantime, I have attached a couple of articles about Enron in which the Derivatives Study Center was mentioned.

Sincerely,
Randall Dodd

Jitters Over Squeeze at Enron Rippling Through Gas Trading

11/12/2001
Natural Gas Week
P1

It's hard to imagine that when a giant player like Enron gets sick, a few others in the industry wouldn't also catch a While many energy merchants have assured publicly that Enron's travails are not affecting their trading operations, the evidence suggests business is not usual in the energy patch.

Since word leaked of Enron's credit problems, open interest has dried up in Henry Hub futures contracts on the New York Mercantile Exchange (Nymex). A case can be made that this pullout sparked the technical surge in late-October natural gas prices.
Furthermore, some counterparties are rumored to want to liquidate open positions with Enron, but are being outright refused, or facing delays.

Whether gas prices ultimately rise or fall from this behind-the-scenes shuffling is unknown, but derivatives analysts agree that the "Enron effect" will result in more volatile commodity trading, with the danger particularly acute in the case of a commodity downswing.

It didn't take natural gas markets long to react to Enron's problems. Word leaked on Oct. 25 that Enron was drawing down $1 billion on available credit lines and seeking more cash to avoid a liquidity crunch. Open interest in the Nymex Henry Hub peaked that day, then fell off a cliff, down 12% over the next four trading days (see graph).

According to the Commodity Futures Trading Commission (CFTC), commercial long and short positions dropped by 65,429 and 56,195 contracts, respectively, over the Oct. 30 trading week. Open interest in the full Nymex Henry Hub strip dropped by 64,095, to 457,990 contracts.

The bleeding continued last week. CFTC Friday said open interest fell a further 10,662 to 447,328 contracts through Nov. 6.

There are two explanations for this contraction in open interest. The most obvious is that Enron itself is unwinding positions to boost cash on hand. The one-to-many brokering structure of Enron's EnronOnline platform makes liquidity particularly critical.

"It's an effect that they are a dealer that creates all the counterparty credit exposure," said Randall Dodd, director of the Derivatives Study Center at the Washington, D.C.-based Economic Strategy Institute. "If they're the dealer then they are the liquidity."

If Enron was net short on Nymex and began unwinding contracts, the effect would be to spark a price rally as these shorts were covered. And a price rally is precisely what transpired.

To the surprise of many market watchers, the front-month November contract shot up nearly 20% over the span of a week, from $2.68/MMBtu on Oct. 23 to $3.20 on Oct. 29, when it went off the board. Most November bid-week deals were indexed to this higher Nymex price. Storage levels were approaching record highs, and forecasts were uniformly calling for widespread warm weather through the first half of November.

Energy economist Philip Verleger was among the many analysts expecting gas prices to drop. "I've been following these things for a long time, and the oil statistics make a lot of sense and the gas statistics never seem to tell me a thing," he told Natural Gas Week. "I suspect that's because of Enron."

Whether Enron was net long or net short is not known. Verleger believes they were net short. "Presumably they've written a lot of puts to producers," he said, who wanted to hedge against lower gas prices. Enron would have to open corresponding short positions to balance these contracts.

The other explanation for the open interest drop is that jittery players are simply pulling out of the game. Apache is among the few companies that has admitted to this, unwinding options that it used to hedge past property acquisitions. It realized a net gain of $70 million from the transactions, Apache spokesman Bill Mintz said.

That a producer would be nervous holding open contracts with beleaguered Enron is understandable. Except none of the positions Apache liquidated were with Enron.
"We were worried about some credit risk and counterparty risk due to rippling effects from Enron," Mintz said. Apache had only one transaction outstanding with Enron. "We're still working on that one," he said.

Apache is not the only interest thinking along these lines. "You're hearing in the business guys trying to roll out of small positions directly with Enron and having a hard time making it happen. Or Enron is saying 'Well, we're not going to do this,'" said David Pursell of Houston-based Simmons & Co. "That is making a lot of people nervous."
"The concern in the market is that all roads lead to Enron," he added. "The threat of counterparty risk says I have a hedge in place, but ultimately if Enron is involved in that trade, maybe I won't get paid."

Risk of a Snowball Effect
No one knows how the "Enron effect" will play out in gas prices. But all agree that, by definition, less open interest in a commodity market means more price volatility.

Pursell said this risk will be particularly strong in ancillary markets. A trade point such as the Henry Hub has plenty of substitutes for Enron, but an emerging market, such as the Cheyenne Hub in the Rockies, will see more volatility.

Economist Verleger said there is the possibility that if gas prices start to drop this winter, momentum could snowball. Many producers locked in gas prices with Enron and other marketers when valuations were high. If prices drop beneath a certain floor, marketers will have to sell more contracts to cover the hedge. "It could start a virulent dynamic cycle down in prices," he said.

"I presume Enron intends to draw down its credit lines so it can open short futures positions if prices fall," Verleger wrote in a research note. "I also presume Enron will do everything in its power to keep prices up for the next six months to avoid having to make such sales."

Dodd of the Derivatives Study Center is calling for more safeguards against "market externalities."

He pointed to Enron's troubles with the Dabhol power plant. "Why should the failure of a water treatment plan or a power plant in India cause US derivatives markets to become less liquid?" Dodd asked.

Trading operations should be separately capitalized from other operations, he believes, "so that a failure of your other businesses doesn't drag down your trading operations and harm market liquidity."

He noted a parallel situation among banks, where banking functions are sealed off from other business because of the vital market role they play. "They have required that banks separately capitalize their securities operations and their banking operations, to avoid just this type of problem," he said.

Dodd is particularly peeved that only Enron is privy to volume and open interest information on its trading platform. "They should report on who has the large positions in the market. They should conduct themselves like an exchange," he said. "If this were the Nymex, none of these problems would be happening."

- Andrew Ware, Michael Sultan
Forward 12-Month Open Interest vs. Nymex Nov. 2001 Contract Price.

ICE Benefits From Enron Concerns, Reports Surge in Trading Volumes

11/14/2001
The Oil Daily

The IntercontinentalExchange (ICE), an electronic trading platform set up by big energy companies, has witnessed a surge in activity as rival exchanges face problems.
Last week, as rumors swirled about the future of energy services giant Enron, many energy traders abandoned EnronOnline for what they said was a more stable business at ICE.

"There has been a clear shift of energy and metal trading activity during October into ICE markets," ICE Chief Executive Jeffrey Sprecher said in a statement Tuesday. "We believe that this has resulted, in part, from the uncertainty that has been exhibited in several key energy trading venues over the past several months."

As well as the turmoil at Enron, ICE has likely benefited from the temporary closure and subsequent disruptions at the New York Mercantile Exchange (Nymex) following the Sep. 11 attacks.

The surge continued into November. Last week, trading volumes in crude oil and products on ICE averaged 11 million barrels per day, a 45% increase over the October daily average.

North American gas volumes last week hit 950 billion cubic feet, up 13% over the previous month's weekly average. In North American power, daily trading volumes surged to nearly 11 million megawatt hours, a 34% increase over the October average.

ICE was founded last year by oil majors BP, Royal Dutch/Shell, and Total Fina Elf, four international banks, and six top North American gas and power trading firms. The electronic exchange is currently installed on about 7,000 desktops at more than 400 trading firms.

Volumes on EnronOnline were down late last week, confirmed company spokesman Eric Thode. "We saw some minor decreases Thursday and Friday. The uncertainty related to the merger had some impact on volumes," he said. Some reports had volumes on

EnronOnline down by about 20% late last week.

Now that Enron's combination with rival Dynegy has been announced, Thode said, the value of trades completed on EnronOnline has returned to a more normal average of $2.6 billion per day.

The "Enron effect" has not been confined to ICE, however.
Since word emerged of Enron's credit problems, open interest has dried up in Henry Hub futures contracts on Nymex.

On Oct. 25, when Enron said it was drawing down $1 billion on available credit lines and seeking more cash to avoid a liquidity crunch, open interest in Nymex Henry Hub contracts peaked that day, then fell 12% over the next four trading days.

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One explanation for this contraction in open interest was that Enron was unwinding positions to boost cash on hand. The one-to-many brokering structure of the company's EnronOnline platform makes liquidity particularly critical, said analysts.

"It's an effect that they are a dealer that creates all the counterparty credit exposure," said Randall Dodd, director of the Derivatives Study Center at the Washington, D.C.-based Economic Strategy Institute. "If they're the dealer then they are the liquidity."

If Enron were net short on Nymex and began unwinding contracts, the effect would be to spark a price rally as those shorts were covered. A rally is precisely what transpired. To the surprise of many market watchers, the front-month November Henry Hub futures contract shot up nearly 20% over the span of a week, from $2.68/million Btu on Oct. 23 to $3.20 on Oct. 29, when it went off the board.

Jeff Gosmano, Andrew Ware.

Schultheiss, Heidilynne

From: Randall Dodd [RDodd@Econstrat.org]
Sent: Tuesday, January 15, 2002 1:03 PM
To: Randall Dodd
Subject: Derivatives Study Center -- A Message on

Derivatives Study Center

Randall Dodd
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202 326 8555

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rdodd@econstrat.org

January 15, 2002

Dear friends and colleagues,

I wanted to take the opportunity to send you a copy of a recent newspaper article in which the Derivatives Study Center is helping to understand the story of Enron's failure. The article appeared in the Washington Post last Friday, and it is pasted into this message below. In addition, I wanted to notify you that the DSC website has been updated with a couple of Primers on employee stock option programs, and a Special Report on International Commodity Risk Management programs. You can visit the site by clicking on the following www.econstrat.org/dsc.htm

I also wanted to announce that the Center is working on a policy briefing paper on Enron's failure. While that is being completed, I wanted to offer the following facts in order to clarify a few important points about Enron and the regulatory environment in which it operated.

- Enron Corporation was not only an energy supply company, but it was also a major financial institution that acted as a derivatives dealer. The financial institution included Enron Online and served a central role in energy markets as a market maker or dealer.
- As a major dealer, and presumably the largest dealer, in derivatives and whole transactions, Enron was central to the orderly functioning of a variety of energy and other commodity markets.
- Due to the deregulation of derivatives markets in December of 2000, these transactions were non-transparent in both price discovery and the risk of default by trading counterparties and their counterparties. And although it acted like a financial institution, Enron was not regulated under any law as a financial institution and its over-the-counter derivatives transactions were not under the authority of any financial regulation.
- The deregulation of derivatives occurred when the Commodity Futures Modernization Act passed thirteen months ago in December of 2000. As a result, Enron had no reporting requirements as a derivatives dealer and no capital requirement as a financial institution.
- Enron's derivatives dealing business was not separately capitalized, and therefore when its energy supply operations suffered from loses and (potentially criminal) mismanagement, it undermined the legitimacy and creditworthiness of its derivatives dealing. Other market participants declined to trade with Enron, and without trading counterparties Enron's market making went broke.

Dodd said Enron's problems have created "substantial damages" throughout the U.S. economy, where investors and employees lost billions in stock value, and even other players in the energy markets suffered when the collapse put downward pressure on prices.

Still, he said, "the difference is that Enron's failure, although it has inflicted damage throughout the economy and even internationally, didn't result in the systematic meltdown that regulators thought Long-Term Capital's failure posed."

Schultheiss, Heidilynne

From: Randall Dodd [RDodd@Econstrat.org]
Sent: Wednesday, January 16, 2002 4:38 PM
To: Randall Dodd
Subject: DSC -- In the Press about Enron and Derivatives

Derivatives Study Center

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January 16, 2002

Dear friends and colleagues,

The Derivatives Study Center is in the news again. This time in an article reporting on new legislative efforts to address the need for the prudential regulation of derivatives markets (see article below). Hopefully, with good luck and hard work the failure of Enron will more beyond a scandal in order to become a catalyst for meaningful regulatory treatment of the over-the-counter derivatives markets.

Sincerely,
Randall Dodd

FOCUS Enron case sparks Congressional push for energy derivatives regulation

----by Justin Cole----

WASHINGTON (AFX) - The collapse of Enron Corp has sparked a push in Congress for more Federal regulation of one of the company's key areas of operation, that of over-the-counter (OTC) energy derivatives, Congressional aides and lobbyists said.

Enron, through its EnronOnline internet marketplace which it launched in 1999, came to control a quarter of all US wholesale energy trades, but the OTC derivatives trades fell outside the regulatory scope of the Securities and Exchange Commission and the Commodity Futures Trading Commission.

The Houston-based energy firm had lobbied federal regulators, Congress and the White House for years to exempt its derivatives trading from oversight, they said.

Enron was able to hold at bay members of Congress who had been trying to regulate OTC derivatives markets since 1994, including Democratic Congressman Edward Markey.

Now, in the wake of Enron's collapse, Markey and his allies are planning a new regulatory push, a spokesman for his office said.

"He's just as interested in it as when he proposed regulating them in the first place. He's going to reintroduce his bill and see if he does any better this time than last time," the spokesman said.

He declined to address any specifics that Markey's bill is likely to address.

"I can't address the scope yet, cause we're still mulling it over, and taking the old bill and working on it," the spokesman added.

The value of Enron's OTC energy trades is difficult to quantify because the company did not discuss its derivatives trading, but the market for credit derivatives has grown in value to some 360 bln usd, according to the Office of the Comptroller of the Currency.

Tyson Slocum, an energy research director for Public Citizen, a nonprofit consumer advocacy organization, told AFX News that he is working with several members of the House of Representatives to help draft new legislation which would also seek to regulate energy derivatives trading.

Slocum said the legislation being drafted with the House lawmakers would stop other energy groups like Enron who participate in derivatives trading from operating "unregulated power auctions."

Trading would instead be regulated by a listed exchange like the New York Mercantile Exchange or the Chicago Board of Trade where counterparties could gain a clearer insight into contract prices and volumes, he explained.

Enron's ability to operate its privately run EnronOnline outside of the scrutiny of regulators like the SEC and CFTC was made possible by a policy initiated by Wendy Lee Gramm, the wife of retiring Texas Republican Senator Phil Gramm, when she was the chairman of the CFTC in 1993.

Enron petitioned the CFTC in 1993 asking the agency not to regulate energy derivatives contracts. Wendy Gramm subsequently initiated a policy which exempted derivatives trading from the commission's oversight.

"We want to undo what Wendy Gramm did in 1993 at the Commodity Futures Trading Commission where the CFTC refused to regulate energy derivatives contracts," Slocum said.

After leaving the CFTC, Gramm was named to Enron's board of directors where she rose to become chairwoman of the firm's audit committee.

The energy group's ability to operate EnronOnline out of the reach of federal regulators was further consolidated in Dec 2000 when Congress quietly passed the Commodity Futures Modernization Act.

One of the act's co-sponsors was the then head of the Senate Banking Committee, Phil Gramm.

Public Citizen's Slocum said the legislation he is assisting with would also seek to repeal sections of this act.

Randall Dodd, a professor of finance at American University in Washington and a director of the Derivatives Study Center which was set up in the wake of the Long Term Capital Management hedge fund collapse in 1998, also believes Congress made a mistake in deregulating derivatives trading.

"Congress made a big mistake thirteen months ago when they completely deregulated OTC derivatives markets, and extended that to energy derivatives as well. The derivatives markets play a very critical role in these markets," Dodd said.

Dodd believes the OTC derivatives markets, like that run by EnronOnline -- which has now been purchased in principle by UBS Warburg -- should be subject to fraud and manipulation oversight.

The size of these markets now makes it necessary that there is more reporting transparency, licensed brokers and a designated dealer bringing parties together, Dodd argues.

"Those markets are wrought with fraud, and the great thing about the licensing process is that you can run security checks on the guys that are doing the trading," he added.

Dodd worked at the CFTC as an economist from 1997-2000, and says that more than half of the agency's resources at that time were going into enforcement actions against fraud.

The House legislation that Public Citizen is helping to draft is also looking to tighten up the regulations overseeing US companies' offshore subsidiaries.

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Nickoloff, Peter

From: ERisk [ERisk@email.eRisks.com]
Sent: Friday, January 18, 2002 12:42 PM
To: peter.nickoloff@do.treas.gov
Subject: ERisk Essentials

www.erisk.com
What's New at ERisk.com - 18 January 2002

Weekly Review

In this week's round-up of news from an enterprise risk management perspective: bad news for the audit profession; mixed news on corporate earnings; Citigroup reports strong results despite Enron and Argentina worries; Morgan Chase hit by fourth-quarter losses; Hamilton Bank closed down by regulators; Lloyd's of London proposes radical reforms; federal coverage for terrorism is back on the agenda for US insurers.

Analysis

Argentina's domestic banks are in a desperate situation - and foreign banks without an exit strategy from their Argentine investments have plenty of problems, too. But, as Duncan Wood reports in this week's analysis, the needs of the banking sector are likely to remain a low priority for the government as long as the domestic situation remains so volatile.

Viewpoint

In the wake of the Enron bankruptcy - as well as some of the other, less dramatic problems experienced by firms last year - companies of all sorts can look forward to increasingly tough scrutiny in 2002. In the first of our new Opinion columns, ERisk's Sumit Paul-Choudhury looks at what they can expect from analysts, auditors and regulators, and asks how management should respond.
Still available:
Our Q&A with the developers of Risk Values.

Feature

With enterprise risk management (ERM) now emerging as a distinct activity in financial institutions, third parties such as regulators and rating agencies have begun to probe ERM's real worth and to offer new perspectives on its most useful components. In our latest feature, "Enterprise risk management for financial institutions", Stanislas Rouyer of Moody's Investors Service offers his view of the key components of ERM, and discusses how ERM relates to third-party analysis and the growing pressure for risk disclosure by financial institutions.
Still available:
Our review of 2001, featuring contributions from a range of bank risk managers.

Bookstore

The latest Book of the Month in the ERisk Bookstore is *The Pretender*. Subtitled "How Martin Frankel Fooled the Financial World and Led the Feds on One of the Most Publicized Manhunts in History", our featured book takes a lively look at the most outrageous insurance sector scandal of the late 1990s.

More than 18,000 risk professionals receive this email every week. To find out how your message could reach them, mail us at info@erisk.com

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Comment and Debate on Risk Management Issues

Opinion: Time To Revisit Your Risk Management Programme?

Companies of all sorts can look forward to increasingly tough scrutiny in 2002, writes ERisk editor-in-chief Sumit Paul-Choudhury

The drawn-out demise and ultimate humiliation of Enron would undoubtedly have been the top risk management story in any year more normal than 2001. Although the energy giant had been struggling for some months, its bankruptcy filing in early December still came as a huge shock to the stricken company's employees, investors, creditors and trading partners.

The decision this week to delist the company's stock from the New York Stock Exchange, amid growing scandal, is a sharp reminder of the perils of ineffectual risk management. For all that Enron's enterprise risk management programme might (or might not) have been technically brilliant, it failed to address the fundamental risk of runaway management. And while its core problems might have been unique, its demise has forced superficially similar firms – Calpine and Dynegy prominent among them – to struggle against submergence under a tide of ill will.

But it's not only energy companies that are having to deal with unfriendly shareholders, rating agencies and the like. With defaults climbing to levels last seen in the early-1990s recession, all manner of firms are finding themselves under the microscope. When such corporate monoliths as Ford, HP and The Gap become the subject of alarming rumours, it's a sign no-one is safe from scrutiny. Financial institutions are particularly vulnerable, since they bear the brunt of declining credit quality and sickly markets more directly than most. Regulators, analysts and, most recently, auditors, all became increasingly keen to prove their toughness over the past year, and the trend will only accelerate in 2002.

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Regulators have ample reason to be concerned, particularly in such controversial sectors as subprime retail lending – and last year's financial disasters can only have strengthened their resolve to keep firms in line. US banking regulators, for example, have been increasingly on the offensive since being embarrassed by the failure of Superior Bank, which collapsed after it was forced to restate the value of high-risk mortgage loans. In the UK, meanwhile, the collapse of Equitable Life has led to sharp criticism of the Financial Services Authority, and on the other side of the world the Australian Prudential Regulatory Authority has admitted errors in its handling of the HIH debacle.

Modern regulators, of course, have often argued that their role should be to protect the system, not individual firms or their stakeholders – an ethos epitomised by Treasury secretary Paul O'Neill's brusque comment earlier this week that Enron's collapse was a result of "the genius of capitalism". Whether depositors, policyholders, creditors, shareholders and other stakeholders agree with this stance remains to be seen – but for the moment, they are unlikely to trust regulators to safeguard their interests.

Rating agencies, too, have inspired little faith since their dismal performance during the 1997 Asian crisis. Many pundits question whether the agencies' increasingly aggressive stance on issuing downgrades will achieve much, apart from punishing the blameless and giving only 11th-hour warning of looming disaster.

Equity analysts, who took a pounding last year for their indefatigable cheerleading during the dotcom boom, are similarly keen to demonstrate their toughness.

And auditors – until recently one of the few remaining bastions of public confidence in financial reporting – have now fallen into disrepute. Andersen's role in the Enron debacle is only the latest in a series of discreditable run-ins with regulators, both by Andersen and by other members of the Big Five, but the calamity has highlighted the potentially huge problems that can go overlooked or unreported. Auditors, too, will have to sharpen up their act this year.

In short, scepticism is once again the order of the day. Regulators, ratings agencies, analysts and shareholders are all out looking for trouble – and action by any one of these groups can set a firm off down the slippery slope to perdition. Sell recommendations still have the power to depress share prices, which in turn can provoke credit downgrades – and that can ultimately lead to the regulator stepping in.

In this sort of climate, the initial problem needn't be large. As history has

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demonstrated, business disasters often begin with a small crack in the appearance of corporate competence that widens rapidly, to the point where diminishing stakeholder confidence threatens the viability of the entire firm. The crack doesn't even have to be real or serious.

The only response to this situation is to ensure first, that the interested parties are appropriately informed; and second, that any stumble can be corrected before it turns into a dive. As Fitch analyst Alan Spen told the *Wall Street Journal* in mid-December, the smart companies are those that choose to "get their balance sheets in line [and] let the market know they're in charge of their destiny … since the market clearly has the heebie-jeebies".

Clearly, any company would like to say it is the master of its own destiny. But how often is that the case? All too often, firms – be they traders, lenders or practically any other type of company – are engaged in businesses that involve risks they understand only vaguely, even as those businesses consume uncontrolled and unquantified amounts of capital. Even an otherwise well-run firm may boast one or more high-flying, but poorly understood, business lines. If the firm runs into trouble, these companies may find they have less capital available than they think they have – and have fewer options for defensive manoeuvring.

One way out of this situation is to resort to creative accountancy. In some cases, managers may even delude themselves that the 'cooked' books reflect performance more closely than a more intuitive bottom line. This kind of reliance on obfuscation is not only wrong, but also untenable. Sooner or later (as discovered by Enron, Barings and others) the truth will come out – and when it does, the consequences may well be devastating. Ultimately, the only viable answers to the pointed questions of rating agencies, regulators and investors are those that draw strength from the practice of sound risk and capital management.

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January 16, 2002

Business World

Welfare Reform for Accountants

By HOLMAN W. JENKINS JR.

What's gone wrong with accounting? This is the question on every lip since it began to seem that Arthur Andersen & Company stood mutely by as Enron hid debt and exaggerated profits.

More apt is the question: What has gone right since we handed accountants the federal gravy train of the mandated annual audit of public companies? Folks, this is not the first time auditors have failed to step forward and blow the whistle on some intransigent management, warning investors to run for their lives.

Accountants didn't blow the whistle on Cendant, Waste Management or Rite Aid, the savings & loans of the 1980s or the casualties of the go-go '60s. They haven't blown the whistle on any sizeable company, ever, at least not until problems were already apparent to everyone. So why the professions of surprise at every Enron that comes along?

Joseph Berardino

Poor Joseph Berardino, Andersen's newly installed chief, is about to become more famous than any accountant should. He has already been hauled before Congress and the evening news once, and that was before document disposal became a hot topic. Suddenly, the most obvious target for criminal charges isn't Enron but its accountant.

This train wreck has been 65 years in the making, since 1937, when pharmaceutical maker McKesson & Robbins went belly up and congressional investigators were flummoxed to learn that the SEC laws they passed didn't mean accountants were supposed to be in the business of detecting fraud.

Let's not pretend to know more about Andersen's destroyed documents than we do. But still: When auditors have reservations about a large and successful company's books, they don't blab to the press or shout an announcement from the rooftops, blowing a hole in a stock owned by thousands of investors. No one would ever hire them again. The missing emails may well contain a record of Andersen wringing its hands hopelessly over this dilemma, as accounting firms have done since time immemorial.

This is an impossible bind, made more so because accountants have been prepared to live with cognitive dissonance rather than give up a federal meal ticket. Nothing new here: Carl D. Liggio, who went on to become general counsel of Ernst & Young, first coined the term "expectations gap" in 1974 for the fact that the public thinks accountants are supposed to catch crooks while the accountants say they aren't.

A vast academic literature soon sprouted to explore the "expectations gap." AICPA, the accountants' trade group, launched a series of "expectations gap roundtables." This flubbering has continued for two decades without ever tripping over the real trouble, namely vagueness and uncertainty about the purpose of the public audit. Instead, such inquiries invariably conclude with the accounting profession calling for more "public education" -- that is, the public should be educated to stop blaming accountants for accounting scandals.

This paradox of the auditing process has been hanging out there forever. But market behavior suggests investors are not such fools.

When Tyco's accounting was under assault two years ago, it took an SEC investigation and the cheerleading of Wall

Street to turn the stock around. Nobody gave a hoot that PriceWaterhouse had approved Tyco's accounting. For that matter, companies like IBM, GE, Cisco, Amazon and AOL face more or less continual sniping from short-sellers about how they keep their books. These skirmishes ebb and flow, but the market seems resigned to doing its own policing.

Sad to say, the functional purpose of the annual audit these days is only to give the plaintiff's bar somebody else to sue when a company falls apart. Yet even the prospect of massive civil damages has merely rendered accountants more adamant in refusing to serve as the system's fraud detectors.

Cries have gone up in Enron's wake for more "oversight" and new regulations, as if somehow piling on more rules can finally turn the frog into a prince. Critics are especially worked up about consulting fees auditing firms earn from the same companies whose books they audit. But the auditors themselves are hired, fired and paid by the very companies they're supposed to be scrutinizing, which ought to strike anybody as the bigger inherent conflict.

The profession's drippy rhetoric would have you believe accountants work for the public good or the Gods of Absolute Accounting Purity (GAAP), but this is silly. They make a living selling a service to involuntary customers who are going through the motions to satisfy a federal mandate. The annual audit is a service truly valued by no one: It doesn't catch crooks and it doesn't benefit honest companies either, because it provides no proof or assurance to investors about the accuracy and completeness of a company's books. Had it been otherwise, Enron might have been more inclined to listen to Andersen's advice, in which case Enron would still be around.

When a ritual has so emptied itself of real meaning as to become positively dangerous to its participants, it's time for a rethink.

An obvious and appealing solution would be to eliminate the SEC mandate altogether. Companies and their shareholders would have to decide for themselves whether the audit ritual is worth the money, and if not, how to make i so. Companies, after all, have an interest in presenting their bona fides to investors. If accountants were kicked off the federal dole, they might have to develop auditing services that investors and companies would find credible.

The alternative is to stop waving vaguely in the direction of the public good and yoke accountants finally to a paymaster with an institutional interest in uncovering and prosecuting fraud. One Big Five accountant we know suggests the SEC should contract directly with accounting firms to audit books of companies that want to raise money in the public markets. If nothing else, the SEC would finally have to admit that it's functionally impossible to guarantee the trust on which markets depend.

In the real world, nobody bought Enron's stock because they liked the cut of Arthur Andersen's jib. But accounting firms are agglomerations of talent and expertise that could be serving a useful purpose in the world. The time has come to free them from the regulatory non sequitur that inhibits their emergence into responsible adulthood. This might not prevent the next Enron, but then again it might.

January 16, 2002

Commentary

Watchdogs and Lapdogs

By Burton Malkiel. Mr. Malkiel, professor of economics at Princeton, is author of "A Random Walk Down Wall Street," 7th ed. (W.W. Norton, 2000).

The bankruptcy of Enron -- at one time the seventh-largest company in the U.S. -- has underscored the need to reassess not only the adequacy of our financial reporting systems but also the public watchdog mission of the accounting industry, Wall Street security analysts, and corporate boards of directors. While the full story of what caused Enron to collapse has yet to be revealed, what is clear is that its accounting statements failed to give investors a complete picture of the firm's operations as well as a fair assessment of the risks involved in Enron's business model and financing structure.

Enron is not unique. Incidents of accounting irregularities at large companies such as Sunbeam and Cendant have proliferated. As Joe Berardino, CEO of Arthur Andersen, said on these pages, "Our financial reporting model is broken. It is out of date and unresponsive to today's new business models, complex financial structures, and associated business risks."

Blind Faith

It is important to recognize that losses suffered by Enron's shareholders took place in the context of an enormous bubble in the "new economy" part of the stock market during 1999 and early 2000. Stocks of Internet-related companies were doubling, then doubling again. Past standards of valuation like "buy stocks priced at reasonable multiples of earnings" had given way to blind faith that any company associated with the Internet was bound to go up. Enron was seen as the perfect "new economy" stock that could dominate the market for energy, communications, and electronic trading and commerce.

I have sympathy for the Enron workers who came before Congress to tell of how their retirement savings were wiped out as Enron's stock collapsed and how they were constrained from selling. I have long argued for broad diversification in retirement portfolios. But many of those who suffered were more than happy to concentrate their portfolios in Enron stock when it appeared that the sky was the ceiling.

Moreover, for all their problems, our financial reporting systems are still the world's gold standard, and our financial markets are the fairest and most transparent. But the dramatic collapse of Enron and the rapid destruction of $60 billion of market value has shaken public trust in the safeguards that exist to protect the interests of individual investors. Restoring that confidence, which our capital markets rely on, is an urgent priority.

In my view, the root systemic problem is a series of conflicts of interest that have spread through our financial system. I there is one reliable principle of economics, it is that individual behavior is strongly influenced by incentives. Unfortunately, often the incentives facing accounting firms, security analysts, and even in some circumstances boards of directors militate against their functioning as effective guardians of shareholders' interests.

While I will concentrate on the conflicts facing the accounting profession, perverse incentives also compromise the integrity of much of the research product of Wall Street security analysts. Many of the most successful research analysts are compensated largely on their ability to attract investment banking clients. In turn, corporations select underwriters partly on their ability to present positive analyst coverage of their businesses. Security analysts can get fired if they write unambiguously negative reports that might damage an existing investment banking relationship or discourage a prospective one.

Small wonder that only about 1% of all stocks covered by street analysts have "sell" recommendations. Even in October 2001, 16 out of 17 securities analysts covering Enron had "buy" or "strong buy" ratings on the stock. As long as the incentives of analysts are misaligned with the needs of investors, Wall Street cannot perform an effective watchdog function.

In some cases, boards of directors have their own conflicts. Too often, board members have personal, business, or consulting relationships with the corporations on whose boards they sit. For some "professional directors," large fees and other perks may militate against performing their proper function as a sometime thorn in management's side. Our watchdogs often behave like lapdogs.

But it is on the independent accounting profession that we most rely for assurance that a corporation's financial statements accurately reflect the firm's condition. While we cannot expect independent auditors to detect all fraud, we should expect we can rely on them for integrity of financial reporting. While public accounting firms do have reputations to maintain and legal liability to avoid, the incentives of these firms and general auditing practices can sometimes combine to cloud the transparency of financial statements.

In my own experience on several audit committees of public companies, the audit fee was only part of the total compensation paid to the public accounting firm hired to examine the financial statements. Even after the divestiture of their consulting units, revenues from tax and management advisory services comprise a large share of the revenues of the "Big Five" accounting firms. In some cases auditing services may be priced as a "loss leader" to allow the accounting firm to gain access to more lucrative non-audit business.

In such a situation, the audit partner may be loath to make too much of a fuss about some gray area of accounting if the intransigence is likely to jeopardize a profitable relationship for the accounting firm. Indeed, audit partners are often compensated by how much non-audit business they can capture. They may be incentivized, then, to overlook some particularly aggressive accounting treatment suggested by their clients.

Outside auditors also frequently perform and review the inside audit function within the corporation, as was the case with Andersen and Enron. Such a situation may weaken the safeguards that exist when two independent organizations examine complicated transactions. It's as if a professor let students grade their own papers and then had the responsibility to hear any appeals. Auditors may also be influenced by the prospect of future employment with their clients.

Unfortunately, our existing self-regulatory and standard-setting organizations fall short. The American Institute of Certified Public Accountants has neither the resources nor the power to be fully effective. The institute may even have contributed to the problem by encouraging auditors to "leverage the audit" into advising and consulting services.

The Financial Accounting Standards Board has often emphasized the correct form by which individual transactions should be reported rather than the substantive way in which the true risk of the firm may be obscured. Take "Special Purpose Entities," for example, the financing vehicles that permit companies such as Enron to access capital and increase leverage without adding debt to the balance sheet. Even if all of Enron's SPEs had met the narrow test for balance sheet exclusion (which, in fact, they did not), our accounting standard would not have illuminated the effective leverage Enron had undertaken and the true risks of the enterprise.

Given the complexity of modern business and the way it is financed, we need to develop a new set of accounting standards that can give an accurate picture of the business as a whole. FASB may have helped us measure the individual trees but it has not developed a way to give us a clear picture of the forest. The continued integrity of the financial reporting system and our capital markets must be insured. We need to modernize our accounting system so financial statements give a clearer picture of what assets and liabilities on the balance sheet are at risk. And we must find ways to lessen the conflicts facing auditors, security analysts, and even boards of directors that undermine checks and balances our capital markets rely on.

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Change Auditors

One possibility is to require that auditing firms be changed periodically the way audit partners within each firm are rotated. This would incentivize auditors to be particularly careful in approving accounting transactions for fear that leniency would be exposed by later auditors.

And, in the end, we need to create a powerful and effective self-regulatory organization with credible disciplinary authority to enforce accounting rules and standards. It would be far better for the industry to respond itself to the current crises than to await the likelihood that the political process will do so for them.

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EnronOnline

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About EnronOnline

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Products & Prices

1. **What products and regions can I transact in?**
Your trading access depends on the products and regions your Master User approved for you. It is also possible that your company is unable to transact with Enron in particular products or regions for legal, tax, credit or regulatory reasons. Beyond this, you should be able to transact in a wide selection of worldwide energy commodities. If you wish to transact in additional products/regions, please call the EnronOnline Help Desk who will inform you how to make this change if it is possible. More information on the products can be found in the EnronOnline Markets section.

2. **Are EnronOnline prices and transacting capability truly real time?**
EnronOnline uses advanced technology to refresh the trading and pricing information at an optimal level. Enron is making available real time prices for viewing on your screen. Information received by Enron is automatically processed, but there can be delays as the information travels across the Internet.

3. **I want to know more about a particular product. Who do I talk to?**
You can ask us about products through the Contact Us page. Alternatively, you can speak directly to the Enron trading desk that posted the product price. You can look up who to contact by left-clicking on the Product Short Description on the quotes screen.

4. **Can I alter the quantity of product I want to transact?**
For certain products, EnronOnline gives you a choice to specify the quantity of the product you want up to a maximum quantity posted on the quotes screen. You can use the arrows near the quantity box in the Create Submission window to input your chosen quantity. The minimum quantity increments the original quantity can be adjusted, appear in the Create Submission window and can vary by product. You can also see them by clicking on the Product Short Description. In addition, you can choose between "All or Nothing" and "Accept Partial Volume" prior to transaction execution. You can also alter the quantity of product when you place a price limit order.

5. **Are prices I see on the screen firm? Does Enron show the same prices to all users?**
Yes. Prices are firm when posted online by Enron traders. However, there are reasons why the offer to buy or sell you submitted to Enron may be not accepted, for example, if your company reaches its credit limit.

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Yes, all users see the same prices.

6. **What happens if I accidentally enter a wrong price?**
You can only select prices that appear within the EnronOnline system. This protects you from some possible errors caused by an accidental number entry. If you do not use the Price Range functionality or Price Limit Orders, then you can only select the price on the screen. If you utilize the Price Range functionality the price you buy or sell at will be at best price available on the EnronOnline system (if it is within the range you specify). If you place a Price Limit Order, the system will automatically try to fill your submission.

7. **Normally I can see prices for a particular product, but I can't now. Why?**
If you cannot see prices for a particular product, press the "Update Product List" button if available (highlighted in red). If you cannot see a particular product, check whether the market is open by referring to the EnronOnline home page. If the market is open, and you cannot see products, check with the Master User in your company to find out if you are still authorized to view prices for that product. If you are authorized by your Master User, but cannot see particular products, please Contact Us.

8. **Are there any limits on the minimum prices or volumes that appear on EnronOnline?**
The minimum and maximum volumes are different for each product and are set by the Enron trader who is responsible for that product. There are no minimum price levels.

9. **Can I put titles in my product list?**
No, but you can float a window and select "Group By".

10. **How come my filters are not working? How come I cannot see any products?**
Filters are an "and" condition, not an "or" condition. You may have set up a filter with parameters that do not go together. For example, you select Country/Commodity - US Gas, Region - East, and Deal Type - Basis. This will return all products that are US Gas, in the East Region, and are Basis, and not all products that are US Gas East, or US Gas Basis.

11. **If I add an individual product, will I have to re-add it when it expires?**
In some cases, yes.

12. **I have set up a filter but cannot see all of the products that fit my parameters?**
Go back into the Personalize MyQuotes window and Save your filter selections again.

13. **How come my floated window keeps disappearing?**
If you want your floated window to stay active, right-click in the floated window and select Stay on Top. If you no longer want the floated window to stay active, right-click in the floated window and deselect Stay on Top.

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EnronOnline

Transacting Online

1. **Does EnronOnline affect my ability to transact with Enron over the phone?**
   No. EnronOnline provides another way to do business with Enron in addition to traditional methods. We believe transacting online is an easier and faster way for our customers to do business with Enron, and is a complimentary method of transacting.

2. **What costs are associated with transacting via EnronOnline?**
   EnronOnline can be accessed free of charge. There are no transaction or subscription fees. You will need to make your own arrangements with an Internet service provider, who may charge you for Internet access.

3. **Are you going to charge for EnronOnline in the future?**
   Enron has no current plans to charge for transacting via EnronOnline.

4. **Does EnronOnline support 24-hour transactions?**
   EnronOnline staff will be available to support tragsactions wherever the particular market is open. It is a worldwide trading system, so almost every moment EnronOnline is serving a market somewhere. However, when a market for a particular commodity and region closes, you will be unable to transact in this market.

5. **When will I know if EnronOnline has accepted the transaction?**
   When your offer to buy from or sell to Enron is submitted, it is processed by the EnronOnline database, without human intervention. If your offer to buy or sell is accepted by Enron, the completed transaction will appear in the Transactions Window at the bottom of your browser. You can view transactions completed in other sessions using the Transaction Search function. If you are ever in doubt as to whether a transaction completed or not, please use the Transaction Search functionality.

6. **What happens if the price moves as I am trying to select it? Will my offer fail?**
   If you select "Immediate Execute or Cancel" and the price moves in a manner favorable to you between the time you submit the offer to buy or sell to Enron, and the time the EnronOnline system processes that offer, then Enron will treat the offer as being made at the price more favorable to you. If you are concerned about price movements then one option is to select the Price Range option when you submit an offer to buy or sell. This option will allow you to submit an offer up to the price limit you

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specify, based on whatever quantity of product is available at that price. To use the Price Range option, you need to click on the "Acceptable Price Range" check box. Naturally, if the price falls out of that range in a manner that is unfavorable to you, then your offer to buy or sell will not be accepted by Enron. Your submitted offer is not held in the EnronOnline database but is automatically accepted or rejected immediately upon receipt by the EnronOnline system.

7. What happens if another customer makes an offer to buy or sell at a particular price or quantity at the same time as I am trying to select it? Will my offer fail?

It depends on whose offer to buy or sell is processed by the EnronOnline system first, yours or the other customer's. To minimize this possibility, we suggest selecting the "Accept Partial Volume" option when submitting your offer to buy or sell. By selecting this option, your offer to buy or sell may be accepted by Enron for any quantity up to the amount requested in the submission window. Your submitted offer is not held in the EnronOnline database but is automatically accepted or rejected immediately upon receipt by the EnronOnline system. If you do not wish to offer to buy or sell less than the quantity specified in your offer, then the "All or Nothing" option should be selected.

8. How are my transactions affected in the event of EnronOnline system failure?

Due to the level of technology and capacity redundancy built into EnronOnline, system failures are a rare occurance. It is possible, however, for outside factors to impact your ability to access EnronOnline, such as your Internet connection being terminated prematurely (for example, if someone were to pick up a telephone on the same line as your Internet connection). If your submission reached the EnronOnline database before your Internet connection failed, then this failure will not have any effect on your submission. However, if the Internet connection failure occurred before your offer reached the EnronOnline database, no transaction will be completed. You can view all completed transactions using the Transaction Search function. If you are ever in doubt about whether or not a transaction completed, please use the Transaction Search function.

9. Is Enron obligated to accept offers to buy or sell that I submit?

EnronOnline will automatically process the offers you submit. Enron traders themselves will not be able to choose whether to accept the offer or not. When the system checks your offer it examines three things:

1. Is the price still available?
2. Is the volume still available?
3. Would completion of this transaction exceed your line of credit?

If your offer passes all of these checks, then a transaction will result.

10. If my offer to buy or sell is not accepted by EnronOnline, does it remain open for acceptance at a later time?

You have a choice when submitting an offer to buy or sell to Enron, "Create Submission" or "Price Limit Order. If you select "Create Submission", when your offer to buy or sell is submitted, it will be processed by the EnronOnline system and either accepted or rejected automatically. If your submitted offer is rejected, it cannot be used in relation to any other transaction. If you place a price limit offer, and the price you specified becomes available, EnronOnline will automatically try to fill your order and a transaction may result. Price Limit Orders can be canceled at any time. Price Limit Orders will expire in twelve hours.

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11. What may cause a transaction not to be completed?
Reasons why your offer to buy or sell may not be accepted by Enron include:

- you used the "All or Nothing" function, but there was insufficient quantity of the product available at the price you specified;
- you used the "Price Limit Order" function, but the price never fell within specified limits and the order expired at your specified expiration time or twelve hours;
- you used the "Accept Partial Volume" option but other customers took the entire quantity between the time you selected it and the time your offer to buy or sell reached the EnronOnline database;
- the transaction, if accepted by Enron, would take you outside your established trading or credit limits;
- there has been a change in the price for the product that is not favorable to you. That is, an unfavorable movement away from the price you selected or, where you used the "Acceptable Price Range" function, outside the price range you specified. If the reason for failure is not clear, please reach us via the Contact Us page.

12. Can other customers view my transactions?
No, only you, the Master User(s) and the Back Office Users in your company can see the transactions you completed via EnronOnline.

13. When will I receive an invoice for transactions done via EnronOnline?
You will receive our invoice for your online transactions at the same time as you would for transactions done over the telephone, as specified in your Master Agreement or the online documents.

14. How do Price Limit Orders Work?
You can place a Price Limit Order for products on EnronOnline. If the price you specified becomes available, EnronOnline will automatically try to fill your order and a transaction may result. Price Limit Orders can be cancelled at any time. Price Limit Orders may be set for periods up to 12 hours.

15. How do I place a Price Limit Order?

1. To offer to buy or sell a particular product via EnronOnline, move your mouse over the bid or offer price cell for that product and click on the price.
2. The Submission window appears.
3. Click the "Create Price Limit Order" radio button.
4. Enter the quantity you wish to buy/sell up to the maximum quantity shown.
5. With the Price Limit Order option you have to "Allow partial volume" so this option will be automatically selected.
6. Enter the price.
7. Enter the expiration time in hours and or minutes.
8. Complete the order by clicking the "Submit" button.

16. Where will my Price Limit Orders display?
Your price limit orders will display in the Price Limit Orders section below the quotes screen until the end of the day.

17. How do I know if my Price Limit Order has been filled?

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The status of your limit order will be denoted with the following status indicators.

Status of Price Limit Order	Status Indicator
Executed	Check mark and orange icon
Active	A and green icon
Cancelled	C and red hour glass
Expired	X and red cross
Partial	P and orange and green icon

There is a "Status Key" button that displays in the Price Limit Orders section.

18. Will I be informed if my Price Limit Order is filled/executed?
When a price limit order is filled/executed a scrolling message will display above the quotes screen stating, "Price Limit Order Status Changed." In the Price Limit Orders section, the status indicator will change from an A and a green icon to a check mark and an orange icon. Also, when a price limit order is filled, or partially filled, it will display as a transaction in the Today's Transaction section below the quotes screen.

19. Will I be informed if my Price Limit Order has expired?
When a price limit order is expired, a scrolling message will display above the quotes screen stating, "Price Limit Order Status Changed." In the Price Limit Orders section, the status indicator will change from an A and a green icon to an X and a red cross.

20. My Price Limit Order should have expired but the status has not changed?
Price Limit Order status is updated every minute. Therefore, it is possible for you to experience a two minute delay between the time your order has expired and the time you see the status change.

21. How do I get rid of the Price Limit Order Status Changed scrolling message?
Click on the message to clear it.

22. Can the Enron trader see my Price Limit Order?
Yes.

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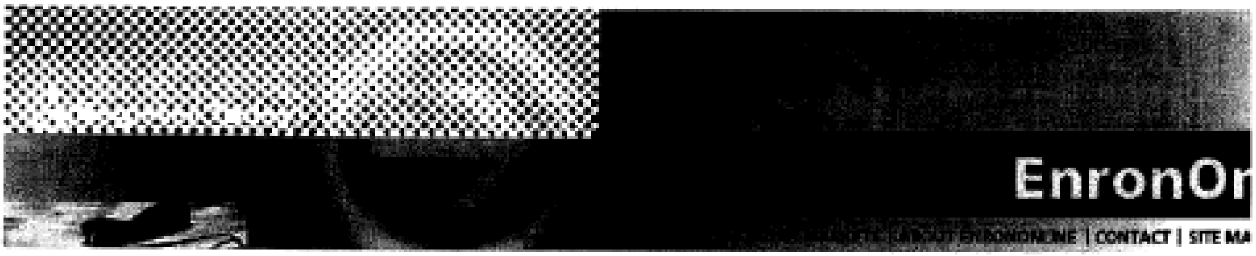

About EnronOnline

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Legal & Privacy

Legal Contracts

1. **My company does not have any commodity contracts with Enron in How can I transact?**
   EnronOnline has online contracts, known as General Terms and Conditions (GTC), whic your transactions done online. The first time a User in your company wants to transact o relevant product, there will not be a submission button available on the screen. Instead, y prompted to read and accept the GTCs for that product. The GTCs must be accepted in to be able to transact via EnronOnline in that product. GTCs can be printed out and acce clicking on the Product Short Description in the quotes screen, even if you do not intend that particular product.

2. **How do I know that you haven't changed GTCs without informing m**
   If we revise the GTCs for a particular product, we will notify you by showing new GTCs o product screen. You will not be able to transact via EnronOnline until you have accepted GTCs. Furthermore, there is a version number and issue date on each GTCs. You have revised version of the GTCs online to be able to transact in that particular product online

3. **What is the Electronic Trading Agreement (ETA)? How can I see and ETA?**
   The Electronic Trading Agreement combined with the Password Application signed offlin legal framework for transactions carried out via EnronOnline. Master Users will see the E login stage and will have to accept it to be able to transact online. The ETA can also be v times after it has been accepted and is available for printing from the bottom left hand co quotes screen.

4. **How can I see and print the General Terms and Conditions (GTCs) f Product?**
   You can see the GTCs for a product by clicking on the GTCs link available when your mo Product Short Description on the quotes screen. You can print out a copy of the GTCs fo product.

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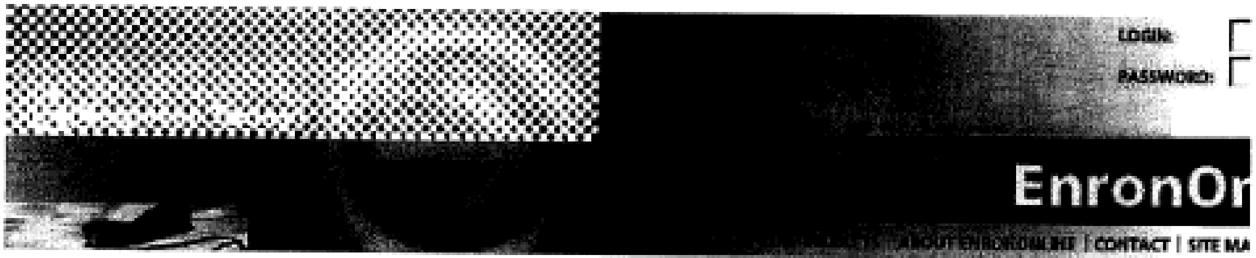

EnronOnline Site Map

Legal & Privacy

Site Map

Transaction Features

- Personalize MyQuotes
- Positions
- Transaction History
- Auctions
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Password required for access.
Please login or register above.

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Natural Gas
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Power
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Austrian
Dutch
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German
Nordic
Spanish
Swiss
UK
US East
US West

Emission Allowances

Crude Oil & Products
Asian
European
US

NGL, Petchems & Plastics
International LPG
European Petrochemicals
US

Coal
International
US

Shipping

Bandwidth

Pulp & Paper

Weather Derivatives
Asia Pacific
European
US

Metals

Steel

Credit Derivatives

EnronOnline Locatio

North America
Canada
USA

South America
Argentina

Europe
Austria
Belgium
France
Germany
Netherlands
Norway
Spain
Sweden
Switzerland
UK

Asia Pacific

Australia

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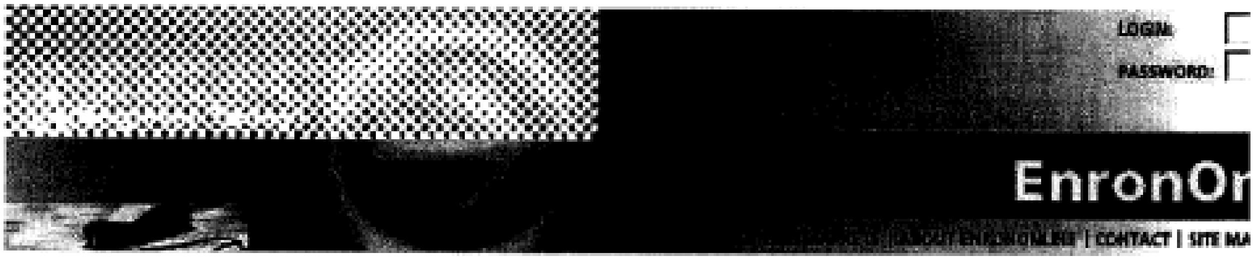

EnronOnline Markets

Presentations

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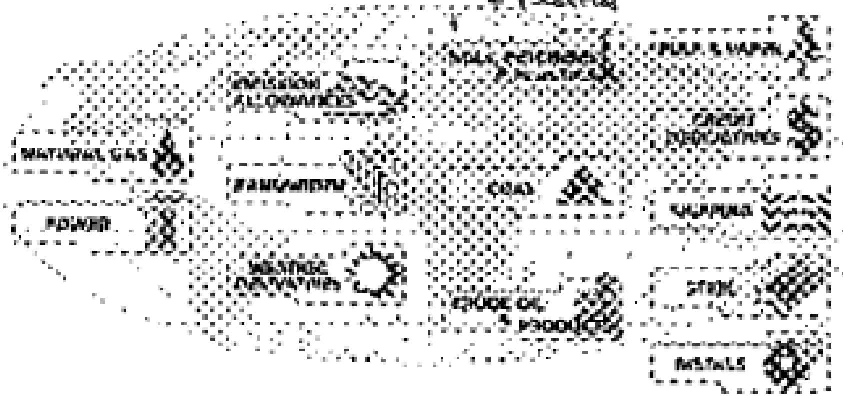
View By: Commo

Markets by Commodity

EnronOnline offers registered users the ability to buy and sell a wide variety of commodities throug Americas, Europe, Australia and Asia. Learn more about EnronOnline's activities in your area by c the markets below.

NGLs, Petchems, + Plastics



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EnronOnline

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Legal & Privacy

Registration & User Administration

1. **How do I register to become an EnronOnline User?**
   To register you need to complete three simple steps:
   1. Complete the one page Registration Form
   2. Complete and sign the Password Application
   3. Complete optional forms
   4. Mail or fax all forms to EnronOnline

Americas:	**Europe & Other Regions:**	**Asia & Australia:**
EnronOnline	EnronOnline	EnronOnline
PO Box 4656	Enron House	Level 21
1400 Smith Street	40 Grosvenor Place	9 Castlereagh Street
Houston, Texas 77002	London, SW1X 7EN	Sydney NSW 2000
USA	UK	Australia
Fax: 713 646 8511	Fax: +44 (0) 20 7783 8281	Fax: +61 2 9229 2450

All forms are printable from the EnronOnline Registration screen.

2. **I sent you my Password Application. How long will it take to start tr via EnronOnline?**
   We try to process applications as quickly as possible. If accepted, you will normally recei ID and Password within four working days, depending on where you are located.

3. **Who is a Master User? What level of access do Users have compare Master Users?**
   A Master User authorizes other Users within your company to transact via EnronOnline a transactions completed by other Users within the company. A Master User can grant ano access to all products and regions to which the Master User has access. However, Users able to change other Users' rights to transact or rights to view transactions completed by

4. **How many Users can a Master User set up?**
   Up to ten. But if you want to set up more Users, Enron has the capability to extend this n request that more Users be set up, please call the Help Desk:

   The Americas: 713 853 HELP (4357)

   Europe & Other Regions: +44 (0) 20 7783 7783

   Asia & Australia: +61 2 9229 2300

   Email: help@enrononline.com

5. **Can we have more than one Master User in the same company?**
   Yes, it is possible and is done to make it easier for you to manage Users' authorization in

6. **I am a Master User and have forgotten my Password. What do I do n**
   If you are a Master User you need to Contact Us and let us know. You should print out th EnronOnline web site, or we'll send it to you upon request. After you sign and return (by the PA with your new requested password, we will change your password and contact yo telephone or email to let you know that it has been activated. Please note that without a ID and Password you will not be able to control access to EnronOnline of other Users wi

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company. If you wish to suspend other Users until you get a new Password, please Cont we will do it for you.

7. **I forgot my User Password. How do I get a new one?**
If you are not a Master User, please contact the Master User in your company. EnronOn designed to make it easy for your Master User to reissue you a new password without co Enron. The Master User will need to go into the Administration screen (accessible to Mas from the quotes page) and reset your password.

8. **Can a Master User set up other Users in a satellite office?**
Only if the satellite office is in the same country as the Master User. You need to have a in each country in which you transact, and you need to complete an additional password and registration form for each country.

9. **If I change User details, when will they take effect?**
Changes take effect immediately after they are processed by the EnronOnline database.

10. **What is the difference between a User and a Guest User?**
Guest User accounts provide temporary access to EnronOnline and are a great way for y more about EnronOnline prior to becoming a registered User. Guest Users can view real posted by Enron traders, while Users can also transact via EnronOnline by clicking on th apply to be a Guest User you need to complete the form found in Contact Us. To apply to User you are also required to complete the Registration Form and sign the Password Ap Contact Us. To apply to be a User you are also required to complete the Registration For the Password Application.

11. **You sent me a new User ID for the Password I specified in the Pass Application. What happens to my Guest User ID?**
Your Guest User ID you used earlier for viewing prices is no longer needed as your new do everything the old one did, and more. Your previous Guest User ID will expire.

12. **My account just stopped working. What is wrong?**
If you only have a Guest User ID, then your access may have expired. Please register fo User ID or Contact Us for further information. If you are a User, please contact your Mas discuss why you cannot access your account. If you are a Master User, please Contact U information.

13. **The security of my Master User ID and Password has been comprom What do I do? How do I close down my account immediately?**
Users and Master Users can change their own passwords. If this is not sufficient, then th in each company can delete the User's old User ID and create a new User ID and Passw If your Password has not been changed already by someone else, then you can change password to something unique. If your Password has already been changed by someone you can request that we disable your old ID and issue a new one. Please contact the En Help Desk. You will be asked to fax a letter from an authorized representative of your co instruct the disabling of the account. To obtain a new User ID and Password, you will nee a new Password Application.

14. **Can brokers have access to EnronOnline?**
EnronOnline is available only to companies which can transact online for their own accou Companies which cannot transact online on their own behalf are not eligible for registrati Users or as Guest Users with EnronOnline.

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ZIFF DAVIS
SMART BUSINESS
SEPTEMBER 2001 [EXCERPTED]

Enron ranked #1

The Smart Business 50

You want profitable Internet companies? We found fifty of them.

LAST YEAR, IN THE FIRST SMART BUSINESS 50, we defined a new kind of Internet company. Never mind Yahoo and eToys and Pets.com. Instead we highlighted companies established years before the Web — and honored those that had most successfully embraced the Net to expand and enhance their business. If last fall you'd invested in the publicly traded stocks among those 50 most Internet-savvy U. S. companies — including General Electric, Enron, Charles Schwab, UPS, Lands' End, and W. W. Grainger — you'd have beaten the market overall.

Live and learn. By now it's conventional wisdom that the Internet isn't a business model, it's just a bunch of computers connected together. Using it as a revolutionary communications medium is a first step, but delivering value to customers — and making more money than you spend — remains key to business success.

"Why does a company like Carrier do e-business?" asks Andre Papaleo, vice president of e-business at the 99-year-old manufacturer of air conditioners. "Because we love to program in Java?" No. Carrier's e-business efforts, like any other initiatives, must meet one or more specific criteria, he says. They must increase market share, improve profitability, bolster asset velocity by speeding product cycle times, or enhance user satisfaction.

If the Net isn't doing at least one of those things, why bother?

As we surveyed companies for this year's Smart Business 50, we learned much about what's worked online in 2001. We've pulled out the 10 key trends in Internet business and labeled them as lessons.

The lessons are diverse. Enron, our top company this year, stormed onto the Internet with one of the largest private marketplaces in history, doing over $3 billion in transactions a day. As many public online marketplaces continue to flounder, the success of Enron Online shows that the best way to attract buyers and sellers to a market is not to build a Web site and hope they come, but to be an attractive buyer and seller yourself.

General Electric (No. 4) has turned the Internet inward to use it as a powerful collaboration platform. General Motors (No. 33) and Raytheon (No. 34), meanwhile, are among the leaders in using the Net to teach and train their employees.

Dell (No. 9) and Herman Miller (No. 10) exemplify how the Internet build-to-order model not only gives customers what they want, but slashes inventory and production costs. Chemical maker Sigma-Aldrich (No. 20) now uses content to drive its e-commerce.

Meanwhile, as the Internet matures in the 21st century, it's moving into new places. Though Americans haven't embraced shopping from cell phones and PDAs in force, wireless data technology is improving, and United Airlines' (No. 32) wireless services for travelers are a perfect example. Rumpus (No. 15) decided not to play ball with traditional toy retailers and children's media experts, instead becoming one of the most prolific developers of animation on the Web.

Carrier (No. 48) is among the forward-thinking manufacturers incorporating the Internet into their products — in Carrier's case, thermostats and air conditioners — to make them more desirable and provide better information about their use. The Internet is finding a home, too, in a venue once thought inhospitable: brick-and-mortar stores. Internet kiosks in Staples' (No. 38) more than 950 stores help shoppers go home satisfied.

And the success of credit card issuer Capital One Bank (No. 42), after it waited so long to formulate its Internet plan, shows what else has changed. Last year it was fashionable to rap laggard companies that hadn't rushed their core business onto the Web. As it turns out, other banks' supposed first-mover advantage proved to be less useful than Capital One's patient insistence on first understanding what worked.

How We Did It

For this year's Smart Business 50, our team of reporters and editors did what journalists do best: months of research, starting with leading U. S. companies across every industry, as well as nonprofit organizations and government agencies. We ruled out pure-play Internet companies — they're not what this list is about. We interviewed e-business chiefs at diverse companies and asked them to nominate their peers.

We also consulted the experts. Two advisors in particular pointed us to e-business leaders in their areas of expertise: Patricia Seybold, CEO and founder of the Patricia Seybold Group and author of **The Customer Revolution** (Crown Business, 2001), helped identify companies that use the Web to bolster their customer capital. William Markham, a logistics expert at AT Kearney, pointed us to businesses successfully integrating the Net in logistics and distribution processes.

Finally, we selected leaders in retailing, manufacturing, financial services, media, health care, transportation, distribution, and other sectors. Ultimately, the ranking represents the well-considered opinion of the Ziff Davis **Smart Business** editors.

We learned a lot. We think you will too. —DS

1 Enron

enrononline.com, enron.com, clickpaper.com, commoditylogic.com, dealbench.com, enroncredit.com

Lesson

Make Yourself a Market

Enron, the Houston-based energy trader, has proved the e-business experts right — and proved them wrong.

For years, visionaries predicted that computer networks would create new marketplaces where buyers and sellers would find each other without a middleman, and a freer-than-ever market would drive prices to unbeatable levels. They were right about the Net opening markets. But countless e-business exchange failures during the past year reveal that simply hooking computers together doesn't create a perfect marketplace. There must be equilibrium — a buyer for every seller who comes to do business, and a seller for every buyer. Public e-marketplaces can't guarantee that.

PHOTOGRAPH BY BETH PERKINS

Enron: #1 in internet profits

But Enron can. For every transaction at EnronOnline, its commodity-trading Web site, Enron itself is the buyer or the seller. When you show up at EnronOnline to trade one of 16 broad commodities, Enron has a publicly posted price at which it will buy — and a slightly higher price at which it will sell. That price difference, the spread, is market maker Enron's profit. It may be just 1 percent of the value of the transaction, but it adds up. Enron does more than 4,000 online transactions in an average day; deals average nearly $500,000. Last year it made $979 million on sales of $101 billion. Long live the middleman.

Enron has adapted its Web-based trading system from natural gas to make new markets in electricity, lumber, pulp and paper, plastics, metals, broadband capacity, crude oil, and other limited resources. Where before a buyer might have needed a morning's worth of phone calls to hunt down prices, now he can go to EnronOnline and buy a commodity instantly with no transaction fee at a market-driven price. Easier price discovery attracts

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buyers and sellers. More trading builds liquidity. And more liquidity tends to narrow spreads, resulting in better prices — and more deals for Enron to handle.

Deal flow is key. The more commodities Enron handles, the more it can turn supply and demand into value-added financial instruments like swaps. It can sell a contract that allows a gas user to lock in a fixed price for a set number of years as a hedge against price spikes. It can provide the gas a power plant needs to produce electricity or, if gas prices spike, simply provide electricity to the power company.

Technology makes it possible. A long-term gas contract that in 1981 took two years to execute — and in 1997 took two weeks — now takes less than a second online. The company developed EnronOnline using Macromedia Shockwave, a tool more commonly used to create online games. Customers just click to buy and sell. And Enron's scalable backbone makes it easy to expand.

"We can move aggressively into new markets and not get hung up with huge IT jobs," says Greg Piper (pictured), CEO of Enron Net Works. "It doesn't matter whether it's coal or paper. We don't ever have to say to [Enron CEO] Jeff Skilling, 'Hey, don't move into a new commodity, because we'll have a year-long IT project on our hands.' "

Behind the scenes, hundreds of traders who specialize in commodities work frenetically, constantly adjusting prices. High-speed trading has so overtaken Enron (about 60 percent of its deals close online) that this fall traders move to a high-tech new trading floor across the street.

Outside Houston, not everyone loves Enron. Californians curse the company for capitalizing on the state's bungled deregulation. A backlash and slowdown of energy deregulation would crimp Enron's growth, but Forrester Research predicts online energy trading will explode from a $400 billion market last year to $3.6 trillion in 2005. And Enron leads the field, with double the online trading volume of its nearest competitor.

The beauty of being a market maker is that you don't care whether prices go up or down, as long as they move. Thanks to the Internet, Enron is equipped to make the most of the uncertainty that comes with free markets. —DS

InternetWeek 100

The Nation's Top E-Businesses

Services

Trader Reaps Benefits Of E-Market Leadership

'Liquidity' is the key to Enron's position at the center of online value chains

By JADE BOYD

Uncertainty has debilitated many e-businesses, with staffers and managers alike wondering when things will pick up. But optimism is still in the air at Enron Net Works, the e-business arm of Fortune 7 energy company Enron Corp., which continues to expand its electronic trading model into all manner of commodity markets.

Net Works oversees EnronOnline, where Enron buys and sells more than $4 billion a day of mostly natural gas and electric power, plus steel, coal, telecom bandwidth, data storage, freight services and 1,500 other products.

Net Works is also a new-business incubator, repackaging applications Enron originally developed for internal use into revenue-generating online services. For example, EnronCredit.com, an offshoot of

ENRON

Headquarters: Houston
Line of business: Energy production and marketing; online exchange operator
2000 Revenue: $100.79 billion
2000 Net Income: $979 million
Percentage of revenue from e-business activity: N/A
CEO: Jeffrey K. Skilling
Top e-business executive: Philippe Bibi, president and CEO, Enron Net Works
E-business highlights: EnronOnline conducted its millionth transaction in May; total trade volumes on the commodity-trading site have exceeded $550 billion since it was established in November 1999. Enron Broadband Services conducted 580 online transactions in the first quarter, compared with 321 for all of 2000
E-business challenges: Re-creating its success in online

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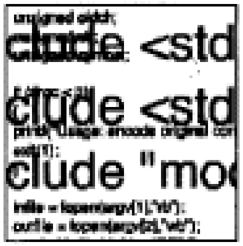

TechWeb Sites
Bank Systems & Technology
CMPmetrics
InformationWeek
Insurance & Technology
InternetWeek
IT Pro Downloads
Network Computing
PC Expo
TechCalendar
TechEncyclopedia
TechLearning
TechWeb News
TechWeb Today
Wall Street & Technology

Ad Info

software Enron created to help its traders manage credit risk, offers a service to some 10,000 companies to quickly determine the cost of extending credit to their own trading partners. EnronCredit.com, which broke even in its first year, is expected to turn a profit this year.

Net Works is part software development house and part IT department, responsible for routine tasks, such as desktop support, and critical functions, such as keeping Enron's e-business infrastructure running. The group, with 1,500 employees, grew some 30 percent in the past year, occupying more than four floors of Enron's downtown Houston headquarters.

energy trading in dozens of other commodity businesses including bandwidth, data storage, forest products, metals, coal and freight logistics
Top e-business accomplishment: With EnronOnline, Enron brought immediate and transparent pricing to energy markets; the site is one of the world's leading e-commerce platforms, with daily trade volumes in excess of $4 billion

- **Services: Industry Leaders**
- **Services: By The Numbers**
- **ONLINE EXTRA--Reporter's Notebook On Enron**

"Our job is in two parts," says Net Works COO Greg Piper. "Help Enron expand horizontally in markets for new commodities like forest products and freight services, and build a business around the tools that helped to transform Enron."

E-Commerce Apex

While Enron's e-business gains have been spotty in some areas--it has struggled to create liquid Web markets in bandwidth and on paper, for instance--EnronOnline is one of the most successful e-marketplaces. It conducted its millionth transaction late last month, and the total value of trades on the site exceeds $590 billion. Online trading now accounts for almost 75 percent of Enron's energy transactions in North America, the company says.

Enron counts both purchases and sales in its volume numbers--unlike e-marketplaces that simply take a cut of transactions on their sites--because the company is a "counterparty" to every trade on EnronOnline. Enron makes its money on the spread between what it pays for commodities and what it sells them for.

When a customer clicks to buy gas, electricity, steel or any other commodity, Enron guarantees price and delivery time. The key for Enron isn't to own massive amounts of physical product or storage and delivery capacity, but to arrange for third-party supply and logistics electronically. Enron stays informed about the vast array of factors that can influence price and delivery on a minute-by-minute basis by employing thousands of researchers, analysts, weather forecasters and other market specialists.

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Enron isn't just moving physical product on the site. Much of its online deal-making is in financial derivatives and risk management.

For example, Enron is now in the market for DRAM chips. But it doesn't buy and sell the chips; it sells financial instruments that let companies lock in a price for DRAMs for a set period. Ultimately, Enron hopes to buy and sell the chips itself, just as it buys and sells gas, electric-ity and other commodities.

Energy Trading Redone

Enron is reticent about disclosing exact volume figures for the different commodities traded on its sites. The large majority of trades are still conducted in natural gas and electricity.

The Internet is transforming energy trading from something of an art form, dominated by person-to-person deals negotiated over the telephone, to an automated science. By openly displaying its "bid" and "ask" prices--and the spread between them--Enron drove trade volumes through the roof in 2000. Forrester Research estimates that the "notional value" of online energy trades grew 750 percent in 2000, with EnronOnline accounting for most of them.

But competing energy firms are banding together to form online marketplaces of their own. American Electric Power, Aquila, BP Amoco, Duke Energy and others joined with Goldman Sachs and other financial firms to form Intercontinental Exchange, while Axia Energy, Coral, Dominion TXU and Williams have formed TradeSpark.

While these consortia may view each other as competitors, they see EnronOnline as complementary, says Forrester analyst Jim Walker. "Everyone loves to have Enron trade on its site because Enron brings the most valuable thing to the market, which is liquidity," Walker says.

Enron has purchased physical assets to ensure its own supply in several key markets, such as pulp and paper and metals, Piper says. Metals trading, he says, is up to about 1,000 transactions daily, representing about 25,000 metric tons of steel.

Enron conducted 580 bandwidth trades in the first quarter, compared with 321 in the past year, and it expects to handle more than 2,200 trades in 2001.

However, Enron's total online trading volume represents everything from storage services to long-haul circuits to dark fiber to IP services. None of the bandwidth commodities has achieved liquidity yet, notes Kevin Hannon, president of Enron Broadband

Services, which completed an 18,000-mile fiber optic network in 2000 and built 25 "pooling points" to tie in with other provider networks.

A Helping Hand

Enron has plowed ahead so aggressively online that some trading partners that haven't invested in back-office automation simply can't keep up, Piper admits. Enron is responding with CommodityLogic, software modules designed to help trading partners streamline the fulfillment process and reduce data re-entry errors.

Enron will create and maintain a centralized database of information pertaining to trades. Partners access that information with CommodityLogic software modules designed for such tasks as quality assurance, scheduling and invoicing. The three modules in tests are InvoiceLogic; ConfirmLogic, an order confirmation system; and NomLogic, which handles delivery scheduling for natural gas trades.

"Scheduling that natural gas would typically involve three to 10 phone calls and two to three faxes, and for a deal done over the course of a 30-day month, you might have had to repeat that every business day," says Tom Gros, the Net Works vice president in charge of CommodityLogic. "With NomLogic, that process now takes seconds. I enter it on the screen and automatically, if it's a month-long deal, the previous day's data appears for me so I don't have the chance to create an error."

The business model for developing CommodityLogic is the same one Enron used for EnronCredit.com and its other online initiatives: Net Works develops an application to save time or improve efficiency internally and then repackages the app for external use. The software for EnronCredit.com's Cost of Credit service, for instance, was originally developed to help Enron's own traders manage credit risk.

Much of Cost of Credit information is free with registration to EnronCredit.com, but Enron charges a fee to download information or get e-mail alerts of significant changes to the credit risk of companies in a prespecified portfolio. But the main way Enron makes money from the site is by selling "bankruptcy swaps" to enterprises that want a hedge against the possibility that a partner will go out of business.

Whereas EnronCredit.com grew out of software Net Works developed for Enron's commodity trading business, Enron's latest ASP offering, DealBench, came out of software designed to make it easier and faster for Enron to negotiate large structured deals for complex assets, such as power plants.

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Enron's procurement department has used the auction functions in DealBench to buy more than $1 billion of goods, everything from broadband networking gear to carpeting for the new 40-story skyscraper Enron is building across the street from its 50-story headquarters in downtown Houston.

DealBench's collaboration tools manage the complex communications that are part of any large structured deal. Features include secure two-way messaging and the ability to deliver multimedia presentations and give participants varying levels of access to sensitive information.

Last month, Enron added Data Room, a document management system that lets companies set up "virtual data rooms" to streamline the bidding process for complex physical assets, such as refineries and manufacturing plants. Normally, companies selling these types of assets have to staff a physical room hosting lawyers and engineers from every potential bidder, each of whom require several days to pore over hundreds of thousands of pages of technical documents. Enron has used Deal Room to syndicate some $3 billion of its own credit to more than 81 financial institutions and sell more than $240 million in assets.

With all DealBench services, companies can host any number of potential bidders simultaneously, giving each participant the exact level of access necessary. Bidders download a piece of client software that decodes encrypted documents on the site, so even if sensitive documents are sent to unauthorized users, they can't be opened, says Jeffrey Bartlett, a principal at DealBench.

Rather than take a percentage of the overall deal, Enron sells DealBench licenses to the deal managers and hosts the platform. Enron wouldn't reveal specifics about pricing, which varies based on the length of contract, number and size of prospective deals and the number of potential bidders.

Centerpiece Of E-biz

For the time being, energy trading--and trading in financial products related to those trades--will remain the centerpiece of Enron's online business. Forrester estimates that notional trading for U.S. natural gas futures and options contracts amounted to about 3.6 times the total quantity of physical trades and 12 times the amount of physical delivery in 2000.

"Electricity in the U.S. is a $300 billion market, but the velocity at which that $300 million is being turned over is increasing," says Bob Christensen, an energy industry analyst with First Albany Corp. "The same power--and all the fuels related to it--can churn and change hands a dozen times a day."

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As other companies convert their trading systems to online models, Enron hopes to sell its expertise in this area. (Enron says its own online-enabled back-end systems reduced its marginal cost per transaction by 75 percent in 2000.)

Enron stands to gain twice: first, by providing the services itself, and second, by further increasing online trade volumes in a market where it has a clear ownership stake.

SERVICES By The Numbers

CUSTOMER ISSUES

Expansion of customer base because of Internet capabilities ***16%***

Percentage of Internet sales orders that are perfect ***83%****

Percentage of visits to Web site that are converted into orders ***2%***

SUPPLIER ISSUES

18% Percentage of purchase orders done over the Internet

16% Percentage of strategic suppliers sourced over the Internet

15% Percentage of strategic sourcing dollars spent over the Internet

ELECTRONIC MARKETS

Percentage of sales orders conducted via an e-marketplace ***17%***

Percentage of purchase orders conducted via an e-marketplace ***17%***

E-BUSINESS REVENUE

8% Percentage of revenue achieved via the Internet

9% Percentage of orders received online

7% Percentage of revenue growth in last fiscal year resulting from the Internet

19% How much Internet revenue is expected to grow in the current fiscal year

78% Percentage of companies expecting profitable online operations in 2001

COST CUTTING

Cost reductions from indirect materials procurement on the Internet **9%**
Cost reduction from direct materials procurement on the Internet **6%**
Cost reduction in customer management via the Internet **16%**
Cost reduction in fulfillment and delivery via the Internet **7%**
Figures are averages for InternetWeek 100 companies in this industry *Orders that are fulfilled accurately, on time and in the right quantity Source: *InternetWeek*

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PASSWORD:
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Presentations
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Enron Announces First Metals Transaction on EnronOnline

FOR IMMEDIATE RELEASE: Thursday, July 06, 2000

HOUSTON: Enron Corp. announced today it has completed the first physical metals transaction on EnronOnline.

EnronOnline offers customers a free, Internet-based system for conducting wholesale transactions with Enron as principal. In addition to a comprehensive offering of Enron energy and bandwidth products, EnronOnline will now offer three physical metal contracts. The products include U.S. Midwest Aluminum, U.S. Copper High Grade Warehouse and U.S. Copper Bonded Warehouse.

"Buying and selling metals through EnronOnline provides improved pricing, price risk management services and more flexible transactions for our customers," said Louise Kitchen, managing director of EnronOnline. "This step is a continuation in the trend of commodity markets to move to web-based trading and a natural extension of our proven business model."

U.S. Midwest Aluminum will be based on registered brands of High Grade Premium Aluminum and will be available, at buyer's option, for delivery in Tennessee, Kentucky, Illinois, Ohio and Indiana. U.S. Copper High Grade Warehouse will be based on registered brands of Grade A Copper and will be available, at seller's option, for delivery to Amarillo, Texas; Baltimore; New Haven, Conn.; New Orleans; St. Louis; Tucson, Ariz.; El Paso, Texas; Salt Lake City; and San Manuel, Ariz. U.S. Copper Bonded Warehouse will be based on registered brands of Grade A Copper and will be available, at seller's option, for delivery to New Orleans; Baltimore; New Haven, Conn.; Long Beach, Calif.; Los Angeles; Chicago; and St. Louis.

EnronOnline provides real-time prices for power, natural gas, coal, weather products, petrochemicals, pulp and paper, emissions credits, bandwidth and other commodities in the Americas, Europe and Asia. Since its launch in November 1999, EnronOnline has expanded to include more than 850 products. Enron's new eCommerce platform has completed over 178,000 transactions with a gross transaction value exceeding $84 billion.

Enron is one of the world's leading electricity, natural gas and communications companies. The company, which owns approximately $37 billion in energy and communications assets, produces electricity and natural gas, develops, constructs and operates energy facilities worldwide, delivers physical commodities and financial and risk management services to customers around the world, and is developing an intelligent network platform to facilitate online business. *Fortune* magazine has named Enron "Most Innovative

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Company" for five consecutive years, the top company for "Quality of Management" and the second best company for "Employee Talent." In addition, Enron ranks in the top quarter of *Fortune's* "Best 100 Companies to Work For in America." Enron's Internet address is www.enron.com. The stock is traded under the ticker symbol "ENE."

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About EnronOnline

EnronOnline is your best tool for trading energy-related products and other commodities quickly, simply and efficiently. Our Web-based service combines real-time transaction capabilities with extensive information and customization tools that increase your knowledge of what's happening around the world-even as it happens. EnronOnline sharpens your sense of the marketplace to make you a more knowledgeable trader.

A Comprehensive Product Line
No matter what commodity you want to buy or sell, you're almost certain to find a live, competitive quote on EnronOnline. We cover markets all over the world including gas, power, oil and refined products, plastics, petrochemicals, liquid petroleum gases, natural gas liquids, coal, emission allowances, bandwidth, pulp and paper, metals, weather derivatives, credit derivatives, steel and more. EnronOnline covers almost every major energy market in the world. And we're not sitting still. We're adding new markets and new products all the time.

EnronOnline covers almost every major energy market in the Americas, Europe, Asia and Australia. We're adding new markets and new products all the time.

Real-Time Pricing
With EnronOnline, you have continuous access to live, real-time prices for hundreds of products during local market hours. When you're ready to act on a price, you can-instantly-without picking up a telephone or filling out a form or faxing in a ticket.

Fast, Free, Secure Execution
Our simple-to-use interface gives you the power to buy and sell hundreds of commodity products around the world with just a few clicks of a mouse. There are no commission or subscription fees. And our use of Secure Socket Layer (SSL), secure servers and encryption technology means that your transactions are kept secure and confidential.

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When markets move fast, you want to know that your order will be executed as

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Gain even more flexibility in trading commodities in a volatile market. EnronOnline provides real-time prices for commodity option contracts. You can get a quick view of both physical and financial commodity prices right on your desktop, making it far more convenient to trade commodities.

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Being informed about the market and the world around you is easier than ever with EnronOnline. You'll find the latest headline, industry and sports news from Reuters and Dow Jones Newswires, world leaders in business and financial reporting, as well as stock quotes from major exchanges around the world.

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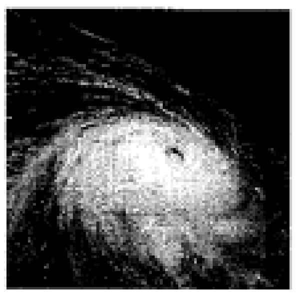
You can keep up with industry trends through a wide range of industry-specific publications such as Argus European Natural Gas, Argus European Electricity, news from NGI's Daily Gas Price Index, Bandwidth Desk, Coal Daily and more. All available free-of-charge to you on EnronOnline.



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If you're trading weather-sensitive commodities, EnronOnline gives you the weather information you need to trade with confidence, including weather maps and temperature data from around the globe. You'll also get weather forecasts up to seven days ahead and temperature differentials from periodic averages.

Complete Customization Capabilities
Thanks to our flexible design, you can customize every aspect of EnronOnline to work the way you want it to work and display what you want to see. With our enhanced filtering capabilities, you can create different page tabs for the products that interest you and gain instant access to each with a click of your mouse. You can float and resize multiple pop-up windows to display all your information at once. You can even control which of your employees can access EnronOnline, specify whether they can execute transactions, and, designate which commodities they're authorized to trade.

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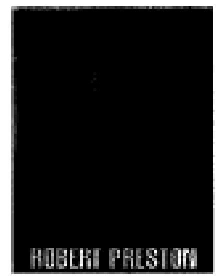
November 30, 2001

The Internet Didn't Kill Enron

By ROBERT PRESTON



"We have a fundamentally better business model."

That's how Jeffrey Skilling, then president of Enron Corp., summarized his company's startling ascendancy a year ago, as Enron's revenues were soaring on the wings of its Internet-based trading model.

It was hard to find fault with Enron's strategy of brokering energy and other commodities over the Internet rather than commanding the means of production and distribution. EnronOnline, its year-old commodity-trading site, already was handling more than $1 billion a day in transactions and yielding the bulk of the company's profits. At its peak, Enron sported a market cap of $80 billion, bigger than all its competitors combined.

Today, Enron has filed for bankruptcy, the status of EnronOnline is touch and go, ENE is a penny stock and Skilling is out of a job. Last year's Fortune 7 *wunderkind*,

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hailed by *InternetWeek* and others as one of the most innovative companies in America, overextended itself to the point of insolvency.

So was Enron's "better business model" fundamentally flawed? With the benefit of 20/20 hindsight, what can Internet-inspired companies in every industry learn from Enron's demise?

For one thing, complex Internet marketplaces of the kind Enron assembled are fragile. Enron prospered on the Net not so much because it had good technology -- though the proprietary EnronOnline platform is considered leading-edge -- but because online customers trusted the company to meet its price and delivery promises.

As Skilling told *InternetWeek* a year ago, "certainty of execution and certainty of fulfillment are the two things people worry about with commodity products." Enron, by virtue of its expertise, networked relationships and reputation, could guarantee those things.

Once it came to light, however, that Enron was playing fast with its financials -- doing off-balance sheet deals and engaging in other tactics to inflate earnings -- customers (as well as investors and partners) lost confidence in the company. And Enron came tumbling down.

Furthermore, advantages conferred by superior technology and information-gathering are fleeting. Competitors learn and mimic and catch up. Barriers to market entry evaporate. Profit margins narrow.

Enron, short of incessant innovation, could never hope to corner Internet market-making, especially in industries, like telecommunications and paper, that it didn't really understand. In its core energy market, perhaps Enron was too quick to eschew

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refineries and pipelines for the volatile, information-based business of trading.

But it wasn't Internet that killed the beast; it was management's insatiable appetite for expansion and, by all accounts, personal enrichment.

It's too easy to kick Enron now that it's down. It did a lot right. The competition and deregulation and vertical "de-integration" Enron drove are the future of all industries, even energy. Enron was making markets on the Internet well before its competitors knew what hit them.

Was Enron on to a better business model? You bet it was. But like any business model, it wasn't impervious to rules of conduct and principles of economics.

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Enron execs saw controversial deals as key to maintaining firm's growth

Documents show top officers were aware of partnerships

By John R. Emshwiller
THE WALL STREET JOURNAL

Jan. 2 — As some current and former Enron Corp. officials try to distance themselves from controversial partnerships that played a role in the company's demise, internal Enron documents show top management and directors viewed the partnerships as integral to maintaining the energy-trading giant's rapid growth in recent years.

THE DOCUMENTS also reinforce the notion that top Enron officials, including Chairman Kenneth Lay and former President Jeffrey Skilling, were directly involved in the creation and oversight of the partnerships, which were run by former Chief Financial Officer Andrew Fastow. Questions about the partnerships in recent months contributed to a collapse in investor confidence in the Houston-based company, which just a year ago had a market capitalization of over $60 billion. Enron filed last month for Chapter 11 bankruptcy-court protection, which shields the company from creditors while it seeks to reorganize.

An Enron spokeswoman said the company didn't have any comment on the documents. Among these are an internal memorandum from an Enron attorney to Skilling regarding procedures for monitoring transactions with the partnerships. The documents also include excerpts of minutes from meetings of Enron's board and the board's finance committee.

Enron and Lay have consistently said that the company's dealings with the partnerships, which involved joint investments as well as asset sales, were aimed at helping the company, were carefully reviewed to prevent conflicts of interest and were adequately disclosed. The partnership dealings are the subject of a Securities and Exchange Commission probe and are being looked into by Congress.

The Enron documents indicate that in mid-1999 the company began using the partnerships to confront changing business conditions.

A document excerpting a June 1999 board meeting cited Skilling as saying that because of changing accounting rules affecting off-balance-sheet transactions, Enron had been analyzing new types of financing vehicles. Though the document doesn't provide further explanation, the statement would appear to be a reference to a concern at Enron about trying to keep as much debt as possible off the company's balance sheet. Too much debt lowers a company's credit rating, which was a particular worry for Enron, whose vast energy-trading operations relied heavily on its credit standing.

In the June 1999 document, Lay and Skilling were identified as being designated by Enron's board to help ensure that the company received fair consideration in one of the early partnership deals.

A draft version of minutes from an October 2000 meeting of the Enron board finance committee cites Fastow speaking of the need for outside private partnerships to help manage the company's finances so that Enron could "continue to grow." Enron planned to continue making "significant capital investments. ... some of which would not generate

Enron Corp. (ENE)

price	change
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cash flow or earnings for a number of years," the document said.

Out of such needs were born in 1999 the so-called LJM partnerships, which were run by Fastow. The Enron documents show that an early transaction involved the hedging of the value of an Enron investment in Rhythms NetConnections Inc., a data-communications company. According to one document, Fastow discussed how Enron could protect the value of that holding through a complicated swap arrangement that also involved Enron stock and a $50 million LJM payment.

In a filing last November with the SEC, Enron said that it had incorrectly accounted for the Rhythms/LJM transaction. As a result, Enron retroactively reduced its reported net income for 1999 and 2000 by about $100 million, or around 5 percent.

The internal documents show that the board and top management were aware of the possible conflicts of interests in having Enron's chief financial officer running partnerships that eventually did hundreds of millions of dollars of business with the company. One document, labeled as part of a June 1999 presentation to Enron's board, also laid out the huge profit potential in Fastow's partnership compensation formula, under which he stood to reap as much as half of partnership profits in addition to management fees. Enron has estimated that Fastow made over $30 million from his partnership activities.

To avoid potential conflicts of interests on Fastow's part, Enron set up a review procedure for any Enron deals with the partnerships. Among other things, all transactions had to be approved by Skilling and two other senior Enron officials, according to one of the company documents.

In interviews with several media organizations last month, Skilling, who resigned as Enron's president and chief executive officer in August, indicated that he wasn't fully aware of all the LJM-related dealings and was also surprised by the size of Fastow's partnership remuneration. Tuesday, a spokeswoman for Skilling said that while he was familiar with the structure of the LJM partnerships, "he wasn't aware of or intimately involved with details" of particular transactions. Those matters were "handled at a lower level" of the company, she added.

Fastow couldn't be reached for comment. But a

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Fastow attorney has previously pointed to Enron statements that all the LJM transactions were proper and approved by the board and top management.

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Managing risk from top to bottom

Glenn Labhart of Dynegy

Glenn Labhart is chief risk officer at Houston-based energy group Dynegy. The company's main business lines include Dynegy Marketing and Trade, which covers power generation and marketing and trading of natural gas and power; Dynegy Midstream Services, covering natural gas liquids; Illinois Power, an energy delivery company with 650,000 electric and natural gas customers; and Dynegy Global Communications, through which it aims to become a player in telecoms markets, and which includes its Dynegyconnect project to create a US data network. The group had revenues of $29 billion last year, and in the second quarter of 2001 it posted revenues of $10.8 billion, derived mainly from increased natural gas and physical power sales.

Labhart, who is responsible for corporate risk oversight and enterprise risk, was previously vice president of Neste Trading, a division of Finnish national oil company Neste Oy. He has also worked as assistant vice president of MG Corp, and for UK oil and gas exploration firm Tricentrol, as well as for Tenneco and El Paso Energy.

Prior to his joining as CRO in August 1997, Labhart says the role was a middle management position without corporate officer status. Now, however, it is a board-appointed job, and Labhart reports directly to chief financial officer Robert Doty, with 'dotted lines' to president Stephen Bergstrom, and chairman and CEO Chuck Watson. The CRO makes recommendations to the executive risk committee.

At Dynegy, the CRO role emphasises both a top-down view of risk and localised risk management. "There is now a greater emphasis on aggregating risk at the top level. My position was created to establish this, and to partner with the business units in our approach to risk," says Labhart. While a top-down view of aggregated risk is important, he also stresses the devolved nature of operational risk management, for example, where individual businesses are responsible for monitoring and controlling their risks, and the importance of risk transfer from the asset to the trading side of the company's activities.

The decision to elevate the role to its current level of importance wasn't sparked by a particular incident or risk management failure. "It was simply in line with the general direction in which we were moving," Labhart says. "Dynegy made the decision to expend capital and technology in order to develop new processes, and the role of risk in the organisation became more central." This process pre-dated Dynegy's transition from a regional utility to a global energy trader, but has become increasingly important as this progress continues.

Monitoring risk

The risk management group comprises 25 people, whose aim is "to ensure that top-down risk is managed while partnering with people on the operational side of the business". The CRO concentrates on the traditional types of risk, such as market, credit, legal and business risks. "Our focus is to ensure that risk is transferred to the right division from the asset side of the business," Labhart says. "From an operational point of view, we monitor the risk and partner with the business units to make sure it is properly managed."

This is true of the power generation business – where Dynegy owns around 14,000 megawatts of power generation capacity and owns or controls 19,000MW – and of the midstream assets, or natural gas liquids, where "the underlying cash flow is mapped into one central area and then we look at the spreads and the costs associated with that area," says Labhart.

"We're running a merchant energy business where the focus is to ensure that risk is managed at a high level, but also locally," he says. Insurance and operational risk are not the CRO's direct responsibility. "That's the enterprise risk model we've developed," he says, "and we're comfortable with it, even if it's not necessarily a standard ERM model. The traders who work closely with our asset group receive the risks associated with the asset group, and can then lay off those risks," he explains. "My group measures these risks."

To do this, Dynegy measures value-at-risk (VaR) every day and uses other metrics such as risk-adjusted return on capital. "From this, we assess and adjust the level of capital assigned to each business," says Labhart. The main focus is on VaR, but traditional exposure limits are also used. His group also creates monthly and quarterly reports on the amount of equity put at risk and makes recommendations accordingly to the executive risk committee.

"We also monitor cash, in order to manage the optionality of our portfolios. And of course we monitor the traditional 'Greeks', such as theta, vega, gamma and so on, which are measured by our trading systems," he says.

Asked what he reckons will be the next big challenge for the CRO, Labhart mentions the opportunities for leveraging off the firm's e-commerce strategy. "This gives us more capability for looking at data and then further decentralising risk by pushing it down to the regions within the business units." His group can already communicate risk levels to the executive risk committee through an internal website known as the risk dashboard. This allows a constant, dynamic view of each business unit's exposure, which can be viewed on an aggregated basis.

"We feel there is more incremental analysis we can do through e-commerce channels, for cash flow at risk, VaR and so on. We've been spending the capital to allow us to do this, and the emphasis is on using this technology to allow us to make the right decisions," says Labhart. ■

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Aiming for a single metric

Rick Buy of Enron Corporation

Asked about the biggest challenge he faces, Enron's chief risk officer could never be accused of aiming low: Rick Buy aims to condense all the risks of Enron Corporation into a single metric. This would comprise operational, market and credit risk and incorporate risk-adjusted return on capital (RAROC), value-at-risk (VaR) and extreme value theory into what Buy calls a single "pseudo capital-at-risk figure" that can be shown to the Enron board of directors.

It's a daunting task for the CRO of a company that encompasses business lines as diverse as running a vast natural gas pipeline network, wholesale power marketing, energy trading, project financing and consulting, as well as engineering and construction. That's without taking into account new ventures such as Enron's entry into the UK water business through Azurix; its involvement with weather derivatives through the launch of temperature-linked bonds; its launch of a B2B exchange for trading bandwidth; and its foray into online credit risk management for third parties, Enron Credit.

Ranked 18th in the Fortune 500 index, with revenues of $100 billion in 2000 (compared with $40 billion in 1999), Houston-based Enron is seeing its list of counterparties growing towards the 20,000 mark, a rise that Buy attributes partly to the development of the Enron Online e-trading platform – which reputedly has turned Enron into the world's biggest e-commerce company by value of transactions since its launch last year.

The size and complexity of Enron's diverse business lines and counterparty list makes the idea of a single risk measurement for the whole firm seem almost incredible. Buy admits that one of his other goals, of achieving enterprise risk management (ERM) across the whole group, is only about 30 per cent complete so far, but says a lot of progress has been made in aggregating risk across the company: "We understand that, for example, credit exposure to Shell in London has to be added to Shell elsewhere, and we routinely assess how exposed we are in this kind of way."

Buy joined Enron from Bankers Trust in 1994, and as CRO, reports directly to president Jeffrey Skilling as well as to the board. He is on Enron's executive committee and heads the risk assessment and controls (RAC) group. Enron's separate risk committee was disbanded a year ago, and the risk function now comprises Buy and his RAC group, the board and senior management. The board sets the firm's appetite for risk, while the RAC group measures and reports on risk throughout the company.

"The board tends to be vague on the details of risk positions, "says Buy. "I try to ascertain their comfort levels with certain market moods and P&L swings. We then try to set our limits structure to accommodate that risk appetite. You have to read between the lines of the board's views to some extent – they know that we need to take on risk, but also they take the view that we're not a pure trading house." Individual transactions to the value of $750,000 and above get referred directly to Buy's RAC group, while anything above the value of $75 million has to be approved by the board.

In addition to the RAROC and value-at-risk methodologies currently in use at Enron, Buy is now keen to include extreme value theory in the range of metrics employed. "VaR looks at 95 per cent confidence levels," he says, "but it's not the 95 per cent that's the germane metric – that's not going to blow up the company. We're now getting into extreme value theory in a big way. I hope to have it completely integrated into

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our risk systems within one year, and we have a PhD in the RAC group working on this."

In a company of more than 22,000 employees, operational risk is an important factor. "We don't quantify operational risk as a dollar amount," says Buy. "But we do have a 'doorstep' system where someone will show up unannounced and check your transactions. Management is required to act on the 'speeding tickets' that are sometimes given out as a result of these checks."

Enron takes IT seriously, too. Buy describes technology as "the blood that runs through our veins", and says he reviews IT issues every day: "If there's a problem with the aggregation system, for example, it has to be understood and corrected. I allocate part of every morning to this." The RAC group relies heavily on Enron's IT infrastructure, which Buy describes as "a giant octopus, with tentacles feeding into Houston, where we aggregate credit exposure, VaR and so on – so you can see why it has to work properly".

The RAC group has just 150 staff working for it; what's more, Buy expects this to shrink by about 10 per cent: "We have so many companies growing so fast that we've been forced to get more organised." This rapid acquisition and growth of new business lines is another of the big challenges for risk managers at Enron – moving into new businesses is notoriously tricky when it comes to balancing risk and reward, and Enron's portfolio of business lines is more diverse than most.

Buy says that before starting a new type of business – for example, trading a particular commodity – Enron staff must get interim approval for an allocated level of risk by the RAC group, before the board approves it. "Before we do that," he says, "we need to see that they can calculate positions, do value-at-risk and have back- and middle-office procedures in place: it's a very exhaustive process."

New businesses are also scrutinised carefully for the impact they will have on Enron's overall credit exposure. Enron handles credit risk in much the same way that a bank would, looking at the merits of individual counterparties and exposure to sectors. "We would look carefully at sectors such as steel, pulp and paper, which are loaded with bad credits," says Buy.

The other tools used to assess new business lines are real options and notional mark-to-market, even in businesses that would not normally lend themselves to marking to market. "We got into real options about two years ago, and my feeling is that they have limited but not zero use," says Buy. "We approach our business as a commodity-like position with embedded options and pseudo mark-to-market positions. If we do an investment in a power plant, we have a strategic risk management system that calculates a pseudo mark-to-market for that investment.

"Those things that are in people's faces every day get managed well, and vice versa. The problems we've had are 'outside the box'. The things outside our processes are the ones where we got burnt – for example, with J-Block," he says. The J-Block episode saw Enron finding itself dangerously exposed to falling gas prices in the UK. It entered into a "take-or-pay" gas contract, signed in 1993 between Enron and the companies operating the J-Block gas field in the UK North Sea. Enron planned to use the 260 million cubic feet per day of gas, at around 20 pence per therm, to supply one of its own power stations and to sell on to other electric power plants. But by the time it was due to take delivery of the gas, the market price was closer to 10 pence per therm, and gas demand was lower than had been anticipated.

Since a take-or-pay contract means just that, Enron was caught in an untenable position, and finally had to reach a settlement with the J-block suppliers in 1997, under which it made a cash payment of $440 million to get out of its contract. The whole episode cost Enron $537 million after tax during 1997, and led to serious questions being asked at board level about control over large transactions. Senior management had not been aware of the contracts, which were agreed by the corporation's asset development business, Enron International Group. "This was a classic commodity position that was not marked to market and watched. We got hammered," Buy admits, "and that would never have happened in a managed, mark-to-market environment."

He says there will always be market changes and risks that are outside the firm's control, but the key is to be fully aware of Enron's exposure across all the different markets it is in. "You're still going to have market aberrations, like what is going on in California right now," he says. "So long as you know the boundaries of your exposure, you can cope with that."

Alan McNee, ERisk

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The Largest Bankruptcies 1980 - Present

Company (click for more info)	Bankruptcy Date	Total Assets Pre-Bankruptcy	Filing Court District
Enron Corp.*	12/2/01	$63,392,000,000	NY-S
Texaco, Inc.	4/12/1987	$35,892,000,000	NY-S
Financial Corp. of America	9/9/1988	$33,864,000,000	CA-C
Pacific Gas and Electric Co.	4/6/2001	$21,470,000,000	CA-N
MCorp	3/31/1989	$20,228,000,000	TX-S
First Executive Corp.	5/13/1991	$15,193,000,000	CA-C
Gibraltar Financial Corp.	2/8/1990	$15,011,000,000	CA-C
FINOVA Group, Inc., (The)	3/7/2001	$14,050,000,000	DE
HomeFed Corp.	10/22/1992	$13,885,000,000	CA-S
Southeast Banking Corporation	9/20/1991	$13,390,000,000	FL-S
Reliance Group Holdings, Inc.	6/12/2001	$12,598,000,000	NY-S
Imperial Corp. of America	2/28/1990	$12,263,000,000	CA-S
Federal-Mogul Corp.	10/1/2001	$10,150,000,000	DE
First City Bancorp.of Texas	10/31/1992	$9,943,000,000	TX-N
First Capital Holdings	5/30/1991	$9,675,000,000	CA-C
Baldwin-United	9/26/1983	$9,383,000,000	OH-S

* The Enron assets were taken from the 10-Q filed on 11/19/2001. The company has announced that the financials were under review at the time of filing for Chapter 11.

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New Generation Research, Inc. Boston, MA
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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

AUG 03 1999

Mr. George Muñoz
President and Chief Executive Officer
Overseas Private Investment Corporation
1100 New York Ave., NW
Washington, DC 20527

Dear President Muñoz:

Thank you for your timely letter of July 19 regarding the Bolivia-Brazil Cuiaba gas pipeline project. I had been meaning to follow-up with you, in light of the Board Resolution giving conditional approval to the project (released on July 2). As you are no doubt aware, Treasury and, I believe, other agencies have been hearing some complaints from NGOs since the Board Meeting in mid-June. More recently, we have learned from the State Department that there may be concerns about the legality under Bolivian law of the protocol to set up the Chiquitano Forest Conservation Consortium (CFCC), and that the Government of Bolivia may not have issued its final environmental/construction permit. As you will recall, the establishment of the $30 million CFCC and approval by the GoB were key to Board approval of the project.

Treasury staff met with OPIC staff on Wednesday, July 7, to discuss a range of concerns. Several issues were resolved -- for instance, we are pleased to learn that OPIC has hired a qualified scientist for the review of the supplemental Navarro study on the forest classification, and a known environmental consulting firm to monitor implementation. However, some potentially serious concerns are outstanding. Clearly, this will remain a very sensitive, high profile project, and it is very important to handle any and all associated issues well.

The full set of conditions set by the Board for project approval include: completion of Bolivian and Brazilian environmental/construction permit requirements, review of the forest classification, the environmental and social management system, the secondary impact mitigation plan, indigenous peoples' development plans, environmental training program, preliminary steps for the Chiquitano Forest Conservation Consortium (CFCC), and endorsement by the governments of Bolivia and Brazil. I urge OPIC Management to provide the Board with an update certifying completion of *all* of the conditions *before* financing is released.

In general, I think that OPIC's credibility could be enhanced by being more transparent than it has been in the development of this project -- in terms of being both more proactive in promoting consultation with people affected by the project, and more responsive to inquiries to ensure that interested parties have all the information they are supposed to have, on a timely basis, and that reports of problems are addressed.

In this connection, we have heard that relations among the Bolivian government, civil society, international NGOs, and the project sponsors are extremely tense, due to the general lack of transparency over the past year, and, in particular, the way negotiations over the CFCC were conducted. While numerous meetings may have been held, it appears that appropriate documentation and time for review by at least some interested constituencies may have been lacking. OPIC would be better served if it were to address directly the questions about improper community consultation, how reported violations in stated procedures are to be mitigated, and how future violations will be prevented.

In addition, I would urge that OPIC ensure that all heretofore involved or interested indigenous communities, municipalities, NGOs, SERNAP and any other relevant Bolivian (and Brazilian) government authorities have the Board's resolution, the two Supplemental Environmental Assessments, and the environmental mitigation plan. The public (not just authorities) should have sufficient time to fully analyze and comment upon these documents. Also, if the CFCC proves viable under Bolivian law (an absolutely critical issue), it would probably help to diffuse tension and enhance prospects for success if representatives of affected indigenous and municipal communities as well as the Government of Bolivia were invited to join the Board of the CFCC.

It is also vital that the independent review of the primary forest classification be credible and timely (before construction gets far enough to preclude significant changes). We appreciate that OPIC has hired a well-qualified scientist for this purpose. We want to ensure, however, that the reviewer has all of the relevant information (both Supplemental Environmental Assessments in their entirety, and any other relevant reports or data) and that the terms of reference cannot in any way be viewed as rigging the outcome. Therefore, while the independent reviewer should judge the adequacy of Dr. Navarro's conclusions in the context of the definition of "primary forest" he received from OPIC, we urge that the reviewer be free to comment on the appropriateness of all of the concepts and methods used to operationalize the definition, not just the conclusions based on them.

Finally, Treasury strongly urges that the Board-requested process to refine the definition/ operationalization of "primary forest" be transparent, including all interested parties and with special expertise. At this point, it is important to avoid the appearance of special status for any particular organization (e.g., WWF or the World Bank) in the process.

I hope that you and your staff will give these suggestions careful consideration, and look forward to OPIC's response.

Sincerely,

Timothy F. Geithner
Under Secretary
(International Affairs)