REPORT OF INVESTIGATION OF ENRON CORPORATION AND RELATED ENTITIES REGARDING FEDERAL TAX AND COMPENSATION ISSUES, AND POLICY RECOMMENDATIONS

VOLUME II: APPENDICES A & B

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION

At the Request of
Senator Max Baucus
and
Senator Charles E. Grassley
of the
SENATE COMMITTEE ON FINANCE

February 2003

JCS-3-03

JOINT COMMITTEE ON TAXATION

108TH CONGRESS, 1ST SESSION

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APPENDIX A

APPENDIX A

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I. LETTER TO JOINT COMMITTEE ON TAXATION STAFF DIRECTING INVESTIGATION

MAX BAUCUS, MONTANA, CHAIRMAN
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JOHN ANGELL, STAFF DIRECTOR
KOLAN DAVIS, REPUBLICAN STAFF DIRECTOR AND CHIEF COUNSEL

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510–6200

February 15, 2002

Lindy L. Paull, Esq.
Chief of Staff
Joint Committee on Taxation
1015 Longworth House Office Building
Washington, DC 20515

Dear Ms. Paull:

Recent press reports have raised troubling questions about Enron Corp. and related entities' ("Enron") compliance with the Federal income tax laws, including the use of entities in tax haven countries, other special purpose entities, and questionable tax shelter arrangements. According to some press reports, Enron may have used such arrangements to improperly avoid paying corporate income taxes.

We are also concerned by reports that thousands of Enron employees have suffered pension losses in recent months while corporate insiders appear to have reaped substantial profits during that same period. Qualified pension plans and many other compensation arrangements receive considerable tax benefits and are otherwise facilitated by the Federal tax laws. Recent reports about Enron raise concerns that the objectives behind these tax law provisions are not being fulfilled.

Accordingly, pursuant to Internal Revenue Code section 8022, we direct the staff of the Joint Committee on Taxation to undertake a review of Enron's Federal tax returns, tax information, and any other relevant information as you deem necessary, from 1985 to the present, to assist us in evaluating if the Federal tax laws facilitated any of the events or transactions that preceded Enron's bankruptcy. The review should examine the adequacy of present tax law, particularly in the areas of tax shelters and offshore entities. It should also include a review of the compensation arrangements of Enron employees, including tax-qualified retirement plans, nonqualified deferred compensation arrangements, and other arrangements, and an analysis of the factors that may have contributed to any loss of benefits and the extent to which losses were experienced by different categories of employees.

We ask that you transmit your findings, and recommendations for reform, to the Senate Committee on Finance as soon as practicable. We also request that you keep the Committee updated on the progress on your study and advise us on any problems you may have in securing timely access to the information needed to perform this review.

We want to thank you and your staff for undertaking this important review and look forward to receiving your report.

Sincerely yours,

Charles E. Grassley
Ranking Member

Max Baucus
Chairman

II. DISCLOSURE AGREEMENT AMONG ENRON, SENATE COMMITTEE ON FINANCE AND JOINT COMMITTEE ON TAXATION STAFF

DISCLOSURE AGREEMENT

Whereas, by letter dated February 15, 2002, the Senate Committee on Finance ("the Finance Committee") has directed the Chief of Staff of the Joint Committee on Taxation ("the Joint Committee") to assist the Finance Committee by conducting a review of the tax returns and related information and employee benefit and compensation programs of Enron Corp. ("Enron") and related entities; and

Whereas, the goal of this review is to conduct an orderly, efficient, professional examination of the activities and transactions related to Enron's tax returns and employee benefit and compensation programs in order to inform the Finance Committee, the Senate, and the public of tax policy and administration issues arising out of Enron's circumstances that may lead to recommendations for reform of the federal tax and pension laws; and

Whereas, to further the goal of this review, the Finance Committee has requested that Enron provide to the Finance Committee and the Joint Committee written consent to the public disclosure of its tax return and return information; and

Whereas, Enron has advised the Finance Committee that it wishes to cooperate fully with this review, while at the same time assuring respect for its legitimate interests in taxpayer confidentiality; and

Whereas, the Finance Committee and the Joint Committee share an understanding of the significant benefit that the principle of taxpayer confidentiality contributes to furthering values of proper tax administration:

It is, accordingly, hereby agreed by and among the Finance Committee, the Joint Committee, and Enron as follows:

1. Enron agrees to provide to the Finance Committee and the Joint Committee, promptly and upon request from the Chairman of the Finance Committee or from the Joint Committee, respectively, copies of all federal income tax returns and related information of Enron and affiliated or related entities that are not included in Enron's consolidated tax returns, and that are within Enron's possession, custody, or control, for all years from 1985 through 2001, except for any documents for which Enron elects to assert any applicable privilege or legal objection, any assertion of which shall be accompanied by a document-by-document index sufficiently detailed to enable the Finance Committee and/or the Joint Committee to evaluate Enron's assertion. Enron further agrees to use its reasonable efforts to provide any tax return or related information not in its possession, custody or control related to affiliated or related entities. Enron may also submit to the

Finance Committee or the Joint Committee, in the course of the review described in this agreement, any additional information that Enron believes will be helpful to either Committee.

2. The Finance Committee and the Joint Committee agree to seek tax returns and return information for years after 1995 in the first instance from the Secretary of the Treasury pursuant to 26 U.S.C. § 6103(f) and to request such information from Enron pursuant to paragraph one of this agreement only to the extent either Committee is unable to obtain this information expeditiously from the Secretary of the Treasury.

3. Enron consents to the disclosure by the Finance Committee or the Joint Committee of tax returns and return information, obtained by either Committee from the Secretary of the Treasury pursuant to 26 U.S.C. § 6103, through official reports, meetings, or hearings of either Committee, provided that, with respect to tax returns and return information for years after 1995, Enron consents to such public disclosure no earlier than June 10, 2002, in accordance with the executed consent waiver attached hereto. Enron further agrees to use its reasonable efforts to obtain similar consent waivers from its affiliated or related entities that are not included in Enron's consolidated federal tax returns.

4. The Finance Committee and the Joint Committee agree that they will not publicly disclose nonpublic documents or information obtained pursuant to paragraphs one and two of this agreement, except through official reports, meetings, or hearings of either Committee, as either Committee deems appropriate to fulfill the goal of the review described above in this agreement, and that neither Committee will publicly disclose any such information that would be return information if it were in the possession of the Internal Revenue Service, for years after 1995 earlier than June 10, 2002.

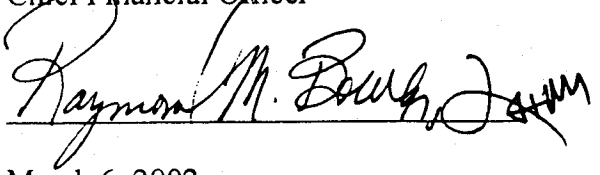
5. The Finance Committee or the Joint Committee may inform Enron, in the course of the review described in this agreement, about the topics of the review and their priorities, to the extent the Committees believe it will be helpful to Enron's ability to respond expeditiously to the Committees' requests for information and in order to relieve unnecessary burden on Enron in complying with the Committees' requests for information.

CONSENT TO DISCLOSURE OF TAX INFORMATION

Pursuant to 26 U.S.C. § 6103, I hereby authorize the Internal Revenue Service, the Senate Committee on Finance, and the Chief of Staff of the Joint Committee on Taxation to disclose the returns and return information, as those terms are defined in 26 U.S.C. § 6103(b), of Enron Corp., as common parent of all the members of the affiliated group with which it files a consolidated income tax return for the tax years below, in the course of the official business of the Senate Committee on Finance and the Joint Committee on Taxation regarding the events and transactions preceding and surrounding the bankruptcy of Enron Corp., to be limited to disclosures in official reports, hearings, and meetings of either the Senate Committee on Finance or the Joint Committee on Taxation, and, with respect to the returns and return information for years after 1995, such disclosure may be made no earlier than June 10, 2002. I realize that these disclosures may be made during the course of public proceedings and that any report may be made publicly available.

Except to the extent disclosure is authorized herein, the returns and return information of the taxpayer named below are confidential and are protected by law under the Internal Revenue Code.

I certify that I have authority to execute this consent to disclose on behalf of the taxpayer named below.

Name of Taxpayer:	Enron Corp.
Employer Identification Number:	47-0255140
Address of Taxpayer:	1400 Smith Street Houston, Texas 77002
Type of Matters:	Income tax, employment tax, excise tax, and qualified and nonqualified employee benefit plans and trusts and any other compensation plans, agreements, trusts or other arrangements whether or not deferred
Tax Years:	1985 through 2001
Name and Title of Individual Executing Consent:	Raymond M. Bowen, Jr. Executive Vice President & Chief Financial Officer
Signature:	
Date:	March 6, 2002

In witness whereof, each of the parties hereto has caused this agreement to be executed effective as of this 7th day of March, 2002:

Senator Max Baucus
Chairman
Senate Committee on Finance
Dated: March 7, 2002

Raymond M. Bowen, Jr.
Executive Vice President &
Chief Financial Officer
Enron Corp.
Dated: March 6, 2002

Senator Charles E. Grassley
Ranking Member
Senate Committee on Finance
Dated: March 7, 2002

Lindy L. Paull
Chief of Staff
Joint Committee on Taxation
Dated: March 7, 2002

III. RESOURCE MATERIALS PREPARED BY JOINT COMMITTEE ON TAXATION STAFF

Individuals Interviewed by Joint Committee Staff During Investigation*

Name	Position**	Date of Interview
Armsworth, Sheila DeVore	Vice President, Human Resources, Enron North America until December 2001	November 7, 2002 (telephone)
Apke, Beth A.	Senior Director, Enron Energy Services	August 6, 2002 (Houston)
Bazelides, Phillip J.	Vice President, Human Resources, Azurix until March 2001	September 24, 2002 (Houston)
Bell, Joyce Ann	Director of Compensation & Benefits, PGE	September 6, 2002 (telephone)
Butcher, Sharon Angel	Assistant General Counsel, Enron	August 6, 2002 (Houston)
Butler, Pam	Senior Director of Compensation, Enron	August 6, 2002 (Houston); November 11, 2002 (telephone)
Carter, Rebecca	Senior Vice President for Board Communications & Corporate Secretary until August 2001	September 10, 2002 (Houston)
Coats, Edward Raymond	Vice President, Tax Department	August 7, 2002 (Houston)
Courtney, John Calvin	Attorney for Administrative Committee of the qualified plans	November 6, 2002 (telephone)
Douglas, Stephen Holme	Director of Taxes, Enron North America until February 2002	September 23, 2002 (Houston)
Duke, Cullen Andrew	Vice President, International Tax	August 8, 2002 (Houston)
Duncan, John House	Board of Directors, until March 2002; Executive & Compensation Committees, Enron until March 2002	October 25, 2002 (telephone)
Ginty, James Andrew	Vice President, Tax Planning Group	August 8, 2002 (Houston)
Goodrow, Alicia Lynn Lockheed	Senior Director, Tax Planning Group	September 23, 2002 (Houston)
Gulyassy, William	Vice President, Enron Energy Services until July 2001	November 7, 2002 (telephone)

Name	Position**	Date of Interview
Harris, James W.	Vice President, Enron Energy Services until December 2001	August 8, 2002 (Houston)
Hayslett, Roderick J.	Chief Financial Officer, Enron Transportation Services	August 7, 2002 (Houston)
Hermann, Robert J.	Managing Director and General Tax Counsel, Tax Department, Enron until May 2002	July16, 2002 (DC); December 12, 2002 (telephone)
Hogan, Janice	Secretary, Enron	August 5, 2002 (Houston)
Hosea, Robin D.	Senior Benefits Specialist until May 2001	September 20, 2002 (telephone)
Jones, Robert W.	Managing Director, Human Resources	August 6, 2002 (Houston)
Joyce, Mary Frances Elizabeth	Vice President until June 2002	September 9, 2002 (Houston); November 20, 2002 (telephone)
LaMaistre, Charles Aubrey	Board of Directors; Chair, Compensation Committee, Enron until March 2002	September 24, 2002 (Houston)
Lay, Kenneth L.	Chairman of the Board and Chief Executive Officer until January 2002	Did not submit to interview but counsel Piper Rudnic submitted written response to questions
Lindsey, Mark	Vice President, Corporate Accounting and Planning, Enron	January 23, 2003 (telephone)
Livingston, Tina	Senior Director, Tax Department, Enron until February 2001	November 12, 2002 (telephone)
Mackin, Frank D. Jr. ("Pat")	Attorney - Enron Outside ERISA Counsel	November 8, 2002 (telephone)
Maxey, Robert Davis	Vice President, Tax Planning until January 2002	August 6, 2002 (Houston); September 24, 2002 (Houston)
Mintz, Jordan Howard	Managing Director, Tax Department until 2003	September 24, 2002 (Houston)
Newgard, James R.	Manager, Finance & Treasury Groups	August 8, 2002 (Houston)
Olson, Cynthia Kay	Executive Vice President, Human Resources until July 2002	August 7, 2002 (Houston)

Name	Position**	Date of Interview
Prentice, James S.	Senior Vice President, EOTT, transferred to Enron 2002; current title unknown	September 20, 2002 (telephone)
Rahaim, Christian D.	Senior Director of Benefits, Enron	August 5, 2002 (Houston)
Rath, Mikie	Benefits Manager, Enron until March 2002	August 8, 2002 (Houston)
Rice, Greek Lent	General Manager, Tax Department	September 23, 2002 (Houston)
Sandt, James M.	Tax Compliance, Enron	October 15, 2002 (telephone)
Savage, Frank	Board of Directors, served on Compensation and Finance Committees until April 2002	November 14, 2002 (telephone)
Sayers, Rod	Director, Tax Department, Enron until February 2002	November 15, 2002 (telephone)
Skilling, Jeffrey K.	Chief Executive Officer, Enron until August 2001	November 13, 2002 (DC)
Tiller, Ann Marie	Senior Director until July 2001	December 20, 2002 (telephone)
Whalley, Lawrence Gregory	President, Enron Corp. until February 2002	September 9, 2002 (Houston)
White, Leesa M.	Senior Director, Tax Administration, Enron	August 7, 2002 (Houston)
Williams, David Clair	Senior Director, Head of Structured Transactions Group	September 23, 2002 (Houston)

*The Joint Committee staff was unable to interview the following individuals despite repeated attempts: Cynthia Barrow, Rick Buy, Ben Glisan, and Richard Causey.

**Position for Enron employees generally is last known position held. Some of the individuals who are listed as Enron employees as of the date of the Joint Committee staff interview may subsequently have left the company. In addition, employees may have changed positions in the company since the time of the Joint Committee staff interview.

Glossary of Terms Relevant to the Joint Committee on Taxation Staff Investigation

ACES: automatic common exchange securities, a financial instrument marketed by Goldman Sachs & Co.

ACTS: adjustable-rate trust securities

Administrative Committee: refers collectively to the Administrative Committees established under the Enron Corp. Retirement Plan/Cash Balance Plan, the Enron Corp. ESOP, and the Enron Corp. Savings Plan

AEP: American Electric Power

Akin Gump: Akin Gump Strauss Hauer & Feld, L.L.P., a Dallas/Washington, DC based international law firm

Annual Incentive Plan: Enron Corp. Annual Incentive Plan

Apache: financing arrangement in which Enron borrowed funds from third-party foreign lenders, through an Enron controlled foreign corporation

APB: Accounting Principles Board

Arthur Andersen: Arthur Andersen LLP, a U.S. based international accounting firm and Enron's auditor

Avici: Avici Systems Inc.

Azurix: Azurix Corp., an Enron affiliate involved in Enron's water business after Enron's 1998 acquisition of Wessex Water Plc

Bammel Assets: underground natural gas storage reservoir and various assets that were the subject of Condor

Bankers Trust: Bankers Trust Company, a New York banking corporation, acquired by Deutsche Bank in 1999

Bankruptcy Court: in the case of Enron's voluntary bankruptcy petition, the United States Bankruptcy Court, Southern District of New York

Barclays or Barclays Bank: Barclays Bank PLC, an international banking firm

Big River: Big River Funding LLC

Blue Heron: Blue Heron I, LLC

Board or Board of Directors: Board of Directors of Enron Corp.

Bobcat: Bobcat I, LLC, a special purpose entity utilized in Raptor IV

BT Ever: BT Ever, Inc., affiliate of Bankers Trust

BT Green: BT Green, Inc., affiliate of Bankers Trust

CalPERS: California Public Employees Retirement System

Campsie: Campsie Limited

Cayman LLC: a Cayman Islands limited life company

Cayman Parent: a Cayman Islands holding company

Cayman Sub: a Cayman Islands subsidiary company

Cayman Triangle: tax planning structure involving the use of three Cayman Islands entities

CCA: chief counsel advice issued by the IRS

CFC: controlled foreign corporation governed by sections 951 through 964 of the Code

Chairman or Chairman of the Board: the Chairman of Enron's Board of Directors

Chase Manhattan Bank: bank that merged with JP Morgan & Co., Inc. to become JP Morgan Chase & Co.

Check the box regulations: Treasury Department regulations pursuant to which certain legal entities are eligible to elect to be treated as a corporation, partnership, or disregarded entity for Federal tax purposes

Chewco: an off-balance sheet transaction utilizing Chewco Investments, LP, a Delaware limited partnership and JEDI I

Chiricahuas: RMT Chiricahuas I through XIV, Enron LLCs taxed as partnerships used in the NOLy transaction

CIP: coordinated industry case program utilized by the IRS to coordinate the examination of large and highly diversified taxpayers

Citibank: an international provider of banking, lending, and investment services

Citigroup: U.S.-based financial services company resulting from the 1998 merger of Citicorp, the bank holding company of Citibank, NA, and Traveler's Salomon-Smith Barney

Cochise: Enron structured transaction involving tax-free transfers by the parties of REMIC regular interests to an existing wholly-owned Enron subsidiary that subsequently elected to be taxed as a REIT

Code: Internal Revenue Code of 1986, as amended

COLI: corporate owned life insurance

Commissioner: Commissioner of the IRS

Commodity prepay transaction: transactions in which Enron received upfront payments in exchange for the future delivery of a specified commodity such as crude oil or natural gas

Common Units: common ownership units of Dutch VOF

Compensation Committee: refers to the Compensation Committee of the Board of Directors of Enron. At some points in time, the Compensation Committee was also named the Compensation and Management Committee, and the Compensation and Management Development Committee.

Condor: Enron structured transaction structured to generate Federal income tax deductions involving the use of an existing partnership, Whitewing Associates, LP, between Enron and an outside investor that held Enron preferred stock

Credit Suisse First Boston: global investment banking firm that participated in LJM1 structure

CWL: Columbia Willamette Leasing, Inc.

Dabhol: power plant project in India

DASH: Enron's internal transaction deal approval sheet

DECS: debt exchangeable for common stock, a financial instrument first issued by American Express Company; also marketed by Salomon, Inc.

Deferral Plan Committee: the committee established under the 1994 Deferral Plan

D&T or Deloitte & Touche: Deloitte & Touche LLP, a U.S. based international accounting firm

Delta Energy Corporation: special purpose entity associated with commodity prepay transactions between Enron and Citigroup

Derivative: generally defined as a contract or security the value of which is derived from the price of an asset (or pool of assets) without necessarily representing ownership of the asset itself

Deutsche Bank: German corporation engaged in international banking and services businesses, and acquirer of Bankers Trust in 1999

Deutsche Morgan Grenfell: global investment bank

Disregarded entity: legal entity that is disregarded as a separate entity for Federal tax purposes, and instead is treated as a branch or division of its owner

DOL: Department of Labor

Dutch VOF: Cherokee Finance VOF

Dynegy: Dynegy, Inc., a global provider of energy and communications services that was involved in merger discussions with Enron in 2001

EBITDA: earnings before income, taxes, and depreciation and amortization

ECT: Enron Capital & Trade Resources Corp.

ECT Equity: ECT Equity Corporation

ECT Partners: ECT Investing Partners, LP

ECT Strategic: Enron Capital Trade Strategic Value Corp.

EDC: Enron Development Corporation

EDIC: Enron Diversified Investments Corporation

EDRIP: Enron Deferral Repatriation Incentive Plan

EGTRRA: The Economic Growth and Tax Relief Reconciliation Act of 2001

EI: Enron International

EIN: the Enron Intelligent Network, an all-Internet Protocol backbone

ENA: Enron North America Corp.

ENA Master Swap: periodic confirmations executed in association with an ISDA Master Agreement between ENA and RMT

EN-BT Delaware: EN-BT Delaware, Inc., a subsidiary of Bankers Trust

Enron: unless otherwise indicated, Enron Corp. and its affiliates

Enron Asset Holding: Enron Asset Holding, LLC

Enron Capital Trade: Enron Capital Trade & Resources Corp.

Enron Cash Balance Plan: the Enron Corp. Cash Balance Plan

Enron Corp.: unless otherwise indicated, the parent company Enron Corp.

Enron Corp. Proxy Statement: refers to the proxy statement prepared for the annual meeting of Enron stockholders

Enron ERISA Counsel: Frank D. ("Pat") Mackin, Jr., formerly in-house counsel on Enron qualified plans, later on retainer to provide advice relating to ERISA

Enron ESOP: the Enron Corp. Employee Stock Ownership Plan

Enron Finance: (1) Enron Finance Partners, LLC, with respect to Tammy I; (2) Enron Finance Holding Corporation, with respect to Renegade

Enron Intermediate: Enron Northwest Intermediate LLC

Enron Leasing: Enron Leasing Partners, LP

Enron Liquids: Enron Liquids Holding Corp.

Enron LP: ECT Investments Holding Corp.

Enron North: Enron office building in Houston, Texas

Enron Northwest: Enron Northwest Finance, LLC

Enron Online: Enron's global Internet-based transaction system for wholesale energy and other commodities

Enron Pipeline: Enron Pipeline Company

Enron Property: Enron Property & Services Corp.

Enron qualified plans: refers collectively to the Enron Corp. Retirement Plan/Cash Balance Plan, the Enron Corp. ESOP, and the Enron Corp. Savings Plan

Enron Retirement Plan: the Enron Corp. Retirement Plan, which was amended and renamed the Enron Corp. Cash Balance Plan

Enron Savings Plan: the Enron Corp. Savings Plan

Enron South or Enron South Building: recently built Enron office building in Houston, Texas

Enron Subsidiaries: a group of wholly owned subsidiaries of Enron

Enron 2000: financial strategy implemented by Enron in 1996 with the objectives of (1) $1 billion of net income by the year 2000; (2) 15 percent average compound annual growth; and (3) double-digit growth in each individual fiscal year

EOG: Enron Oil & Gas Company

EOTT: Enron Oil Trading & Transportation Company

EOTT Units: common units of EOTT Energy Partners, LP

EREC: Enron Renewable Energy Corp.

ERISA: Employee Retirement Income Security Act of 1974, as amended

ERNB: ERNB Partnership, Limited

Ernst & Young: Ernst & Young LLP, a U.S.-based international accounting firm

Euro: monetary unit of many members of the European Union

Executive Committee: the Executive Committee of Enron's Board of Directors

Expat Deferral Plan: the 1998 Enron Expat Services, Inc. Deferral Plan

FAS: Financial Accounting Standards

FASB: Financial Accounting Standards Board

FASIT: financial asset securitization investment trust governed by sections 860H through 860L of the Code

FERC: Federal Energy Regulatory Commission

Finance Committee: Finance Committee of Enron's Board of Directors

FPRM: fixed price and risk management contracts

FSA: field service advice issued by the IRS

FS 360: FS 360 Corp.

Form 8-K: current report to be filed with the SEC to report the occurrence of any material events or corporate changes that are of importance to investors or security holders and previously have not been reported by the company in the case of certain events

Form 10-Q: quarterly report to be filed with the SEC for each of the first three quarters of the company's fiscal year

Form 10-K: annual report to be filed with the SEC

Form 11-K: annual report to be filed with the SEC by employee stock purchase, savings, and similar plans, interests in which constitute securities registered under the Securities Act of 1933

Form 1120: IRS form, U.S. Corporation Income Tax Return

Form 5310: IRS form, Application for Determination for Terminating Plan

Form 5500: IRS form, Annual Return/Report of Employee Benefit Plan

FUTA: Federal Unemployment Tax Act

GAAP: generally accepted accounting principles

GM: General Motors Corporation

Goldman, Sachs & Co.: U.S.-based global investment banking firm

Granite: project describing the expected transfer of life insurance contracts from PGE

Grizzly: Grizzly I, LLC, a wholly owned SPE of Enron formed to participate in Raptor II

Harrier: Harrier I, LLC, a wholly owned SPE of Enron formed to participate in Raptor I

Hewitt: Hewitt Associates, starting in 2001, the recordkeeper for the Enron Savings Plan; also a consultant relating to general compensation matters

HNG: Houston Natural Gas Corporation

HNG Plan: (1) Houston Natural Gas Corporation Retirement Plan; (2) Houston Natural Gas Corporation Savings Plan

Houston Natural Gas Corporation: publicly traded natural gas pipeline company acquired by InterNorth, Inc. in 1985 to form Enron

HPL: Houston Pipeline Company

HPL Asset Holdings: HPL Asset Holdings LP

Interim Notes: senior debt obligations of Sequoia Financial Assets, LLC

InterNorth or InterNorth, Inc.: name of Enron Corp. corporate entity prior to name change to Enron Corp. in 1986

Investors BV: Choctaw Investors BV

ISDA: International Swap Dealers Association

ISDA Master Agreement: standard form agreement copyrighted by the ISDA that sets forth the terms and conditions governing any specific swaps made pursuant to the agreement among the parties to it

JEDI or JEDI I: Joint Energy Development Investments Limited Partnership

JEDI II: Joint Energy Development Investment Limited Partnership II

Joint Committee: Joint Committee on Taxation

Glossary of Terms Relevant to the Joint Committee on Taxation Staff Investigation, continued

Joint Committee staff: staff of the Joint Committee on Taxation

JP Morgan or JP Morgan Chase: J.P. Morgan Chase & Co., successor to Chase Manhattan Bank

King & Spalding: King & Spaulding LLP, an Atlanta/Washington, DC based law firm

Kingfisher: Kingfisher I LLC

LIBOR: London Interbank Offered Rate

Little River: Little River Funding LLC

LJM1: LJM Cayman, LP, a Cayman Islands limited partnership structured to engage in an off-balance sheet hedging transaction involving Rhythms Net stock

LJM2: LJM2 Co-Investment, LP, a Delaware limited partnership structured to engage in off-balance sheet hedging and miscellaneous transactions

LLC: limited liability company

LP: limited partnership

Mahonia Ltd: special purpose entity associated with certain commodity prepay transactions between JP Morgan and Enron

Maliseet: Maliseet Properties, Inc.

Mangas: Mangas I Corp.

McKee Nelson Ernst & Young: a Washington, DC based law firm

Merrill Lynch: Merrill Lynch & Co.

MIPS: monthly income preferred securities, a financial instrument marketed by Goldman Sachs & Co.

M-1 adjustment: an adjustment included in a taxpayer's reconciliation of its financial statement income with its taxable income

Monthly Operating Statements: statements of operations filed monthly by Enron with the Bankruptcy Court and the SEC during Enron's bankruptcy proceeding

National Office or IRS National Office: National Office of the Internal Revenue Service

National Westminster Bank: bank that participated in LJM1 structure

NOL: net operating loss

NOLy: Enron structured transaction designed to generate taxable income in order to use Enron's net operating loss carryovers of approximately $3 billion in its 2000 taxable year

Northern Natural Gas Company: (1) corporation formed in 1930 that later was renamed InterNorth, Inc. and ultimately became Enron Corp. in 1985; (2) later, an Enron subsidiary that was acquired by Dynegy after merger negotiations between Enron and Dynegy terminated in 2001

Northern Trust: Northern Trust Retirement Consulting, the former recordkeeper under the Enron Savings Plan

Notional principal amount: amount not actually exchanged by the parties to a notional principal contract

Notional principal contract: generally describes an agreement between two parties to exchange payments that are calculated by reference to a notional principal amount

NPW: New Power Holdings, Inc.

Off-balance sheet: not included in reporting company's balance sheet

OFL: overall foreign loss

OID: original issue discount

Ojibway: Ojibway, Inc.

Oneida: Oneida Leasing, Inc.

OPI or Organizational Partner: Organizational Partner, Inc.

PBGC: Pension Benefit Guaranty Corporation

PEP: Performance evaluation process

PFIC: a passive foreign investment company governed by sections 1291 through 1298 of the Code

PGC: Portland General Corporation, the parent holding company of PGE

PGE: Portland General Electric

PGH: Portland General Holdings

Porcupine: Porcupine I, LLC, a special purpose entity utilized in Raptor III

Potomac Capital: Potomac Capital Investment Corp., a subsidiary of Potomac Electric Power Co.

Powers Report: report of investigation by the Special Investigative Committee of the Enron Board of Directors, chaired by William C. Powers, dated February 1, 2002

Preferred Units: preferred units of Dutch VOF

Prepays: contracts that provided Enron large advance payments to deliver natural gas or other energy products

Project 50: stock option program under which employees were given a one-time grant of 50 stock options on January 18, 2000, in recognition of Enron's stock price reaching $50 after the 1999 stock split

Project Participation Plan: executive compensation program for employees in Enron's international business unit

Pronghorn: Pronghorn I, LLC, an SPE wholly owned by Enron and used in Raptor III

PSI: Permanent Subcommittee on Investigations on Governmental Affairs, United States Senate

PUHCA: Public Utility Holding Company Act

PwC: PricewaterhouseCoopers, a U.S.-based international accounting firm

Rabo: Rabo Merchant Bank NV

Rabobank: Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.

Rail Leasing: Rail Leasing, Inc.

Raptors: a series of four off-balance sheet hedging structures involving LJM2 that began in mid-2000 and terminated in 2001

REIT: real estate investment trust governed by sections 856 through 859 of the Code

REMIC: real estate mortgage investment conduit governed by sections 860A through 860G of the Code

Renegade: project in which Enron received a fee to serve as an accommodation party to enable Bankers Trust Corporation to achieve favorable tax benefits

Rheingold: Rheingold GmbH

Rhythms Net: Rhythms NetConnections, Inc., an Internet service provider for businesses using digital subscriber line technology, and a portfolio investment of Enron that became a hedged position in the LJM1 structure

RMT: Risk Management and Trading Corp.

RMT Swaps: associated confirmations relating to ISDA Master Agreement between RMT and the Chiricahuas

Roadrunner: Roadrunner I, LLC, a wholly owned SPE of Enron formed to participate in Raptor IV

Salomon, Inc.: now Salomon Smith Barney, Inc.

SARL: Cheyenne Finance SARL

SAS: Statement on Auditing Standards

Schedule M-1: IRS schedule, Reconciliation of Income (Loss) per Books with Income per Return

SEC: Securities and Exchange Commission

Section 16 officers: officers subject to the provisions of section 16 of the Securities Exchange Act of 1934

Seminole: Seminole Capital, LLC

Senate Finance Committee: Senate Committee on Finance

Seneca: Seneca Leasing, Partners, LP

Series 1: nonvoting class of RMT preferred stock

Series 2: voting class of RMT preferred stock

SFAS: Statement of Financial Accounting Standards

Shearman & Sterling: international law firm with U.S. offices in New York and Washington, DC

Sierra: Sierra Pacific Resources

Skadden Arps: Skadden, Arps, Slate, Meagher & Flom LLP, counsel to Enron in connection with Congressional investigations and other matters

Smith Street: Smith Street Land Company

SPE: special purpose entity, typically an entity created for a limited purpose, with a limited life and limited activities

SRLY: separate return limitation year

Statement: Statement of Financial Affairs filed by Enron Corp. with the Bankruptcy Court

Steele: Enron structured transaction involving a transfer of cash and leased assets to a newly formed corporation in exchange for common and preferred stock

Straddle: offsetting positions with respect to actively traded personal property

Structured financing or structured financing transaction: for purposes of this Report, a transaction structured by Enron to acquire capital in the debt or equity markets; compare with structured transaction

Structured transaction: for purposes of this Report, a transaction structured by Enron to obtain tax benefits, accounting benefits, or a combination of the two; compare with structured financing

Summer: Enron project that attempted to sell a substantial portion of Enron's European businesses

Swap: in general, an arrangement between parties to exchange cash flows over a specified period of time based upon a notional principal amount

Swap Sub: LJM1 Swap Sub, LP

Talon: Talon I, LLC, a special purpose entity utilized in Raptor I

TAM: technical advice memorandum issued by the IRS

Tammy I: Enron structured transaction designed to generate financial statement benefits from an increase in the tax basis in the Enron South building, involving Enron's contribution of assets to a partnership that was wholly owned by Enron affiliates

Tammy II: Enron structured transaction designed to generate financial statement benefits from an increase in the tax basis in certain depreciable assets, involving Enron's contribution of assets to a partnership that was wholly owned by Enron affiliates

Tanya: Enron structured transaction designed to accelerate and duplicate certain deductions within the Enron consolidated group, involving a tax-free transfer of assets and unrelated contingent liabilities by Enron to an Enron subsidiary in exchange for stock in the subsidiary

Teesside: Enron's combined cycle gas turbine power plant in the United Kingdom

Teresa: Enron structured transaction involving a synthetic lease arrangement designed to result in an increase in tax basis in depreciable assets, including the Enron North

building, by Enron contributing depreciable assets and preferred stock to a partnership

Timberwolf: Timberwolf I, LLC, a special purpose entity utilized in Raptor II

TNPC: The New Power Company

TOLI: trust owned life insurance

Tomas: Enron structured transaction designed to increase the tax basis of a portfolio of leased assets Enron wished to dispose of, involving the formation of a partnership between an existing Enron subsidiary and two subsidiaries of Bankers Trust

TOPrS: trust originated preferred securities, a financial product marketed by Merrill Lynch

Tularosa: Delaware LLC used in Project NOLy

Tularosa Swap: total return swap between RMT and Tularosa

U.S. or United States: United States of America

Valhalla: (1) Valhalla GmbH; (2) project in which Enron received a fee to serve as an accommodation party to enable Deutsche Bank to receive certain income tax benefits under foreign law

Valkyrie: Enron Valkyrie

Valor: Enron structured transaction structured to accelerate and duplicate certain deductions within the Enron consolidated group, involving a tax-free transfer of assets and unrelated contingent liabilities by Enron to an Enron subsidiary in exchange for stock in the subsidiary

Vinson & Elkins or V&E: Vinson & Elkins LLP, a Houston based law firm and Enron's primary legal counsel

Weil Gotshal: Weil, Gotshal & Manges LLP

Wessex: Wessex Water Plc, a United Kingdom water company acquired by Enron in 1998

Whitewing or Whitewing LP: Whitewing Associates, LP

Wiltshire: Wiltshire Financial Assets, LLC

Yosemite: series of four trust structures involving the issuance by Enron of credit linked notes for commodity prepay transactions

Zephyrus: Zephyrus LLC

1993 MIPS: MIPS issued in November 1993 by Enron Capital LLC

1993 Prospectus: prospectus relating to 1993 MIPS

1994 Deferral Plan: the Enron Corp. 1994 Deferral Plan

1994 MIPS: MIPS issued in 1994

1995 Prospectus: prospectus relating to 1995 issuance of certain Enron exchangeable notes

1999 Prospectus: prospectus relating to 1999 issuance of certain Enron exchangeable notes

401(k) plan: a profit sharing or stock bonus plan (or pre-ERISA money purchase pension plan) that contains a qualified cash or deferred arrangement

IV. OTHER MATERIALS

Enron Corp. and Subsidiaries: Reconciliation of Financial Statement Income to Taxable Income 1996-2000
(in Millions)

	1996	1997	1998	1999	2000
Net Income Reported in Consolidated Financial Income Statement[1]	584	105	703	893	979
Less Net Income from Entities not Included in Consolidated Tax Return					
Domestic Corporations[2]	-96	-189	-149	-152	-345
Foreign Corporations[3]	-232	-44	-521	-1,110	-1,722
Partnerships[4]	-145	-211	-319	-638	-6,899
	-473	**-444**	**-989**	**-1,900**	**-8,966**
Plus Net Income from:					
Intercompany Elimination Made for Books but not for Tax	1,322	1,300	1,884	3,997	13,625
Entities not Controlled for Financial Accounting included for Tax[5]	0	0	14	122	258
	1,322	**1,300**	**1,898**	**4,119**	**13,883**
Book Income Reported Consolidated Tax Return	**1,433**	**961**	**1,612**	**3,112**	**5,896**
Significant Book to Tax Adjustments[6]					
Federal Income Taxes	159	-35	45	-128	193
Net Partnership Adjustments	-107	-122	-109	-338	-481
Net Mark to Market Adjustments	-118	118	-333	-906	-537
Constructive Sale (section 1259)	0	0	0	0	5,566
Structures Treated as Debt for Tax not for Book (e.g., equity or minority interest)	-2	-24	-3	-12	-149
Company Owned Life Insurance Adjustment	-19	-24	-27	-35	-20
Stock Owned Deduction	-113	-9	-92	-382	-1,560
Depreciation Differences	-67	-65	-57	-124	-154
Equity Earnings Reversal Per Tax Return	-1,183	-1,023	-1,688	-2,868	-5,516
All Other Book to Tax Differences	-293	-281	-101	223	-137
Taxable Income Reported on Consolidated Tax Return	-310	-504	-753	-1,458	3,101

Notes:
(1) As originally reported by Enron. (2) Corporations not meeting 80 percent vote and value test (sec. 1504(a)(2)). See additional details of these amounts following. (3) Foreign corporations are not eligible for inclusion in consolidated tax return (sec. 1504(b)(3)). (4) Partnerships are required to file separate Federal income tax returns. See additional details of these amounts following. (5) Disregarded entities for tax purposes (Treas. reg. sec. 301.7701-3) not included in consolidated financial statements. See additional details of these amounts following. (6) Amounts as reported in Enron presentation to the Joint Committee staff, June 7, 2002. Appendix B contains this presentation. In addition, further details of Enron's book to tax adjustments as reported in the tax return follow.

Enron Corp. and Subsidiaries
Reconciliation of Financial Statement Income to Taxable Income 1996-2000
Domestic Corporations not Included in Consolidated Tax Return[1]
Income/(Loss)

Company Name	1996	1997	1998	1999	1999
Crestone Gathering Services, LLC					-10,188,554
Enron Property Management Corp.		1,024,986	796,480	864,707	2,186,298
EGPP Services, Inc.					-109,153
Enron Equity Corp.	39,835,941	49,272,601	24,860,130	48,642,751	32,566,734
Enron Renewable Energy Corp. & Subsidiaries		1,994,142	-1,680,512	37,709,491	151,504,271
Organizational Partner, Inc.		101,464,432	87,679,467	128,909,698	284,570,093
Artemis & Subsidiaries			8,001,662	2,718,162	
Enron Oil & Gas Company & Subsidiaries	82,850,092	67,950,317	32,139,255	67,042,352	
Enron Cons Column			6,174,736	-39,624,861	
Minority Interest (includes EOG in 1995)	-18,022,277	-23,727,546	1,872,209	-18,047,023	-43,779,964
Preferred Dividends	-8,357,583	-8,629,104	-10,975,101	-76,048,029	-71,679,015
Total	**96,306,173**	**189,349,828**	**148,868,326**	**152,167,248**	**345,070,710**

[1] Source Information obtained from Letter from Enron's counsel (Skadden, Arps) to Lindy L. Paull, Joint Committee on Taxation, dated January 31, 2003, answer 13.

Enron Corp. and Subsidiaries
Reconciliation of Financial Statement Income to Taxable Income 1996-2000
Partnerships not Included in Consolidated Tax Return[1]
Income/(Loss)

Company Name	1996	1997	1998	1999	2000
Block 321 Partnership (Became Corp in 1998)	-28,919	-17,070	-101,564		
Cabazon Holdings LLC				0	1,185,321
CALME - Division of 445				0	-2,362,095
CALME - Division of EPP 678				0	6,095,961
Chiricahau II LLc					213,581,289
Chiricahau VIII LLC					455,736,070
Chiricahua I LLC					105,490,822
Chiricahua III LLC					425,394,208
Chiricahua IV LLC					869,239,370
Chiricahua IX LLC				0	875,456,144
Chiricahua V LLC					1,809,136,690
Chiricahua VI LLC					122,567,620
Chiricahua VII LLC					219,357,334
Chiricahua X LLC				0	106,950,215
Chiricahua XI LLC				0	221,830,912
Chiricahua XII LLC				0	32,597,858
Chiricahua XIII LLC				0	25,957,741
Chiricahua XIV LLC				0	27,596,567
Crawfish Division of LA Gas Pipeline (496)	469,320	170,954	-299,571	-139,781	
CTS International/Sundance				-108,311	
Destec Properties Limited Partnership		35,939,138	139,325	702,420	-2,721,608
ECI - Texas, L.P.				0	70,148,036
ECM LLC				-11,462,370	75,542,000
ECT Securities GP Corp.			-12,801		
ECT Securities Limited Partnership			12,264,981	10,386,816	8,042,746
ECT Securities LP Corp.			-12,252,941		
EI Ponderosa Acctg Entity				-9,184,636	-4,363,655
Enron Asset Holdings, LLC					75,803,538
Enron Broadband Services, LP				0	-19,550,835
Enron Capital L.L.C.	21,645,569	21,645,569	21,645,569	21,645,569	21,645,569
Enron Capital Mgmt Limited P/S				-753,947	279,709,647
Enron Capital Mmgt. II LP			-300,777	670,313	21,364,121
Enron Capital Mmgt. III LP			-5,948,776	86,717,903	53,279,134
Enron Capital Resources, L.P.	8,544,304	8,544,304	8,687,228	8,544,304	8,544,204
Enron Capital Trust I	1,901,493	0	16,092,515	19,670,664	35,314,862
Enron Capital Trust II			12,088,125	12,264,597	26,215,805
Enron Capital Trust III		6,099,726	11,893,099	11,180,615	6,676,467
Enron CHESA Delware Ltd Liabiliy Co				-2,946,753	-2,074,072
Enron CHESA Texas Ltd Liability Co				-2,976,521	-2,094,921
Enron CPO Holdings Intermediat				-156	
Enron CPO Partners I, L.P.				-154	
Enron Development Vietnam L.L.C.				-224	
Enron Finance Partners, LLC					19,381,391
Enron Gathering Limited Partnership	7,507,259	-28,263,073			
Enron Global Power & Pipelines LLC	45,994,030	51,631,867	40,907,883	43,739,367	51,796,110
Enron Holding Company LLC	43,439,590	54,958,478	37,311,638	39,788,609	
Enron Intermediate Holdings, LLC					45,375,134
Enron International CPO, L.P.				-105	
Enron International Investments LLC					-1,146,928
Enron Intl Brazil Gas Holdings, LLC					882,194
Enron Leasing Partners L. P.		57,474,696	74,759,369	85,615,079	78,610,156
Enron LNG Marketing LLC				0	5,357,643
Enron Media Services, L.P.					1,335,024
Enron Pipeline Company L.P.			4,909,439		
Enron Power Construction Company-Brazil				0	-636,001
Enron Preferred Funding II L. P.		13,470,614	14,221,323	14,069,989	14,072,673
Enron Preferred Funding L.P.	2,067,889	18,761,000	18,932,371	18,743,586	18,764,355
Enron Valkyrie, LLC					-109,574,250
Enron Wind Goodwill Company (Acctg Ent)				0	6,883,906
HGK Enterprises GP, Inc.		-359,391	-1,393		
HGK Enterprises LP, Inc.		-35,579,747	-137,932		
Houston Economic Opportunity Fund II, LP					-3,759,386
Houston Economic Opportunity Fund, LP				-728,430	-1,124,192
Klondike River Assets, L.L.C.				433,334	23,100,000
LINGTEC Constructors L.P.				-193,000	3,857,143
LNG Power I LLC				0	-7,900,448

Enron Corp. and Subsidiaries
Reconciliation of Financial Statement Income to Taxable Income 1996-2000
Partnerships not Included in Consolidated Tax Return[1]
Income/(Loss)

Company Name	1996	1997	1998	1999	2000
LNG Power III LLC				0	-2,593,100
LNG Power II, LLC				0	-13,442,032
LNGME2C					3,463,220
Longhorn Assets, L.L.C.			427,192	5,795,011	5,246,094
Louisiana Gas Pipeline Company, L.P.	1,303,396	1,528,736	2,386,626	566,846	
Louisiana Resources Pipeline Company, L.P.	9,396,870	6,515,624	9,163,904	166,957	
Maliseet Properties, Inc. (CNEN)				1,479,192	1,803,481
Marengo, L.P				913,170	20,468,879
Minority Interest related to 495 & 496	2,170,819	2,315,351	2,257,849	2,369,805	
MIPS/TOPRS Consol Adjustment	-1,901,493				
Miss Kitty, LLC				16,177,921	19,404,461
Offshore Power Operations C.V.				23,176	
Oilfield Business Investments	-4,793				
Ponderosa Assets, LP			-57,914,479	177,712,229	133,955,571
Portland Energy Solutions Co				-795,902	
Richmond Power Enterprise L.P.		-3,835,219	62,354	-3,254,166	-655,525
Sabine Pass Joint Facility	2,945,061	-10,564			
Seminole Capital LLC				50,265,822	137,457,216
Sequoia Financial Assets LLC				9	5
Sundance Acctg Entity				15,006,475	
Sundance Assets, LP			18,416,907	16,361,328	-134,988,912
Sundance ECM/Enron Corp (Acctg. Entity)				4,522,333	1,704,230
Sundance ECT Canada (Acctg. Entity)				2,002,512	1,231,311
Sundance ECT London (Acctg. Entity)				4,522,125	-1,515,357
Sundance ECT US (Acctg. Entity)			18,260,955	-16,081,717	-135,653,998
Sundance NPNG (Acctg. Entity)				5,795,591	5,246,619
Tombstone Assets, LLC				4,400,248	2,814,073
Tularosa LLC					540,374,210
Whitewing Associates L.L.C.			71,403,164	2,552,202	
Wiltshire Finance Asset Company, LLC				999,992	784,194
Yukon River Assets, L.L.C.				479,836	943,783
Total	**145,450,395**	**210,990,993**	**319,261,582**	**637,659,772**	**6,898,616,012**

[1] Source Information obtained from Letter from Enron's counsel (Skadden, Arps) to Lindy L. Paull, Joint Committee on Taxation, dated January 31, 2003, answer 13.

Enron Corp. and Subsidiaries
Reconciliation of Financial Statement Income to Taxable Income 1996-2000
Entities not Controlled for Financial Accounting included for Tax Income/(Loss)

Company Name	1998	1999	2000
Atlantic Water Trust	4,004,420	77,508,635	25,191,393
Azurix Argentina Holdings, Inc.	-1,051,850	-444,903	
Azurix Corp.	10,210,038	29,518,483	
Azurix Finance Corp.		1,108,560	
Bobcat I, LLC			19,135,317
Bristol Water Trust	907,272	20,645,530	9,928,744
Ecogas Corp		-4,663,240	-9,441,299
Ecogas Mccommas Bluff, Inc.		-1,005,735	-1,816,229
ECT Coal Company NO. 2, LLC		872,198	1,752,889
EDP Power II			-230,851
Enron Development Piti Holding Corp.		329,736	
ES Power 2 LLC		82,434	-6,500
ET Power 3 LLC		-1,617,710	276,672,860
Landfill Ecogas, Inc.		-3,149	-2,057
LFT Power I, LLC			140,430,357
LFT Power III, LLC			166,364,266
Middle Looper, LLC			-65
Middle Piper, LLC			5,443,258
Porcupine I, LLC			-195,840,183
PUMC		-325,129	
Talon I, LLC			-237,182,897
Timberwolf I, LLC			57,310,521
Total	**14,069,880**	**122,005,710**	**257,709,524**

[1] Source Information obtained from Letter from Enron's counsel (Skadden, Arps) to Lindy L. Paull, Joint Committee on Taxation, dated January 31, 2003, answer 13.

Year: 1996

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL
SCHEDULE M-1			
1 NET INCOME PER BOOKS.	1,433,177,851	0	1,433,177,851
2 FEDERAL INCOME TAX.	158,864,150	0	158,864,150
3 EXCESS CAPITAL LOSSES OVER CAPITAL GAINS.	0	0	0
4 INCOME SUBJECT TO TAX NOT RECORDED ON BOOKS:			
CIAC	3,640,533	0	3,640,533
CIAC - Nonutility	210,285	0	210,285
Taxable Partnership Income	27,102,266	0	27,102,266
Tax Pship Gain/Loss on Sale	18,340,660	0	18,340,660
Tax Gain/Loss on Sale of Assets	17,573,406	0	17,573,406
Deferred Interco Gain/Loss Adj	31,462,669	31,462,669	0
Texas Medical Center Sale	343,147	0	343,147
Interest Income/Expense	1,299,580	0	1,299,580
Mark to Market	215,873,007	0	215,873,007
Tax Gain/Loss on Sale of Prod Pmts	1,528,241	0	1,528,241
Construction Profits	1,093,326	0	1,093,326
Dividend Income - Other Domestic	16,930,873	0	16,930,873
Dividend Income	3,251,673	0	3,251,673
Warranty Revenue	108,090	0	108,090
Tax Gain on Stock Sale	-276,698,172	0	276,698,172
Subpart F Income	9,084,297	0	9,084,297
TOTAL	624,540,225	31,462,669	593,077,556
5 EXPENSES RECORDED ON BOOKS NOT IN THIS RETURN			
A DEPRECIATION.	0	0	0
B CONTRIBUTIONS CARRYOVER	3,522,493	3,522,493	0
C TRAVEL AND ENTERTAINMENT.	0	0	0
OTHER:			
Book Depreciation	103,674,790	0	103,674,790
AFUDC Depreciation	64,202	0	64,202
Inventory Adjustment	4,115,538	0	4,115,538
Aircraft Maintenance	114,180	0	114,180
Salvage Costs	632,508	0	632,508
Capitalized Interest	596,275	0	596,275
Citicorp Lease Adjustments	2,674,997	0	2,674,997
Airplane Lease Adjustments	1,064,158	0	1,064,158
Lease Payments	24,092,315	0	24,092,315
Amortization of Line Pack	3,947,423	0	3,947,423
Book Amortization Reversal	20,831,255	0	20,831,255
Tax Amortization	6,510,718	0	6,510,718
MLP Partnership Adjustment	13,809,257	0	13,809,257
Abandonments	3,500,097	0	3,500,097
Cost of Product Adjustment	3,940,333	0	3,940,333
Take or Pay Adjustment	2,487,203	0	2,487,203
PGA - Resale	45,762	0	45,762
FERC Order Billing	297,029	0	297,029
South Georgia-Fed-Depreciation	19,192,836	0	19,192,836
Rate Case Adj 12-82	1,210,704	0	1,210,704
S Georgia St Grossup Depreciation	5,571,150	0	5,571,150
S Georgia Fed Storage Grossup	66,144	0	66,144
S Georgia St Storage	869,172	0	869,172
Amortizable Rate Case Costs	118,192	0	118,192
FAS96 Present Value Adj	1,518,000	0	1,518,000
Reverse Auction Surcharge	15,591,258	0	15,591,258
Gas Supply Realignment	3,724,725	0	3,724,725
Gas Sup. Realign - Reverse Auction	745,780	0	745,780
Reverse Auction II Billing	2,051,931	0	2,051,931
FERC Order 528	96,538	0	96,538
Carlton Tracker	125,006	0	125,006
Book Wrtdown/Wrtoff of Assets	1,200,000	0	1,200,000
Amortization of Organization Costs	389,278	0	389,278
Book Amort-Dow-Tenngasco	1,208,520	0	1,208,520
Premium on Reacquired Debt	484,819	0	484,819
Prudence Reserve	103,314,503	0	103,314,503
Bonus	14,930,773	0	14,930,773
Deferred Compensation	2,596,625	0	2,596,625
Incentive Compensation	318,403	0	318,403
Severance Benefit Deduction	527,284	0	527,284
Deferred Director's Fees	8,568,332	0	8,568,332
Accrued Medical Claims	4,417,720	0	4,417,720
Lawsuit Settlement	1,537,963	0	1,537,963
Insurance Reserve	291,227	0	291,227
Central Plant Reserve	2,199,591	0	2,199,591
Environmental Reseves	2,100,000	0	2,100,000
Sales Tax	1,535,086	0	1,535,086
State Income Taxes	20,730,630	0	20,730,630
Computer Development Expense	462,883	0	462,883

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Year: 1996

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL
Captive Insurance Adjustment	3,493,607	0	3,493,607
PCB Cleanup Costs	20,519,980	0	20,519,980
Transportation Revenue	57,000	0	57,000
Relocation Reserves	261,360	0	261,360
Vacation & Sick Pay	193	0	193
Capitalized Development Costs	10,756,166	0	10,756,166
Capitalized Devel Cost Amort	1,400,000	0	1,400,000
Hedge Accrual/Transactions	1,310,524	0	1,310,524
Amortization Acquisition Adjustmnt	475,200	0	475,200
Phantom Stock Reversal	10,446,789	0	10,446,789
General & Administrative Expense	1,890,504	0	1,890,504
Legal Fees	1,435,076	0	1,435,076
Promote Fees	311,240	0	311,240
Set Up Costs	25,716	0	25,716
Amortiz of Computer Software Costs	1,234,975	0	1,234,975
Executive Compensation	138,500	0	138,500
Change of Acctg. Method	90,248	0	90,248
Book Amortization Reversal	463,422	0	463,422
Amortization of Goodwill	616,587	0	616,587
Business Expenses @ 50%	3,962,815	0	3,962,815
Non-Ded. Entertainment Facilities	5,309	0	5,309
Fines & Penalties	102,386	0	102,386
Political Activities/Contributions	1,284,940	0	1,284,940
Excess Offering Costs	31,293	0	31,293
Minority Interest in EOG	57,157,501	0	57,157,501
Lobbying Activities	231,811	0	231,811
TOTAL	527,796,255	0	527,796,255
TOTAL LINE 5.	531,318,748	3,522,493	527,796,255
6 TOTAL OF LINES 1 THROUGH 5.	2,747,900,974	34,985,162	2,712,915,812
7 INCOME RECORDED ON BOOKS NOT IN THIS RETURN			
A TAX-EXEMPT INTEREST	0	0	0
OTHER:			
Reverse Book Partnership Inc/Loss	111,936,268	0	111,936,268
Book Pship Gain/Loss on Sale	4,215,382	0	4,215,382
Book Gain/Loss on Sale of Assets	111,048,968	0	111,048,968
Mark to Market-Current	203,917,270	0	203,917,270
Equity Earnings - 100% Foreign Sub	10,662,082	0	10,662,082
Dividends - Intercompany	0	75,290,896	(75,290,896)
Equity Earnings-100% Domestic Subs	1,083,071,175	0	1,083,071,175
Equity Earnings-80% Domestic Subs	24,845,005	0	24,845,005
Equity Earnings- 50% Foreign Subs	75,522,717	0	75,522,717
Book Gain/Loss on Stock Sale	213,331,943	0	213,331,943
Key Man Life Insurance	1,599,864	0	1,599,864
TOTAL	1,840,150,674	75,290,896	1,764,859,778
TOTAL LINE 7.	1,840,150,674	75,290,896	1,764,859,778
8 DEDUCTIONS IN THIS RETURN NOT ON BOOKS			
A DEPRECIATION.	0	0	0
B CONTRIBUTIONS CARRYOVER	0	0	0
OTHER:			
Tax Depreciation	192,544,015	0	192,544,015
Tax depreciation - utility	1,955,363	0	1,955,363
Bammel Reservoir Inventory Adj	5,203,248	0	5,203,248
Uniform Capitalization Adj	3,412,076	0	3,412,076
Gas Stored Underground	366,375	0	366,375
Cost of Asset Removal	1,440,423	0	1,440,423
Gas Used for Linepack	5,084,300	0	5,084,300
AFUDC Gross-Up	896,480	0	896,480
Bushton Lease Payments	19,811,683	0	19,811,683
Amortization - Regulatory Cost	181,522	0	181,522
AFUDC Amortization	1,506	0	1,506
Amortization of IMP Costs	2,317,506	0	2,317,506
Taxable Partnership Loss	29,983,554	0	29,983,554
Deferred Charges	20,052,679	0	20,052,679
Percentage Tax Depletion	72,292	0	72,292
Land and Geological Costs	2,597,327	0	2,597,327
Working Interest Adjustments	2,440,318	0	2,440,318
Advance Payments - Current	120,660,375	0	120,660,375
Take or Pay Amortizations	1,417,626	0	1,417,626
Mobil Payment & Amortization	1,500,000	0	1,500,000
Advance Payments - Noncurrent	105,440,427	0	105,440,427
Transportation Discounts	1,979,429	0	1,979,429
Gain/Loss on Unaccounted for Gas	22,141,220	0	22,141,220
Regulatory Reserve	20,500,000	0	20,500,000
FERC Annual Charge	1,084,184	0	1,084,184

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Year: 1996

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL
PGA Demand	1,822,448	0	1,822,448
Rate Refunds	1,428,867	0	1,428,867
Reserve for Regulatory Issues	9,317,000	0	9,317,000
S Georgia Fed Grossup Depreciation	19,313,856	0	19,313,856
S Georgia St Depreciation	9,386,058	0	9,386,058
S Georgia Fed Storage	66,144	0	66,144
S Georgia St Storage Grossup	1,385,016	0	1,385,016
Stranded Cost Reverse Auction	174,095	0	174,095
Stranded 858-Other	849,853	0	849,853
Reverse Auction - Payment Amortiz	9,686,029	0	9,686,029
Payment Amort on Reverse Auct II	1,158,947	0	1,158,947
Reverse Auction III - Billing	3,281,682	0	3,281,682
System Balancing Agreement	659,079	0	659,079
Pipe Repair Costs	707,891	0	707,891
Tax Gain on Sale of Stock	200,741,620	0	200,741,620
Interest - Other Liabilities	2,104,894	0	2,104,894
Bond Debt Amortization	385,360	0	385,360
Amortization of Pre-Operating Cost	12,784	0	12,784
Option Premiums	48,531,322	0	48,531,322
Credit Reserve	7,428,098	0	7,428,098
Adjust COGS to Actual Recv'd	1,550,344	0	1,550,344
Interest Income-Prod Pmt	1,205,341	0	1,205,341
Production Payment Shortage	185,474	0	185,474
Def Allocated Benefit Accrual	1,280,907	0	1,280,907
Restricted Stock Plan	2,653,240	0	2,653,240
Employee Pension Benefits	17,986,412	0	17,986,412
Reserve for Lawsuits	467,555	0	467,555
Contingency Provision	3,078,584	0	3,078,584
Uncollectible Reserve	841,065	0	841,065
Contingency Loss-Regulatory Issue	21,059	0	21,059
Consulting Fees	8,202,877	0	8,202,877
Gas Accounting Actualization	2,353,702	0	2,353,702
Other Revenue Reserve	48,832,825	0	48,832,825
Closing Reserve	50,921,259	0	50,921,259
LRC Reserve	83,833	0	83,833
Deferred Transportation Expense	1,105,050	0	1,105,050
Pipe Recoat Costs	2,868,400	0	2,868,400
Monsanto Litigation	16,260,239	0	16,260,239
Bad Debt Expense	19,786,040	0	19,786,040
Special Work Orders	5,371,132	0	5,371,132
Environmental Clean Up Costs	2,075,369	0	2,075,369
Loss on Stock	9,600,599	0	9,600,599
Deferred Construction Prfts Amort.	11,276,250	0	11,276,250
Deferred Debits/Credits	7,104,282	0	7,104,282
Development Fees	3,069,594	0	3,069,594
Operations Information Costs	2,136,325	0	2,136,325
COLI Premium Adjustment	18,110,957	0	18,110,957
Legal Fees	61,474	0	61,474
Partnership Income/Loss on Fm 1065	2,190,445	0	2,190,445
Prior Period Adjustment	746,454	0	746,454
Tax Interest Accrual	147,980	0	147,980
ESOP Dividends Deducted	14,841,456	0	14,841,456
Stock Option Deduction	64,267,767	0	64,267,767
Dividends Paid - Restricted Stock	1,499,765	0	1,499,765
TOTAL	1,203,709,026	0	1,203,709,026
TOTAL LINE 8.	1,203,709,026	0	1,203,709,026
9 TOTAL OF LINES 7 AND 8.	3,043,859,700	75,290,896	2,968,568,804
10 TAXABLE INCOME (LINE 28, PAGE1) - LINE 6 LESS 9 .	(295,958,726)	(40,305,734)	(255,652,992)

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ENRON CORP AND SUBSIDIARIES
Year: 1997

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL	ENRON CORP 47-0255140
SCHEDULE M-1				
1 NET INCOME PER BOOKS.	961,016,483	0	961,016,483	158,053,818
2 FEDERAL INCOME TAX.	(34,680,232)	0	(34,680,232)	(121,356,668)
3 EXCESS CAPITAL LOSSES OVER CAPITAL GAINS.	0	0	0	0
4 INCOME SUBJECT TO TAX NOT RECORDED ON BOOKS:				
CIAC	6,585,892	0	6,585,892	0
Dividends	968,473	0	968,473	0
Taxable Partnership Income	1,365,035	0	1,365,035	205,090
Deferred Revenue	8,715,373	0	8,715,373	127,575
Advance Payments - Current	74,660,194	0	74,660,194	0
Fuel & UAF Price Differential-PRA	1,608,656	0	1,608,656	0
Tax Gain/Loss on Sale of Assets	215,666,925	0	215,666,925	7,438,625
Deferred Interco Gain/Loss Adj	46,948,020	46,948,020	0	0
Gain on Retirement of Debt	19,900	0	19,900	0
Premium on Reacquired Debt	484,817	0	484,817	0
Option Premiums	28,848,369	0	28,848,369	0
Mark to Market	363,750,259	0	363,750,259	(11,159,402)
Interest Income-Prod Pmt	3,835,865	0	3,835,865	0
Construction Profits	18,192,376	0	18,192,376	0
Dividend Income - Other Domestic	10,192,800	0	10,192,800	10,192,800
Dividend Income	49,554,325	0	49,554,325	3,251,673
Partnership Income/Loss on Fm 1065	6,722,100	0	6,722,100	(1,407,521)
Tax Gain on Stock Sale	29,572,291	0	29,572,291	0
Subpart F Income	12,895,024	0	12,895,024	7,414,341
Taxable Interest Adjustment	4,551,739	0	4,551,739	0
TOTAL	885,138,433	46,948,020	838,190,413	16,063,181
5 EXPENSES RECORDED ON BOOKS NOT IN THIS RETURN				
A DEPRECIATION.	0	0	0	0
B CONTRIBUTIONS CARRYOVER	6,973,406	6,973,406	0	0
C TRAVEL AND ENTERTAINMENT.	0	0	0	0
OTHER:				
Book Depreciation	98,870,943	0	98,870,943	2,704,587
Uniform Capitalization Adj	4,717,051	0	4,717,051	0
Inventory Adjustment	28,669,629	0	28,669,629	0
Gas Stored Underground	12,208	0	12,208	0
Citicorp Lease Adjustments	1,899,996	0	1,899,996	1,899,996
Airplane Lease Adjustments	447,342	0	447,342	447,342
Gas Used for Linepack	2,018,919	0	2,018,919	0
Lease Payments	923,346	0	923,346	0
Book Amortization Reversal	39,533,934	0	39,533,934	0
Amortization - Regulatory Cost	885,623	0	885,623	0
AFUDC Amortization	196,479	0	196,479	0
Amortization of IMP Costs	1,177,261	0	1,177,261	0
Take or Pay Amortizations	603,712	0	603,712	0
Mobil Payment & Amortization	1,500,000	0	1,500,000	0
Transportation Discounts	177,005	0	177,005	0
Regulatory Reserve	4,699,754	0	4,699,754	0
South Georgia-Fed-Depreciation	19,192,836	0	19,192,836	0
S Georgia St Grossup Depreciation	5,571,150	0	5,571,150	0
S Georgia Fed Storage Grossup	66,144	0	66,144	0
S Georgia St Storage	869,172	0	869,172	0
Amortizable Rate Case Costs	49,532	0	49,532	0
FAS96 Present Value Adj	1,248,000	0	1,248,000	0
Reverse Auction Surcharge	16,219,313	0	16,219,313	0
Stranded Cost Reverse Auction	157,897	0	157,897	0
Gas Supply Realignment	849,016	0	849,016	0
Stranded 858-Other	739,749	0	739,749	0
Gas Sup. Realign - Reverse Auction	3,145,005	0	3,145,005	0
Reverse Auction II Billing	2,154,458	0	2,154,458	0
Reverse Auction III - Billing	5,605,956	0	5,605,956	0
FERC Order 528	2,489,926	0	2,489,926	0
Mini Stlmt - Sunrise Uncollect	1,249,087	0	1,249,087	0
Mini Stlmt - Other Uncollect	529,500	0	529,500	0
Mini Stlmt - FERC Audit	125,751	0	125,751	0
Mini Stlmt - TCR C	377,820	0	377,820	0
Mini Stlmt - PGAR	536,894	0	536,894	0
Mini Stlmt - Monsanto Litig	689,234	0	689,234	0
Mini Stlmt - JJCC Litigation	102,120	0	102,120	0
Mini Stlmt - Other	83,348	0	83,348	0
Carlton Tracker	430,500	0	430,500	0
System Balancing Agreement	118,096	0	118,096	0
Pipe Repair Costs	707,891	0	707,891	0
Texas Medical Center Sale	343,147	0	343,147	0
Book Gain on Sale of Stock	20,385,000	0	20,385,000	0
Amortization of Organization Costs	677,303	0	677,303	637,216
Book Amort-Dow-Tenngasco	1,208,520	0	1,208,520	0
Loss on Reacquired Debt	1,075,747	0	1,075,747	0
Adjust COGS to Actual Recv'd	7,583,534	0	7,583,534	0
Bonus	14,600,688	0	14,600,688	1,178,353
Deferred Compensation	3,931,575	0	3,931,575	2,808,656

ENRON CORP AND SUBSIDIARIES
Year: 1997

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL	ENRON CORP 47-0255140
Incentive Compensation	87,937	0	87,937	0
Retirement Reserve	109,851	0	109,851	0
Severance Benefit Deduction	2,125,221	0	2,125,221	816,737
Stock Option Appreciation/Exercise	991	0	991	0
Deferred Director's Fees	12,506,478	0	12,506,478	12,517,364
Restricted Stock Plan	5,163,369	0	5,163,369	5,163,369
Accrued Medical Claims	353,401	0	353,401	353,401
Employee Pension Benefits	10,079,560	0	10,079,560	12,249,371
Lawsuit Settlement	3,164	0	3,164	0
Insurance Reserve	710,958	0	710,958	24,835
Contingency Provision	5,046,194	0	5,046,194	50,510
Closing Reserve	56,138,159	0	56,138,159	0
Ad Valorem Taxes	10,115,605	0	10,115,605	0
State Income Taxes	2,200,171	0	2,200,171	0
Computer Development Expense	583,521	0	583,521	0
Captive Insurance Adjustment	8,223,346	0	8,223,346	0
Deferred Transportation Expense	113,305	0	113,305	0
Capitalized Devel Cost Amort	1,962,000	0	1,962,000	0
Accounts Conversion	38,029	0	38,029	0
Self Insurance	303,945	0	303,945	0
Amortization Acquisition Adjustmnt	475,200	0	475,200	0
Phantom Stock Reversal	16,029,893	0	16,029,893	0
Legal Fees	199,825	0	199,825	0
Promote Fees	266,459	0	266,459	0
Development Fees	451,755	0	451,755	0
Set Up Costs	19,287	0	19,287	0
Warranty Accrual	813,266	0	813,266	0
AFUDC	120,590	0	120,590	0
Amortization of Basis Step-Up	33,819	0	33,819	0
Amortiz of Computer Software Costs	1,384,519	0	1,384,519	1,384,519
Executive Compensation	778,941	0	778,941	778,941
NIBT Transfer between Related Co.	0	0	0	0
Change of Acctg. Method	964,316	0	964,316	0
Book Gain/Loss on Stock Sale	7,118,655	0	7,118,655	344,682
Book Amortization Reversal	4,512,746	0	4,512,746	0
Amortization of Goodwill	741,827	0	741,827	0
Business Expenses @ 50%	6,554,010	0	6,554,010	972,988
Non-Ded. Entertainment Facilities	42,863	0	42,863	34,500
Fines & Penalties	101,287	0	101,287	12,103
Political Activities/Contributions	5,093,799	0	5,093,799	4,777,663
Minority Interest in EOG	56,020,028	0	56,020,028	56,020,028
TOTAL	517,035,401	0	517,035,401	105,177,161
TOTAL LINE 5.	524,008,807	6,973,406	517,035,401	105,177,161
6 TOTAL OF LINES 1 THROUGH 5.	2,335,483,491	53,921,426	2,281,562,065	157,937,492
7 INCOME RECORDED ON BOOKS NOT IN THIS RETURN				
A TAX-EXEMPT INTEREST	0	0	0	0
OTHER:				
Capitalized Interest	14,413,323	0	14,413,323	0
Bushton Lease Payments	24,376,458	0	24,376,458	0
Reverse Book Partnership Inc/Loss	66,543,463	0	66,543,463	0
Reversal - Overaccrued Revenue	1,810,000	0	1,810,000	0
Gain/Loss on Unaccounted for Gas	13,786,191	0	13,786,191	0
Book Gain/Loss on Sale of Assets	226,391,620	0	226,391,620	(1,183,358)
Book Wrtdown/Wrtoff of Assets	1,200,000	0	1,200,000	0
Credit Reserve	17,151,700	0	17,151,700	0
Prudence Reserve	20,806,671	0	20,806,671	0
Mark to Market-Current	229,399,687	0	229,399,687	0
Non-Utility Revenue Reserve	113,451	0	113,451	0
Other Revenue Reserve	148,771,491	0	148,771,491	69,044,805
Equity Earnings - 100% Foreign Sub	22,130,795	0	22,130,795	0
Dividends - Intercompany	7,915,281	24,905,329	(16,990,048)	(16,675,962)
Equity Earnings-100% Domestic Subs	699,788,063	0	699,788,063	388,932,506
Equity Earnings-80% Domestic Subs	28,355,016	0	28,355,016	0
Equity Earnings- 50% Foreign Subs	272,790,630.	0	272,790,630	0
Reverse Book Gain/Loss Stock Sale	118,092,156	0	118,092,156	118,092,156
Gain on Sale of Stock	41,289,237	0	41,289,237	0
State Income Taxes	9,078,769	0	9,078,769	0
Tax Exempt Interest	338,694	0	338,694	0
TOTAL	1,964,542,696	24,905,329	1,939,637,367	558,210,147
TOTAL LINE 7.	1,964,542,696	24,905,329	1,939,637,367	558,210,147
8 DEDUCTIONS IN THIS RETURN NOT ON BOOKS				
A DEPRECIATION.	0	0	0	0
B CONTRIBUTIONS CARRYOVER	0	0	0	0
OTHER:				
Tax Depreciation	197,231,439	0	197,231,439	8,624,866
AFUDC Depreciation	439,549	0	439,549	0
Bammel Reservoir Inventory Adj	13,488,216	0	13,488,216	0
Inventory Writedown/Loss	877,415	0	877,415	0
Aircraft Maintenance	870,951	0	870,951	852,314

ENRON CORP AND SUBSIDIARIES
Year: 1997

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL	ENRON CORP 47-0255140
Cost of Asset Removal	7,669,472	0	7,669,472	0
AFUDC Gross-Up	3,454,292	0	3,454,292	0
Basis Adjustment	19,553	0	19,553	0
Amortization of Line Pack	3,947,423	0	3,947,423	0
Tax Amortization	6,467,366	0	6,467,366	628,476
Taxable Partnership Loss	9,352,802	0	9,352,802	3,492,434
Reverse Book Partnership Inc/Loss	53,794,687	0	53,794,687	(327,147)
MLP Partnership Adjustment	1,344,000	0	1,344,000	0
Deferred Charges	610,806	0	610,806	166,952
Percentage Tax Depletion	71,277	0	71,277	0
Abandonments	3,500,097	0	3,500,097	0
Expired and Surrendered Leases	1,533,376	0	1,533,376	0
Land and Geological Costs	1,392,251	0	1,392,251	0
Working Interest Adjustments	7,131,373	0	7,131,373	0
Cost of Product Adjustment	5,255,801	0	5,255,801	0
Deferred Gas Purchase	127,603,421	0	127,603,421	0
Exchange Gas Adjustment	872,246	0	872,246	0
Take or Pay Adjustment	388,086	0	388,086	0
Advance Payments - Noncurrent	52,792,117	0	52,792,117	0
PGA - Resale	26,921	0	26,921	0
Equivalent Unit Risk	897,049	0	897,049	0
FERC Annual Charge	362,723	0	362,723	0
FERC Order Billing	329,553	0	329,553	0
Rate Case Adj 12-82	1,928,641	0	1,928,641	0
Reserve for Regulatory Issues	10,384,674	0	10,384,674	0
S Georgia Fed Grossup Depreciation	19,313,856	0	19,313,856	0
S Georgia St Depreciation	9,386,058	0	9,386,058	0
S Georgia Fed Storage	66,144	0	66,144	0
S Georgia St Storage Grossup	1,385,016	0	1,385,016	0
Reverse Auction - Payment Amortiz	9,665,453	0	9,665,453	0
Payment Amort on Reverse Auct II	1,156,484	0	1,156,484	0
Tax Gain on Sale of Stock	19,029,417	0	19,029,417	0
Interest Income/Expense	8,392,809	0	8,392,809	(1,702,615)
Interest - Other Liabilities	2,088,082	0	2,088,082	0
Bond Debt Amortization	390,697	0	390,697	390,697
Amortization of Pre-Operating Cost	15,341	0	15,341	0
Production Payment Shortage	2,981,091	0	2,981,091	0
Transitional Costs	20,500,669	0	20,500,669	20,500,669
Def Allocated Benefit Accrual	5,015,114	0	5,015,114	0
Reserve for Lawsuits	18,675,210	0	18,675,210	0
Central Plant Reserve	2,250,748	0	2,250,748	0
Consulting Fees	7,572,134	0	7,572,134	(625,000)
Environmental Reseves	900,000	0	900,000	0
State Income Taxes	31,512,040	0	31,512,040	(6,641,058)
PCB Cleanup Costs	24,360	0	24,360	0
Pipe Recoat Costs	1,190,509	0	1,190,509	0
Vacation & Sick Pay	373,752	0	373,752	0
Capitalized Development Costs	38,002,696	0	38,002,696	(6,111,266)
Bad Debt Expense	1,657,529	0	1,657,529	0
Contributions	295,172	0	295,172	0
Hedge Accrual/Transactions	514,634	0	514,634	(91,624)
COLI Premium Adjustment	47,157	0	47,157	0
General & Administrative Expense	4,147,416	0	4,147,416	0
Special Work Orders	12,348,193	0	12,348,193	0
Environmental Clean Up Costs	663,281	0	663,281	0
Development Costs	25,468,250	0	25,468,250	0
Deferred Construction Prfts Amort.	182,446	0	182,446	0
Deferred Debits/Credits	26,713,932	0	26,713,932	39,119,155
Operations Information Costs	484,638	0	484,638	0
Foreign Exchange Loss	1,635,071	0	1,635,071	0
COLI Premium Adjustment	23,511,731	0	23,511,731	20,225,026
Legal Fees	64,070	0	64,070	64,070
Tax Interest Accrual	245,711	0	245,711	0
Warranty Revenue	234,282	0	234,282	0
ESOP Dividends Deducted	13,069,030	0	13,069,030	13,069,030
Stock Option Deduction	38,456,153	0	38,456,153	38,456,153
Key Man Life Insurance	507,602	0	507,602	507,602
Dividends Paid - Restricted Stock	455,257	0	455,257	455,257
Correct Booking Error	0	0	0	0
TOTAL	864,626,812	0	864,626,812	131,053,991
TOTAL LINE 8.	864,626,812	0	864,626,812	131,053,991
9 TOTAL OF LINES 7 AND 8.	2,829,169,508	24,905,329	2,804,264,179	689,264,138
10 TAXABLE INCOME (LINE 28, PAGE1) - LINE 6 LESS 9 .	(493,686,017)	29,016,097	(522,702,114)	(531,326,646)

ENRON CORP AND SUBSIDIARIES
Year: 1998

FEDERAL 1120, SCHEDULE M1
47-0255140

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL
	SCHEDULE M-1		
1 NET INCOME PER BOOKS	1,612,128,162	0	1,612,128,162
2 FEDERAL INCOME TAX	45,415,760	0	45,415,760
3 EXCESS CAPITAL LOSSES OVER CAPITAL GAINS	0	0	0
4 INCOME SUBJECT TO TAX NOT RECORDED ON BOOKS	351,687,345	6,307,515	345,379,830
5 EXPENSES RECORDED ON BOOKS NOT IN THIS RETURN			
A DEPRECIATION	0	0	0
B CONTRIBUTIONS CARRYOVER	7,754,275	7,754,275	0
C TRAVEL AND ENTERTAINMENT	0	0	0
OTHER EXP RECORDED ON BOOKS NOT IN THIS RETURN	1,424,506,637	0	1,424,506,637
TOTAL LINE 5	1,432,260,912	7,754,275	1,424,506,637
6 TOTAL OF LINES 1 THROUGH 5	3,441,492,179	14,061,790	3,427,430,389
7 INCOME RECORDED ON BOOKS NOT IN THIS RETURN			
A TAX-EXEMPT INTEREST	0	0	0
OTHER INC RECORDED ON BOOKS NOT IN THIS RETURN	2,472,243,810	223,376,812	2,248,866,998
TOTAL LINE 7	2,472,243,810	223,376,812	2,248,866,998
8 DEDUCTIONS IN THIS RETURN NOT ON BOOKS			
A DEPRECIATION	0	0	0
B CONTRIBUTIONS CARRYOVER	0	0	0
OTHER DED IN THIS RETURN NOT ON BOOKS	1,703,743,339	0	1,703,743,339
TOTAL LINE 8	1,703,743,339	0	1,703,743,339
TOTAL OF LINES 7 AND 8	4,175,987,149	223,376,812	3,952,610,337
10 TAXABLE INCOME (LINE 28, PAGE 1) - LINE 6 LESS 9	(734,494,970)	(209,315,022)	(525,179,948)

4 INCOME SUBJECT TO TAX NOT RECORDED ON BOOKS			
Depreciable Basis	2,122,610	0	2,122,610
Timber Sales - Nonutility	117,723	0	117,723
Installment Sales	222,816	0	222,816
AFUDC Depreciation	127,404	0	127,404
Tax depreciation - utility	9,173,542	0	9,173,542
Aircraft Maintenance	163,200	0	163,200
CIAC	3,875,263	0	3,875,263
Dividends	4,756,260	0	4,756,260
Taxable Partnership Income	59,115,912	0	59,115,912
Deferred Charges	25,536,501	0	25,536,501
PGA - Resale	1,880	0	1,880
Equivalent Unit Risk	991,665	0	991,665
Fuel & UAF Price Differential-PRA	9,454,785	0	9,454,785
FERC Order Billing	249,620	0	249,620
Rate Refunds	9,547,533	0	9,547,533
Reserve for Regulatory Issues	6,746,146	0	6,746,146
Tax Gain/Loss on Sale of Assets	4,464,920	0	4,464,920
Deferred Interco Gain/Loss Adj	6,307,515	6,307,515	0
Tax Gain on Sale of Stock	9,535,954	0	9,535,954

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ENRON CORP AND SUBSIDIARIES
Year: 1998

FEDERAL 1120, SCHEDULE M1
47-0255140

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL
Premium on Reacquired Debt	484,818	0	484,818
Option Premiums	18,272,123	0	18,272,123
Nuclear Decom Trust	25,744	0	25,744
Non Reg Defrl - AFUDC Equity	123,322	0	123,322
Nuclear Decom Trust Adjustment	355,559	0	355,559
Reg Defrl - Ferc Adjustment	206,253	0	206,253
Dividend Income - Other Domestic	110,192,800	0	110,192,800
Dividend Income	53,269,582	0	53,269,582
Minority Interest	2,824,062	0	2,824,062
Subpart F Income	7,095,103	0	7,095,103
Correct Booking Error	497,830	0	497,830
Demand Side Mgmt - Revens	5,828,900	0	5,828,900
TOTAL	351,687,345	6,307,515	345,379,830
5 OTHER EXP RECORDED ON BOOKS NOT IN THIS RETURN			
Book Depreciation	115,765,290	0	115,765,290
Inventory Writedown/Loss	877,415	0	877,415
Uniform Capitalization Adj	7,977,267	0	7,977,267
Inventory Adjustment	18,954,376	0	18,954,376
Citicorp Lease Adjustments	1,899,996	0	1,899,996
Airplane Lease Adjustments	457,843	0	457,843
Lease Payments	37,000	0	37,000
Book Amortization Reversal	54,679,583	0	54,679,583
Amortization - Regulatory Cost	854,170	0	854,170
AFUDC Amortization	148,570	0	148,570
Amortization of IMP Costs	1,355,149	0	1,355,149
EPRI	1,021,838	0	1,021,838
Transfer Fee	43,452	0	43,452
Termination Int	6,359,810	0	6,359,810
Revenue Reduction	3,614,129	0	3,614,129
FERC Audit Adjustment	115,887	0	115,887
Two Cities	196,416	0	196,416
Trojan Amortization	21,790,117	0	21,790,117
Tax Pship Gain/Loss on Sale	11,824	0	11,824
Foreign Exchange Gain/Loss	130,518	0	130,518
Deferred Revenue	6,975,550	0	6,975,550
Transportation Discounts	177,024	0	177,024
South Georgia-Fed-Depreciation	19,673,073	0	19,673,073
S Georgia St Grossup Depreciation	5,856,900	0	5,856,900
S Georgia Fed Storage Grossup	66,144	0	66,144
S Georgia St Storage	869,172	0	869,172
Amortizable Rate Case Costs	49,532	0	49,532
FAS96 Present Value Adj	950,000	0	950,000
Reverse Auction Surcharge	13,057,804	0	13,057,804
Stranded 858-Other	146,401	0	146,401
Gas Sup. Realigm - Reverse Auction	3,131,344	0	3,131,344
Reverse Auction II Billing	1,805,463	0	1,805,463
Reverse Auction III - Billing	5,045,305	0	5,045,305
FERC Order 528	241,410	0	241,410
Mini Stlmt - Sunrise Uncollect	4,840,157	0	4,840,157
Mini Stlmt - Other Uncollect	509,186	0	509,186
Mini Stlmt - FERC Audit	125,751	0	125,751
Mini Stlmt - TCR C	377,820	0	377,820
Mini Stlmt - PGAR	536,894	0	536,894
Mini Stlmt - Monsanto Litig	632,191	0	632,191
Mini Stlmt - JJCC Litigation	100,084	0	100,084
Mini Stlmt - Other	83,348	0	83,348
Carlton Tracker	555,099	0	555,099
Book Wrtdown/Wrtoff of Assets	7,000,000	0	7,000,000
Intercompany Gain/Loss Deferred	15,111,386	0	15,111,386
Texas Medical Center Sale	171,321	0	171,321

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FEDERAL 1120, SCHEDULE M1
47-0255140

ENRON CORP AND SUBSIDIARIES
Year: 1998

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL
Cost Sharing Reimbursement	1,310,349	0	1,310,349
Cost Sharing Buy-In	1,941,946	0	1,941,946
Interest Income/Expense	418,549	0	418,549
Amortization of Organization Costs	6,442,338	0	6,442,338
Amortization of Pre-Operating Cost	14,494,021	0	14,494,021
Book Amort-Dow-Tenngasco	1,208,520	0	1,208,520
Loss on Reacquired Debt	933,517	0	933,517
Credit Reserve	35,650,994	0	35,650,994
Tax Gain/Loss on Sale of Prod Pmts	28,614,042	0	28,614,042
Mark to Market-Current	644,211,673	0	644,211,673
Bonus	8,738,548	0	8,738,548
Deferred Compensation	3,826,770	0	3,826,770
Incentive Compensation	59,920	0	59,920
Severance Benefit Deduction	647,343	0	647,343
Stock Option Appreciation/Exercise	15,286,674	0	15,286,674
Deferred Director's Fees	9,547,765	0	9,547,765
Restricted Stock Plan	36,718,602	0	36,718,602
Accrued Medical Claims	5,850,527	0	5,850,527
Accrued Warranty Reserve	2,014,743	0	2,014,743
Reserve for Lawsuits	19,148,044	0	19,148,044
Ad Valorem Taxes	163,913	0	163,913
State Income Taxes	9,393,369	0	9,393,369
Computer Development Expense	1,441,878	0	1,441,878
Captive Insurance Adjustment	1,132,438	0	1,132,438
Foreign Currency Translation	8,060	0	8,060
Deferred Transportation Expense	27,789	0	27,789
PCB Cleanup Costs	58,929	0	58,929
Vacation & Sick Pay	297,657	0	297,657
Vacation Accrual Method Change	85,757	0	85,757
SERP	582,767	0	582,767
Self Insurance	527,023	0	527,023
Hedge Accrual/Transactions	376,353	0	376,353
Phantom Stock Reversal	20,627,062	0	20,627,062
General & Administrative Expense	114,738	0	114,738
Construction Profits	47,652,109	0	47,652,109
Deferred Debits/Credits	48,353,949	0	48,353,949
Promote Fees	303,421	0	303,421
Operations Information Costs	823,718	0	823,718
Accounting Change Method	1,416,841	0	1,416,841
Defd Costs - Pebble Springs	67,357	0	67,357
Demand Side Management	6,549,971	0	6,549,971
State Income Tax Provision	1,375,672	0	1,375,672
Tax Depreciation - Utility	4,770,978	0	4,770,978
Reg Defrl - Trojan Amortization	1,176,229	0	1,176,229
Amortiz of Computer Software Costs	1,128,834	0	1,128,834
Valuation Reserve Adjustment	2,000,000	0	2,000,000
NIBT Transfer between Related Co.	0	0	0
Change of Acctg. Method	47,475	0	47,475
Book Gain/Loss on Stock Sale	12,362,577	0	12,362,577
Book Amortization Reversal	5,926,419	0	5,926,419
Amortization of Goodwill	1,004,042	0	1,004,042
Business Expenses @ 50%	7,304,318	0	7,304,318
Non-Ded. Entertainment Facilities ✓	129,362	0	129,362
Fines & Penalties	56,140	0	56,140
Political Activities/Contributions	7,129,939	0	7,129,939
State Income Taxes	191,238	0	191,238
Minority Interest in EOG	24,031,760	0	24,031,760
Lobbying Activities	2,833	0	2,833
Interest Adjustments	52,311,129	0	52,311,129
Equity Earnings - 100% Dom Subs	1,092,192	0	1,092,192
Stock Basis Adjustment	474,960	0	474,960
Civic Legis & Dues	541,547	0	541,547
TOTAL	1,424,506,637	0	1,424,506,637

ENRON CORP AND SUBSIDIARIES
Year: 1998

FEDERAL 1120, SCHEDULE M1
47-0255140

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL
7 OTHER INC RECORDED ON BOOKS NOT IN THIS RETURN			
Safe Harbor Lse ACRS - Nonutil	99,371	0	99,371
Safe Harbor Lse ITC - Nonutil	91,308	0	91,308
Capitalized Interest	33,124,736	0	33,124,736
Save Program	3,583,797	0	3,583,797
USDOE Neg Salvage	336,576	0	336,576
Rate Decoupling	4,899,519	0	4,899,519
State Tax Refund - Regulatory	1,874,888	0	1,874,888
Termination Pay	7,103,687	0	7,103,687
Interest Income	314,360	0	314,360
Reverse Book Partnership Income	22,275,023	0	22,275,023
Gain/Loss on Unaccounted for Gas	114,038	0	114,038
Regulatory Reserve	2,500,000	0	2,500,000
Stranded Cost Reverse Auction	159,422	0	159,422
Book Gain/Loss on Sale of Assets	114,987,815	0	114,987,815
Book Gain on Sale of Stock	260,974,046	0	260,974,046
Mark to Market	76,244,550	0	76,244,550
Prudence Reserve	56,634,324	0	56,634,324
Adjust COGS to Actual Recv'd	300,998	0	300,998
Interest Income-Prod Pmt	2,069,554	0	2,069,554
Retirement Reserve	640,109	0	640,109
Employee Pension Benefits	19,790,820	0	19,790,820
Contingency Provision	3,260,676	0	3,260,676
Uncollectible Reserve	500,000	0	500,000
Other Revenue Reserve	37,695,970	0	37,695,970
Closing Reserve	11,863,000	0	11,863,000
Capitalized Development Costs	14,885,208	0	14,885,208
Long Term Disability	60,702	0	60,702
Legal Fees	3,210,041	0	3,210,041
Maintenance Accrual	290,390	0	290,390
Local Income Tax Provision	212,307	0	212,307
AFUDC	2,653	0	2,653
Foreign Exchange Loss	151,129	0	151,129
Equity Earnings - 100% Foreign Sub	229,317,463	0	229,317,463
Dividends - Intercompany	-174,631,692	223,376,812	(48,745,120)
Equity Earnings-100% Domestic Subs	1,085,851,673	0	1,085,851,673
Equity Earnings-80% Domestic Subs	22,085,316	0	22,085,316
Equity Earnings- 50% Foreign Subs	175,061,848	0	175,061,848
Partnership Income/Loss on Fm 1065	65,768,477	0	65,768,477
Tax Interest Accrual	3,307,530	0	3,307,530
Reverse Book Gain/Loss Stock Sale	35,245,792	0	35,245,792
Foreign Taxes - Withholding	367,443	0	367,443
Tax Exempt Interest	355,559	0	355,559
TOTAL	2,472,243,810	223,376,812	2,248,866,998

8 OTHER DED IN THIS RETURN NOT ON BOOKS			
Safe Harbor Lease - Net Rents	282,068	0	282,068
Lease Refinance Fee - Nonutil	145,326	0	145,326
Reforestation Amort - Nonutil	1,199	0	1,199
Tax Depreciation	228,792,228	0	228,792,228
Tax Depreciation - Partnership	1,005,317	0	1,005,317
Bammel Reservoir Inventory Adj	999,849	0	999,849
Gas Stored Underground	38,464	0	38,464
Cost of Asset Removal	10,600,503	0	10,600,503
Gas Used for Linepack	2,996,752	0	2,996,752
AFUDC Gross-Up	4,720,164	0	4,720,164
Tax Amortization	5,581,758	0	5,581,758
Taxable Partnership Loss	19,333,422	0	19,333,422

ENRON CORP AND SUBSIDIARIES
Year: 1998

FEDERAL 1120, SCHEDULE M1
47-0255140

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL
Reverse Book Partnership Inc/Loss	60,301,955	0	60,301,955
MLP Partnership Adjustment	19,490,318	0	19,490,318
Percentage Tax Depletion	53,663	0	53,663
Expired and Surrendered Leases	87,805	0	87,805
Working Interest Adjustments	2,996,534	0	2,996,534
Cost of Product Adjustment	1,059,723	0	1,059,723
Deferred Gas Purchase	71,488,441	0	71,488,441
Exchange Gas Adjustment	111,805	0	111,805
Advance Payments - Current	342,232,453	0	342,232,453
Mobil Payment & Amortization	1,500,000	0	1,500,000
Advance Payments - Noncurrent	538,041,813	0	538,041,813
FERC Annual Charge	482,772	0	482,772
S Georgia Fed Grossup Depreciation	19,794,093	0	19,794,093
S Georgia St Depreciation	9,671,808	0	9,671,808
S Georgia Fed Storage	66,144	0	66,144
S Georgia St Storage Grossup	1,385,016	0	1,385,016
Reverse Auction - Payment Amortiz	9,683,146	0	9,683,146
Payment Amort on Reverse Auct II	977,203	0	977,203
System Balancing Agreement	43,461	0	43,461
Interest Income/Expense	10,392,255	0	10,392,255
Interest - Other Liabilities	2,753,619	0	2,753,619
Bond Debt Amortization	150,561	0	150,561
Gain on Retirement of Debt	1,416	0	1,416
Production Payment Shortage	1,068,716	0	1,068,716
Def Allocated Benefit Accrual	2,166,735	0	2,166,735
Consulting Fees	953,760	0	953,760
Nuclear Decommissioning	861,484	0	861,484
Trojan Write-Off - Nonutility	3,513,108	0	3,513,108
Sales Tax	115,492	0	115,492
Pipe Recoat Costs	4,153,398	0	4,153,398
Bad Debt Expense	3,610,070	0	3,610,070
Special Work Orders	18,312,439	0	18,312,439
Development Costs	42,811,475	0	42,811,475
Deferred Construction Prfts Amort.	12,726,636	0	12,726,636
Development Fees	348,335	0	348,335
Set Up Costs	1,932,354	0	1,932,354
Warranty Accrual	1,150,037	0	1,150,037
Energy Efficiency Programs	2,431,510	0	2,431,510
Contngcy Prov Genratng Nonutil	6,720,266	0	6,720,266
Ad Valorem Taxes - Nonutility	7,554	0	7,554
Producers Tax	35,161	0	35,161
Depr Basis	7,903,793	0	7,903,793
Non Reg Defrl - Trojan Adjustment	2,523,003	0	2,523,003
Reg Defrl - Save DSM Contract	918,056	0	918,056
Reg Deferral - Interest Expense	4,910,844	0	4,910,844
COLI Premium Adjustment	22,881,681	0	22,881,681
Legal Fees	85,490	0	85,490
ESOP Dividends Deducted	11,338,373	0	11,338,373
Loss on Stock	243,267	0	243,267
Tax Gain on Stock Sale	48,668,100	0	48,668,100
Stock Option Deduction	125,343,034	0	125,343,034
Key Man Life Insurance	3,826,277	0	3,826,277
Dividends Paid - Restricted Stock	793,620	0	793,620
Tax Loss Sale of Assets	22,344	0	22,344
Interest Adjustments	3,284,959	0	3,284,959
Property Taxes - Reversal	818,914	0	818,914
TOTAL	1,703,743,339	0	1,703,743,339

FEDERAL 1120, SCHEDULE M1

ENRON CORP. AND SUBSIDIARIES
Year: 1999

47-0255140

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL	ENRON CORP 47-0255140	121 SALMON 93-0658904
		SCHEDULE M-1			
1 NET INCOME PER BOOKS	3,112,272,113	0	3,112,272,113	1,028,458,437	(268,412)
2 FEDERAL INCOME TAX	(128,465,179)	0	(128,465,179)	(139,816,750)	7,969
3 EXCESS CAPITAL LOSSES OVER CAPITAL GAINS	0	0	0	0	0
4 INCOME SUBJECT TO TAX NOT RECORDED ON BOOKS					
Installment Sales	256,091	0	256,091	0	0
CIAC	5,231,885	0	5,231,885	0	0
Dividends	7,283,418	0	7,283,418	0	0
Taxable Partnership Income	92,449,782	0	92,449,782	45,011,616	0
Tax Pship Gain/Loss on Sale	122,728,470	0	122,728,470	0	0
Transportation Discounts	177,024	0	177,024	0	0
Gain/Loss on Unaccounted for Gas	487,647	0	487,647	0	0
Fuel & UAF Price Differential-PRA	136,358	0	136,358	0	0
FERC Order Billing	201,572	0	201,572	0	0
Tax Gain/Loss on Sale of Assets	72,463,011	0	72,463,011	(1,031,003)	(24,762)
Deferred Interco Gain/Loss Adj	15,818,923	15,818,923	0	0	0
Tax Gain on Sale of Stock	172,097,233	0	172,097,233	175,622,115	0
Gain on Retirement of Debt	152,650	0	152,650	0	0
Premium on Reacquired Debt	460,582	0	460,582	0	0
Option Premiums	1,704,057	0	1,704,057	0	0
SOP 98-5 Project Costs	34,940,638	0	34,940,638	0	0
Nuclear Decom Trust	15,320	0	15,320	0	0
Capitalized Development Costs	19,236,479	0	19,236,479	2,867,832	0
Tax Depreciation - Utility	16,667,650	0	16,667,650	0	0
Non Reg Defrl - AFUDC Equity	120,490	0	120,490	0	0
Nuclear Decom Trust	282	0	282	0	0
Reg Defrl - FERC Adj	206,253	0	206,253	0	0
Deferred Gain	6,632,814	0	6,632,814	0	0
Dividend Income - Other Domestic	2,468,100	0	2,468,100	2,468,100	0
Dividend Income	47,450,886	0	47,450,886	47,450,886	0
Partnership Income/Loss on Fm 1065	18,334,670	0	18,334,670	(4,795,576)	0
Minority Interest	1,318,892	0	1,318,892	0	0
Subpart F Income	29,089,343	0	29,089,343	0	0
Gain on Sale of Stock	197,195	0	197,195	0	0
Correct Booking Error	27,050	0	27,050	0	0
Capitalized Development Costs	5,146,207	0	5,146,207	0	0
Demand Side Management	5,134,173	0	5,134,173	0	0
Interest Income/Expense	16,724,594	0	16,724,594	0	0
TOTAL	695,359,739	15,818,923	679,540,816	267,593,970	(24,762)
5 EXPENSES RECORDED ON BOOKS NOT IN THIS RETURN					
A DEPRECIATION	0	0	0	0	0
B CONTRIBUTIONS CARRYOVER	9,567,873	9,567,873	0	0	0
C TRAVEL AND ENTERTAINMENT	0	0	0	0	0
OTHER EXP RECORDED ON BOOKS NOT IN THIS RETURN					
Book Depreciation - Utility	53,540,740	0	53,540,740	0	0
Safe Harbor Lease - Net Rents	858,558	0	858,558	0	0
Book Depreciation	78,846,770	0	78,846,770	8,320,195	0
Inventory Adjustment	6,461,874	0	6,461,874	0	0
Gas Stored Underground	25,561	0	25,561	0	0
Citicorp Lease Adjustments	1,899,996	0	1,899,996	1,899,996	0
Airplane Lease Adjustments	413,142	0	413,142	0	0
CIAC - Nonutility	3,343,007	0	3,343,007	0	0
Book Amortization Reversal	18,457,819	0	18,457,819	(4,341,992)	0
Amortization - Regulatory Cost	488,092	0	488,092	0	0
AFUDC Amortization	140,638	0	140,638	0	0
Amortization of IMP Costs	1,960,780	0	1,960,780	0	0
EPRI	538,629	0	538,629	0	0
Termination Int	5,573,103	0	5,573,103	0	0
Interest Income	1,353,927	0	1,353,927	0	0
FERC Audit Adjustment	115,887	0	115,887	0	0
Two Cities	196,416	0	196,416	0	0
Trojan Amortization	21,394,440	0	21,394,440	0	0
Cost of Product Adjustment	1,442,247	0	1,442,247	0	0
Deferred Gas Purchase	13,509,949	0	13,509,949	0	0
Advance Payments - Current	711,798,281	0	711,798,281	0	0
Mobil Payment & Amortization	1,500,000	0	1,500,000	0	0
FAS96 Present Value Adj	838,000	0	838,000	0	0
Reverse Auction I	1,877,128	0	1,877,128	0	0
Stranded 858-Other	6,514	0	6,514	0	0
Reverse Auction II	302,176	0	302,176	0	0
Mini Stlmt - Sunrise Uncollect	537,952	0	537,952	0	0
Mini Stlmt - Other Uncollect	504,136	0	504,136	0	0
Mini Stlmt - FERC Audit	125,751	0	125,751	0	0
Mini Stlmt - TCR C	377,819	0	377,819	0	0
Mini Stlmt - PGAR	536,894	0	536,894	0	0
Mini Stlmt - Monsanto Litig	632,191	0	632,191	0	0
Mini Stlmt - JJCC Litigation	126,400	0	126,400	0	0
Mini Stlmt - Other	83,348	0	83,348	0	0
System Balancing Agreement	35,116	0	35,116	0	0
Book Wrtdown/Wrtoff of Assets	438,091,000	0	438,091,000	0	0
Cost Sharing Reimbursement	6,015,959	0	6,015,959	1,837,843	0
Interest Income/Expense	61,457,831	0	61,457,831	2,632,892	0
Amortization of Organization Costs	162,276	0	162,276	695,148	0
Amortization of Pre-Operating Cost	31,537,082	0	31,537,082	0	0
Book Amort-Dow-Tenngasco	1,216,751	0	1,216,751	0	0
Loss on Reacquired Debt	1,775,838	0	1,775,838	0	0
Mark to Market	588,472,539	0	588,472,539	(206,900,306)	0
Prudence Reserve	51,220,053	0	51,220,053	0	0
Interest Income-Prod Pmt	223,597	0	223,597	0	0
Bonus	29,510,678	0	29,510,678	12,286,635	0

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ENRON CORP. AND SUBSIDIARIES
Year: 1999

47-0255140

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL	ENRON CORP 47-0255140	121 SALMON 93-0658904
Def Allocated Benefit Accrual	1,142,294	0	1,142,294	0	0
Deferred Compensation	15,746,740	0	15,746,740	1,936,179	0
Employee Fringe Benefits	305,944	0	305,944	0	0
Incentive Compensation	488,358	0	488,358	0	0
Severance Benefit Deduction	387,371	0	387,371	0	0
Deferred Director's Fees	26,105,983	0	26,105,983	26,127,273	0
Restricted Stock Plan	62,879,339	0	62,879,339	74,670,941	0
Accrued Medical Claims	8,296,829	0	8,296,829	8,839,902	0
Employee Pension Benefits	8,811,104	0	8,811,104	16,684,449	0
Accrued Warranty Reserve	2,183,059	0	2,183,059	0	0
Reserve for Lawsuits	2,903	0	2,903	0	0
Trojan Write-Off - Nonutility	179,060	0	179,060	0	0
State Income Taxes	25,912,461	0	25,912,461	(3,777,154)	0
Computer Development Expense	1,326,316	0	1,326,316	0	0
Deferred Transportation Expense	27,788	0	27,788	0	0
Vacation & Sick Pay	114,589	0	114,589	0	0
Vacation Accrual Method Change	76,048	0	76,048	0	0
SERP	772,156	0	772,156	0	0
Long Term Disability	256,337	0	256,337	0	0
Bad Debt Expense	3,055,440	0	3,055,440	0	0
Hedge Accrual/Transactions	45,812	0	45,812	45,812	0
Phantom Stock Reversal	48,435,913	0	48,435,913	0	0
General & Administrative Expense	12,750,504	0	12,750,504	0	0
Loss on Stock	5,436,457	0	5,436,457	0	0
Construction Profits	36,301,190	0	36,301,190	0	0
Development Costs	32,107,878	0	32,107,878	0	0
Deferred Debits/Credits	5,684,758	0	5,684,758	4,303,659	0
Promote Fees	178,580	0	178,580	0	0
Development Fees	2,309,887	0	2,309,887	0	0
Set Up Costs	724,366	0	724,366	0	0
Warranty Accrual	7,407	0	7,407	0	0
Operations Information Costs	760,105	0	760,105	0	0
Accounting Change Method	1,416,841	0	1,416,841	0	0
Contngcy Prov Genratng Nonutil	3,002,933	0	3,002,933	0	0
Ad Valorem Taxes - Nonutility	624	0	624	0	0
Defd Costs - Pebble Springs	65,791	0	65,791	0	0
Demand Side Management	7,800,252	0	7,800,252	0	0
FSC Exemption	3,958,000	0	3,958,000	0	0
Property Sales	1,771,155	0	1,771,155	0	0
Local Income Tax Provision	14,270	0	14,270	0	0
Book Depreciation-Nonutility	78,177	0	78,177	0	0
Reg Defrl - Trojan Amort	7,133,310	0	7,133,310	0	0
Amortiz of Computer Software Costs	1,128,834	0	1,128,834	1,128,834	0
Expense of Foreign Operations	120,321	0	120,321	0	0
Executive Compensation	8,133,762	0	8,133,762	8,133,762	0
Valuation Reserve Adjustment	999,036	0	999,036	1,141,216	0
NIBT Transfer between Related Co.	517	0	517	(2,111,351)	0
Change of Acctg. Method	47,476	0	47,476	0	0
Amortization of Organization Costs	8,441,466	0	8,441,466	8,439,829	0
Amortization of Goodwill	8,385,383	0	8,385,383	0	0
Business Expenses @ 50%	7,963,791	0	7,963,791	924,630	0
Non-Ded. Entertainment Facilities	255,747	0	255,747	54,765	0
Fines & Penalties	114,666	0	114,666	62,164	0
Political Activities/Contributions	8,988,437	0	8,988,437	8,946,430	0
Excess Offering Costs	1,250,000	0	1,250,000	1,250,000	0
Minority Interest in EOG	22,840,258	0	22,840,258	22,840,258	0
Book Loss On Sale Of Assets	170,897	0	170,897	0	0
Civic Legis & Dues	572,770	0	572,770	0	0
TOTAL	2,536,994,575	0	2,536,994,575	(3,927,991)	0
TOTAL LINE 5.	2,546,562,448	9,567,873	2,536,994,575	(3,927,991)	0
6 TOTAL OF LINES 1 THROUGH 5.	6,225,729,121	25,386,796	6,200,342,325	1,152,307,666	(285,205)
7 INCOME RECORDED ON BOOKS NOT IN THIS RETURN A TAX-EXEMPT INTEREST	0	0	0	0	0
OTHER INC RECORDED ON BOOKS NOT IN THIS RETURN					
Safe Harbor Lse ACRS - Nonutil	186,287	0	186,287	0	0
Capitalized Interest	10,658,616	0	10,658,616	0	0
Save Program	10,295,134	0	10,295,134	0	0
USDOE Neg Salvage	336,576	0	336,576	0	0
Rate Decoupling	921,318	0	921,318	0	0
State Tax Refund - Regulatory	7,507,828	0	7,507,828	0	0
Termination Pay	18,219,174	0	18,219,174	0	0
Revenue Reduction	6,296,820	0	6,296,820	0	0
Reverse Book Partnership Inc/Loss	104,361,829	0	104,361,829	24,990,883	0
Reverse Book Partnership Income	27,572,847	0	27,572,847	0	0
Deferred Revenue	15,321,866	0	15,321,866	0	0
Percentage of Completion	289,895	0	289,895	0	0
Book Gain/Loss on Sale of Assets	187,654,429	0	187,654,429	6,568,515	0
Book Gain on Sale of Stock	223,016,548	0	223,016,548	110,222,172	0
Worthless Stock Deduction	5,531,250	0	5,531,250	0	0
Credit Reserve	24,046,130	0	24,046,130	0	0
Adjust COGS to Actual Recv'd	1,011,737	0	1,011,737	0	0
Mark to Market-Current	615,872,536	0	615,872,536	0	0
Retirement/Severance Reserve	2,000,000	0	2,000,000	0	0
Stock Option Appreciation/Exercise	16,181,557	0	16,181,557	16,181,557	0
Insurance Reserve	3,078,659	0	3,078,659	0	0
Contingency Provision	3,093,767	0	3,093,767	26,459	0
Uncollectible Reserve	3,268,000	0	3,268,000	0	0
Other Revenue Reserve	18,419,300	0	18,419,300	17,706,649	0
Closing Reserve	30,879,336	0	30,879,336	0	0
Computer Conversion Costs	3,962,377	0	3,962,377	0	0
Captive Insurance Adjustment	24,471,792	0	24,471,792	0	0
Contributions	100,085	0	100,085	0	0
Legal Fees	6,096,139	0	6,096,139	0	0

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FEDERAL 1120, SCHEDULE M1

ENRON CORP. AND SUBSIDIARIES
Year: 1999

47-0255140

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL	ENRON CORP 47-0255140	121 SALMON 93-0658904
Book to Flash Adjustment	442,000	0	442,000	0	0
Maintenance Accrual	9,499,792	0	9,499,792	0	0
State Income Tax Provision	436,461	0	436,461	0	(1,993)
Equity Earnings - 100% Foreign Sub	172,815,189	0	172,815,189	(1,617,710)	0
COLI Premium Adjustment	24,077,458	0	24,077,458	16,945,940	0
Equity Earnings-100% Domestic Subs	2,632,778,812	0	2,632,778,812	819,818,734	(283,212)
Equity Earnings-80% Domestic Subs	57,656,478	0	57,656,478	32,700,000	0
Equity Earnings- 50% Foreign Subs	5,438,620	0	5,438,620	0	0
Tax Interest Accrual	75,684,567	0	75,684,567	75,684,567	0
Reverse Book Gain/Loss Stock Sale	392,487,842	0	392,487,842	392,487,842	0
Foreign Taxes - Income	437,000	0	437,000	0	0
Foreign Taxes - Withholding	6,941,321	0	6,941,321	0	0
Tax Exempt Interest	282	0	282	0	0
Partnership Income/Loss	253,232,917	0	253,232,917	157,759,717	0
Investment Tax Cr. - Deferred	3,840,137	0	3,840,137	0	0
TOTAL	5,006,420,708	0	5,006,420,708	1,669,475,325	(285,205)
TOTAL LINE 7.	5,006,420,708	0	5,006,420,708	1,669,475,325	(285,205)
8 DEDUCTIONS IN THIS RETURN NOT ON BOOKS					
A DEPRECIATION.	0	0	0	0	0
B CONTRIBUTIONS CARRYOVER	0	0	0	0	0
OTHER DED IN THIS RETURN NOT ON BOOKS					
Depreciable\Basis	4,674,580	0	4,674,580	0	0
Reforestation Amort - Nonutil	2,353	0	2,353	0	0
Timber Sales - Nonutility	40,864	0	40,864	0	0
Tax Depreciation	191,609,918	0	191,609,918	12,708,543	0
Tax Depreciation - Partnership	3,139,695	0	3,139,695	0	0
Tax depreciation - utility	109,706,860	0	109,706,860	0	0
Uniform Capitalization Adj	576,786	0	576,786	0	0
Aircraft Maintenance	43,544	0	43,544	(66,160)	0
Cost of Asset Removal	7,238,383	0	7,238,383	0	0
Gas Used for Linepack	31,354	0	31,354	0	0
AFUDC Gross-Up	2,142,912	0	2,142,912	0	0
Tax Amortization	26,715,296	0	26,715,296	16,443,609	0
Taxable Partnership Loss	63,452,009	0	63,452,009	6,508,092	0
Deferred Charges	1,145,420,652	0	1,145,420,652	7,451,155	0
Percentage Tax Depletion	21,680	0	21,680	0	0
Expired and Surrendered Leases	55,432	0	55,432	0	0
Lease Adjustment	12,631,232	0	12,631,232	0	0
Working Interest Adjustments	3,930,129	0	3,930,129	0	0
Exchange Gas Adjustment	74,712	0	74,712	0	0
Advance Payments - Noncurrent	493,602,784	0	493,602,784	0	0
PGA - Resale	43,446	0	43,446	0	0
Equivalent Unit Risk	6,196,770	0	6,196,770	0	0
FERC Annual Charge	3,153	0	3,153	0	0
Rate Refunds	5,347,533	0	5,347,533	0	0
Reserve for Regulatory Issues	8,689,381	0	8,689,381	0	0
S Georgia Fed Grossup Depreciation	3,615,662	0	3,615,662	0	0
Reverse Auction - Payment Amortiz	9,634,778	0	9,634,778	0	0
Gas Sup. Realign - Reverse Auction	288,142	0	288,142	0	0
Payment Amort on Reverse Auct II	972,322	0	972,322	0	0
Reverse Auction III - Billing	75,480	0	75,480	0	0
Carlton Tracker	32,032	0	32,032	0	0
COLI CSV	10,814,653	0	10,814,653	0	0
Interest - Other Liabilities	5,555,557	0	5,555,557	0	0
Bond Debt Amortization	1,152	0	1,152	1,152	0
Consulting Fees	432,954	0	432,954	0	0
Nuclear Decommissioning	15,320	0	15,320	0	0
Ad Valorem Taxes	638,330	0	638,330	0	0
Deferred Foreign Income Taxes	2,871,782	0	2,871,782	0	0
Foreign Currency Translation	6,253,395	0	6,253,395	0	0
PCB Cleanup Costs	13,085	0	13,085	0	0
Pipe Recoat Costs	2,011,344	0	2,011,344	0	0
Special Work Orders	919,938	0	919,938	0	0
Deferred Construction Prfts Amort.	587,183	0	587,183	0	0
Energy Efficiency Programs	1,444,352	0	1,444,352	0	0
Depr Basis Adjustment	6,078,179	0	6,078,179	0	0
Non Reg Defrl - Trojan Amort	625,561	0	625,561	0	0
Reg Defrl - Save DSM Contract	672,176	0	672,176	0	0
Reg Deferral - Interest Expense	4,461,996	0	4,461,996	0	0
Dividends - Intercompany	100,957,286	181,343,977	(80,386,691)	(80,386,691)	0
Legal Fees	86,701	0	86,701	86,701	0
Book Gain/Loss on Stock Sale	31,478,538	0	31,478,538	31,478,538	0
ESOP Dividends Deducted	10,259,457	0	10,259,457	10,259,457	0
Tax Gain on Stock Sale	1,889,233	0	1,889,233	0	0
Stock Option Deduction	564,705	0	564,705	0	0
Key Man Life Insurance	782,613	0	782,613	620,233	0
Dividends Paid - Restricted Stock	1,183,669	0	1,183,669	1,183,669	0
Property Taxes - Reversal	662,555	0	662,555	0	0
Pension	1,850,000	0	1,850,000	1,850,000	0
TOTAL	2,293,121,588	181,343,977	2,111,777,611	8,138,298	0
TOTAL LINE 8.	2,293,121,588	181,343,977	2,111,777,611	8,138,298	0
9 TOTAL OF LINES 7 AND 8.	7,299,542,296	181,343,977	7,118,198,319	1,677,613,623	(285,205)
10 TAXABLE INCOME (LINE 28, PAGE 1) - LINE 6 LESS 9	(1,073,813,175)	(155,957,181)	(917,855,994)	(525,305,957)	0

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Enron Corp & Subs
Year: 2000

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL	ENRON CORP 47-0255140	SWSS 93-0658904
		SCHEDULE M-1			
1 NET INCOME PER BOOKS	5,896,052,047	0	5,896,052,047	1,123,857,613	(25,837)
2 FEDERAL INCOME TAX	192,663,899	0	192,663,899	(406,468,963)	7,969
3 EXCESS CAPITAL LOSSES OVER CAPITAL GAINS	0	0	0	0	0
4 INCOME SUBJECT TO TAX NOT RECORDED ON BOOKS					
Installment Sales	294,336	0	294,336	0	0
Aircraft Maintenance	22,206	0	22,206	64,880	0
Capitalized Interest	26,261	0	26,261	0	0
Gas Used for Linepack	8,522	0	8,522	0	0
Colombia River Pub Utility-Reg Def	3,969,189	0	3,969,189	0	0
Taxable Partnership Income	316,980,952	0	316,980,952	150,510,197	0
Reverse Book Partnership Inc/Loss	581,071	0	581,071	0	0
Tax Pship Gain/Loss on Sale	14,513,655	0	14,513,655	0	0
Deferred Revenue	22,530,366	0	22,530,366	0	0
Advance Payments - Current	1,048,185,043	0	1,048,185,043	0	0
Financial Prepayments- Current	5,575,240,582	0	5,575,240,582	0	0
Transportation Discounts	179,551	0	179,551	0	0
Gain/Loss on Unaccounted for Gas	2,604,285	0	2,604,285	0	0
FERC Annual Charge	372,525	0	372,525	0	0
FERC Order Billing	166,337	0	166,337	0	0
Reserve for Regulatory Issues	9,603,929	0	9,603,929	0	0
S Georgia Fed Grossup Depreciation	80,808	0	80,808	0	0
Carlton Tracker	19,783	0	19,783	0	0
Tax Gain/Loss on Sale of Assets	137,706,552	0	137,706,552	(696,281)	(24,762)
Deferred Interco Gain/Loss Adj	137,795,561	(238,272,842)	376,068,403	0	0
Tax Gain on Sale of Stock	151,559,335	0	151,559,335	0	0
Premium on Reacquired Debt	455,754	0	455,754	0	0
Option Premiums	12,942,567	0	12,942,567	0	0
Nuclear Decom Trust	33,026	0	33,026	0	0
Ad Valorem Taxes	576,650	0	576,650	0	0
Pipe Recoat Costs	270,387	0	270,387	0	0
Capitalized Development Costs	8,919,529	0	8,919,529	(15,359,160)	0
Energy Efficiency Programs	2,770,052	0	2,770,052	0	0
Producers Tax	21,224	0	21,224	0	0
Western Center Gain Deferral	3,780,404	0	3,780,404	0	0
Merger Payment Obligation	2,564,957	0	2,564,957	0	0
Coyote Springs II Regulatory Defer	10,893,719	0	10,893,719	0	0
Tax Depreciation - Utility	18,676,595	0	18,676,595	0	0
Non Reg Defrl - AFUDC Equity	117,016	0	117,016	0	0
Reg Defrl - FERC Adj	206,253	0	206,253	0	0
Trojan Settlement	5,084,425	0	5,084,425	0	0
Dividend Income	3,251,673	0	3,251,673	3,251,673	0
Minority Interest	6,100,000	0	6,100,000	0	0
Tax Gain on Stock Sale	66,104,782	0	66,104,782	0	0
Acquired Company Adjustments	104,250	0	104,250	0	0
Subpart F Income	127,555,758	0	127,555,758	19,428,129	0
Taxable Interest Adjustment	4,768,768	0	4,768,768	4,768,768	0
Demand Side Management	4,398,293	0	4,398,293	0	0
TOTAL	7,702,036,931	(238,272,842)	7,940,309,773	161,968,206	(24,762)
5 EXPENSES RECORDED ON BOOKS NOT IN THIS RETURN					
A DEPRECIATION	0	0	0	0	0
B CONTRIBUTIONS CARRYOVER	0	0	0	0	0
C TRAVEL AND ENTERTAINMENT	0	0	0	0	0
OTHER EXP RECORDED ON BOOKS NOT IN THIS RETURN					
Book Depreciation - Utility	54,411,683	0	54,411,683	0	0
Safe Harbor Lease - Net Rents	625,999	0	625,999	0	0
Book Depreciation	171,252,125	0	171,252,125	14,296,070	0
Inventory Writedown/Loss	13,100,000	0	13,100,000	0	0
Uniform Capitalization Adj	70,872	0	70,872	0	0
Inventory Adjustment	9,539,475	0	9,539,475	0	0
Citicorp Lease Adjustments	1,899,996	0	1,899,996	1,899,996	0
Airplane Lease Adjustments	156,495	0	156,495	0	0
CIAC - Nonutility	6,314,445	0	6,314,445	0	0
Book Amortization Reversal	33,376,798	0	33,376,798	(2,665,824)	0
Amortization - Regulatory Cost	2,032,306	0	2,032,306	0	0
AFUDC Amortization	161,628	0	161,628	0	0
Amortization of IMP Costs	4,159,865	0	4,159,865	0	0
Rate Decoupling	225,625	0	225,625	0	0
State Tax Refund - Regulatory	125,021	0	125,021	0	0
Transfer Fee	77,289	0	77,289	0	0
Termination Int	4,004,138	0	4,004,138	0	0
FERC Audit Adjustment	115,887	0	115,887	0	0
Two Cities	196,416	0	196,416	0	0
Trojan Amortization	17,820,451	0	17,820,451	0	0
Nuclear Energy Ins-Reg Defferal	19,093,589	0	19,093,589	0	0
Amortizable Rate Case Costs	109,918	0	109,918	0	0
Stranded 858-Other	18,576	0	18,576	0	0
Mini Stlmt - Sunrise Uncollect	364,803	0	364,803	0	0
Mini Stlmt - Other Uncollect	504,135	0	504,135	0	0
Mini Stlmt - FERC Audit	125,751	0	125,751	0	0
Mini Stlmt - TCR C	377,820	0	377,820	0	0
Mini Stlmt - PGAR	536,895	0	536,895	0	0
Mini Stlmt - Monsanto Litig	632,191	0	632,191	0	0
Mini Stlmt - JJCC Litigation	127,959	0	127,959	0	0
Mini Stlmt - Other	83,348	0	83,348	0	0
Cost Sharing Reimbursement	272,028	0	272,028	0	0
Book Amort-Dow-Tenngasco	1,224,982	0	1,224,982	0	0
Loss on Reacquired Debt	1,684,066	0	1,684,066	0	0
Credit Reserve	114,299,841	0	114,299,841	0	0
Adjust COGS to Actual Recv'd	4,358	0	4,358	0	0
Interest Income-Prod Pmt	129,696	0	129,696	0	0
Mark to Market-Current	5,989,106,544	0	5,989,106,544	0	0
Bonus	100,827,266	0	100,827,266	28,852,995	0
Def Allocated Benefit Accrual	1,026,576	0	1,026,576	0	0
Deferred Compensation	24,133,814	0	24,133,814	14,067,721	0
Employee Fringe Benefits	923,554	0	923,554	0	0
Severance Benefit Deduction	1,797,693	0	1,797,693	0	0
Deferred Director's Fees	49,508,229	0	49,508,229	49,516,856	0
Restricted Stock Plan	20,925,120	0	20,925,120	20,925,120	0
Accrued Medical Claims	5,391,952	0	5,391,952	5,157,671	0
Reserve for Lawsuits	1,571,839	0	1,571,839	0	0
Central Plant Reserve	49,836,000	0	49,836,000	0	0
Contingency Provision	25,588,194	0	25,588,194	0	0
Uncollectible Reserve	9,090,000	0	9,090,000	0	0
State Income Taxes	44,730,256	0	44,730,256	17,927,851	1,993
Computer Development Expense	531,308	0	531,308	0	0
Computer Conversion Costs	2,408,665	0	2,408,665	0	0
Vacation & Sick Pay	1,232,763	0	1,232,763	0	0
SERP	111,789	0	111,789	0	0
Long Term Disability	138,745	0	138,745	0	0

Enron Corp & Subs
Year: 2000

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL	ENRON CORP 47-0255140	SWSS 93-0658904
Bad Debt Expense	21,237,614	0	21,237,614	0	0
Contributions	7,947,328	7,847,243	100,085	0	0
Hedge Accrual/Transactions	786,198	0	786,198	137,437	0
Operations Adjustment	3,218,105	0	3,218,105	0	0
Loss on Stock	(4,545,483)	0	(4,545,483)	0	0
Development Costs	25,392,439	0	25,392,439	90,158	0
Deferred Debits/Credits	9,337,145	0	9,337,145	(4,104,944)	0
Promote Fees	111,724	0	111,724	0	0
Development Fees	147,917	0	147,917	0	0
Operations Information Costs	673,274	0	673,274	0	0
Accounting Change Method	916,841	0	916,841	0	0
Contngcy Prov Genratng Nonutil	6,318,253	0	6,318,253	0	0
Defd Costs - Pebble Springs	63,907	0	63,907	0	0
Demand Side Management	2,248,375	0	2,248,375	0	0
Maintenance Accrual	2,236,161	0	2,236,161	0	0
PGE/OPUC Settlement	2,560,481	0	2,560,481	0	0
Trojan FAs 109 Regulatory Deferral	1,981,282	0	1,981,282	0	0
FICA Options Accrual	2,000,000	0	2,000,000	0	0
ODFW Assessment Reserve	2,000,000	0	2,000,000	0	0
Pelton Round Butte Relicensing	2,000,000	0	2,000,000	0	0
S.B. 1149 Reserve- Non-Utility	1,000,000	0	1,000,000	0	0
W.O.E.C. Trust Payments	1,485,000	0	1,485,000	0	0
Property Sales	1,613,843	0	1,613,843	0	0
State Income Tax Provision	1,919,891	0	1,919,891	0	0
Book Depreciation-Nonutility	3,307,305	0	3,307,305	0	0
Reg Defrl - Trojan Amort	5,576,943	0	5,576,943	0	0
Promote Fees	5,000	0	5,000	0	0
Amortiz of Computer Software Costs	1,128,834	0	1,128,834	1,128,834	0
Executive Compensation	16,503,956	0	16,503,956	16,503,956	0
Valuation Reserve Adjustment	5,524,000	0	5,524,000	0	0
NIBT Transfer between Related Co.	0	0	0	(54,500,000)	0
Amortization of Organization Costs	2,400,000	0	2,400,000	2,400,000	0
Reverse Book Gain/Loss Stock Sale	355,231,609	0	355,231,609	168,865,306	0
Amortization of Goodwill	14,883,623	0	14,883,623	0	0
Business Expenses @ 50%	10,582,975	0	10,582,975	2,384,739	0
Non-Ded. Entertainment Facilities	536,121	0	536,121	21,147	0
Fines & Penalties	425,655	0	425,655	254,936	0
Foreign Taxes - Income	3,198,533	0	3,198,533	0	0
Political Activities/Contributions	4,867,931	0	4,867,931	4,731,065	0
Book Loss On Sale Of Assets	1,755	0	1,755	0	0
TOTAL	7,304,961,312	7,847,243	7,297,114,069	287,891,090	1,993
TOTAL LINE 5.	7,304,961,312	7,847,243	7,297,114,069	287,891,090	1,993
6 TOTAL OF LINES 1 THROUGH 5.	21,095,714,189	(230,425,599)	21,326,139,788	1,167,247,946	(40,637)
7 INCOME RECORDED ON BOOKS NOT IN THIS RETURN					
A TAX-EXEMPT INTEREST	0	0	0	0	0
OTHER INC RECORDED ON BOOKS NOT IN THIS RETURN					
Safe Harbor Lse ACRS - Nonutil	180,930	0	180,930	0	0
Capitalized Interest	9,902,448	0	9,902,448	0	0
Save Program	2,168,934	0	2,168,934	0	0
USDOE Neg Salvage	252,432	0	252,432	0	0
EPRI	3,098,393	0	3,098,393	0	0
Termination Pay	13,757,260	0	13,757,260	0	0
Revenue Reduction	6,938,933	0	6,938,933	0	0
W Oregon Electric Reg Deferral	2,069,605	0	2,069,605	0	0
Reverse Book Partnership Inc/Loss	6,119,629,477	0	6,119,629,477	64,881,939	0
Reverse Book Partnership Income	22,900,141	0	22,900,141	0	0
Reversal - Overaccrued Revenue	14,001,497	0	14,001,497	0	0
Deferred Revenue	63,344,686	0	63,344,686	0	0
Percentage of Completion	4,006,367	0	4,006,367	0	0
Cost of Product Adjustment	14,987	0	14,987	0	0
Deferred Gas Purchase	138,486,089	0	138,486,089	0	0
Reverse Auction I	8,327,003	0	8,327,003	0	0
Reverse Auction II	704,186	0	704,186	0	0
System Balancing Agreement	717,941	0	717,941	0	0
Book Gain/Loss on Sale of Assets	391,042,400	0	391,042,400	(37,576)	0
Book Wrtdown/Wrtoff of Assets	846,191	0	846,191	0	0
Book Gain on Sale of Stock	251,654,492	0	251,654,492	259,001,253	0
Interest Income/Expense	1,326,599	0	1,326,599	6,500,320	0
Amortization of Organization Costs	378,501	0	378,501	(695,148)	0
Amortization of Pre-Operating Cost	95,889	0	95,889	0	0
Mark to Market- Noncurrent	626,034,382	0	626,034,382	107,401,214	0
Prudence Reserve	22,008,271	0	22,008,271	0	0
Employee Pension Benefits	5,607,271	0	5,607,271	(3,051,990)	0
Accrued Warranty Reserve	6,015,771	0	6,015,771	0	0
Insurance Reserve	687,627	0	687,627	0	0
Other Revenue Reserve	4,286,492	0	4,286,492	0	0
Closing Reserve	15,441,216	0	15,441,216	0	0
Trojan Write-Off - Nonutility	641,226	0	641,226	0	0
State Income Taxes	690,716	0	690,716	0	0
Deferred Transportation Expense	970	0	970	0	0
Phantom Stock Reversal	29,130,598	0	29,130,598	0	0
General & Administrative Expense	2,385,579	0	2,385,579	0	0
Legal Fees	8,366,024	0	8,366,024	0	0
Construction Profits	4,534,114	0	4,534,114	0	0
Set Up Costs	272,164	0	272,164	0	0
Warranty Accrual	13,444	0	13,444	0	0
Ad Valorem Taxes - Nonutility	110,697	0	110,697	0	0
Deferred Costs - Sullivan	4,200,000	0	4,200,000	0	0
Foreign Exchange Loss	165,083	0	165,083	(25,122)	0
Equity Earnings - 100% Foreign Sub	460,058,494	0	460,058,494	0	0
COLI Premium Adjustment	19,716,787	0	19,716,787	22,163,330	0
Partnership Income	326,168,376	0	326,168,376	0	0
Equity Earnings-100% Domestic Subs	4,669,623,492	0	4,669,623,492	1,634,645,251	(40,637)
Equity Earnings-80% Domestic Subs	49,998,696	0	49,998,696	0	0
Equity Earnings- 50% Foreign Subs	970,042	0	970,042	501,083	0
Tax Interest Accrual	24,400,000	0	24,400,000	14,900,000	0
State Income Taxes	10,082	0	10,082	0	0
Partnership Income/Loss	154,963,545	0	154,963,545	100,322,158	0
Equity Earnings - 50% or more	335,777,498	0	335,777,498	31,345,533	0
TOTAL	13,828,124,038	0	13,828,124,038	2,237,852,245	(40,637)
TOTAL LINE 7.	13,828,124,038	0	13,828,124,038	2,237,852,245	(40,637)
8 DEDUCTIONS IN THIS RETURN NOT ON BOOKS					
A DEPRECIATION.	0	0	0	0	0
B CONTRIBUTIONS CARRYOVER	0	0	0	0	0
OTHER DED IN THIS RETURN NOT ON BOOKS					
Depreciable Basis	15,950,917	0	15,950,917	0	0
Reforestation Amort - Nonutil	2,815	0	2,815	0	0
Book Gain Sale Colom Rvr PUD	5,591,938	0	5,591,938	0	0
Tax Depreciation	313,962,371	0	313,962,371	43,713,086	0

FEDERAL 1120, SCHEDULE M1

Enron Corp & Subs
Year: 2000

	ENRON & SUBS	CONSOLIDATING ADJUSTMENTS	SUBTOTAL	ENRON CORP 47-0255140	SMSS 93-0658904
Tax Depreciation - Partnership	756,074	0	756,074	0	0
Tax depreciation - utility	107,941,414	0	107,941,414	0	0
Uniform Capitalization Adj	9,032,376	0	9,032,376	0	0
Cost of Asset Removal	7,256,381	0	7,256,381	0	0
CIAC	189,263	0	189,263	0	0
AFUDC Gross-Up	1,094,444	0	1,094,444	0	0
Tax Amortization	15,886,277	0	15,886,277	7,496,334	0
Taxable Partnership Loss	110,040,832	0	110,040,832	17,780,792	0
Deferred Charges	9,241,633	0	9,241,633	0	0
Expired and Surrendered Leases	16,967	0	16,967	0	0
Lease Adjustment	84,807,760	0	84,807,760	0	0
Working Interest Adjustments	6,022,036	0	6,022,036	0	0
Advance Payments - Noncurrent	502,740,076	0	502,740,076	0	0
Financial Prepayments-Noncurrent	805,800,000	0	805,800,000	0	0
PGA - Resale	43,715	0	43,715	0	0
Fuel & UAF Price Differential-PRA	1,875,105	0	1,875,105	0	0
Rate Refunds	4,200,000	0	4,200,000	0	0
Gas Sup. Realign - Reverse Auction	308,576	0	308,576	0	0
Interest - Other Liabilities	47,639,062	0	47,639,062	43,066,841	0
Miscellaneous Interest Income	619,915	0	619,915	0	0
Bond Debt Amortization	148,666	0	148,666	148,666	0
Gain on Retirement of Debt	8,112	0	8,112	0	0
Employee Pension Benefits	69,665	0	69,665	0	0
Nuclear Decommissioning	448,733	0	448,733	0	0
Deferred Foreign Income Taxes	4,931,730	0	4,931,730	0	0
Foreign Currency Translation	7,399,374	0	7,399,374	(2,660,453)	0
PCB Cleanup Costs	5,566	0	5,566	0	0
Stock Options Canceled	23,465,424	0	23,465,424	0	0
General & Administrative Expense	3,110,710	0	3,110,710	0	0
Legal Fees	76,262	0	76,262	0	0
Special Work Orders	3,281,851	0	3,281,851	0	0
Deferred Construction Prfts Amort.	8,069,385	0	8,069,385	0	0
Deferred Costs - Clackamas Creek N	1,175,188	0	1,175,188	0	0
Expired Tax Credit	1,946,449	0	1,946,449	0	0
S.B. 1149 Regulatory Deferral	4,224,372	0	4,224,372	0	0
Beaver Fuel Accrual	4,279,328	0	4,279,328	0	0
Depr Basis Adjustment	4,006,210	0	4,006,210	0	0
Non Reg Defrl - Trojan Amort	460,536	0	460,536	0	0
Reg Defrl - Save DSM Contract	417,161	0	417,161	0	0
Reg Deferral - Interest Expense	3,981,131	0	3,981,131	0	0
Dividends - Intercompany	405,136,688	496,242,872	(91,106,184)	(80,386,689)	0
Legal Fees	202,307	0	202,307	202,307	0
Partnership Income/Loss on Fm 1065	1,899,392	0	1,899,392	2,134,282	0
ESOP Dividends Deducted	7,084,305	0	7,084,305	7,084,305	0
Stock Option Deduction	1,549,748,188	0	1,549,748,188	1,549,748,188	0
Key Man Life Insurance	343,741	0	343,741	356,639	0
Dividends Paid - Restricted Stock	1,489,093	0	1,489,093	1,489,093	0
Property Taxes - Reversal	1,300,261	0	1,300,261	0	0
Interest Income/Expense	70,580,405	0	70,580,405	69,265,052	0
TOTAL	4,160,310,180	496,242,872	3,664,067,308	1,659,438,443	0
8 TOTAL LINE 8.	4,160,310,180	496,242,872	3,664,067,308	1,659,438,443	0
9 TOTAL OF LINES 7 AND 8.	17,988,434,218	496,242,872	17,492,191,346	3,897,290,688	(40,637)
10 TAXABLE INCOME (LINE 28, PAGE 1) - LINE 6 LESS 9	3,107,279,971	(726,668,471)	3,833,948,442	(2,730,042,742)	0

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Report for Congress
Received through the CRS Web

Enron: A Select Chronology of Congressional, Corporate, and Government Activities

Updated January 10, 2003

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Information Research Specialist
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Enron: A Select Chronology of Corporate and Government Activities

Summary

Enron Corporation, which had more than $49 billion in total assets for 2001 and was listed as the seventh largest U.S. corporation (ranked by revenues in 2000) by *Fortune* magazine , filed for Chapter 11 reorganization protection on December 2, 2001. The Houston-based corporation and 13 affiliated entities filing for bankruptcy provoked intense media and congressional interest and questions involving the financial markets, securities and auditing firms, and corporate management and insurance and pension policies.

The federal government is examining Enron's corporate activities. Investigations by the Securities and Exchange Commission, the Federal Bureau of Investigation, Commodity Futures Trading Commission, and Federal Energy Regulatory Commission have commenced. Since December 2001, Congress has held numerous hearings on issues surrounding the Enron collapse, and additional hearings are scheduled. Numerous state and local governments have initiated legal proceedings against Enron and its affiliated entities.

This report is a chronology of select major corporate and federal government events that are relevant to the collapse of Enron. Chronology entries were compiled from congressional, corporate, and standard news sources. Web sites are provided when appropriate and available. This report will be updated as events warrant.

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Enron: A Select Chronology of Congressional, Corporate, and Government Activities

A List of CRS Reports on Enron

Descriptions of the reports are taken from the reports themselves.

Overview

CRS Electronic Briefing Book. *Banking and Financial Services.* Page on "Enron Bankruptcy: Issues for Financial Oversight."

CRS Report RS21135. *The Enron Collapse: An Overview of Financial Issues.*
This report presents basic background information on the collapse of the Enron Corporation, identifying public policy issues in financial market oversight.

CRS Report RS21177. *Possible Criminal Provisions Which May Be Implicated in the Events Surrounding the Collapse of the Enron Corporation.*
This report briefly summarizes some federal laws carrying criminal penalties which may be implicated in the events surrounding the collapse of the Enron Corp.

Auditing/Banking Issues

CRS Report RS21120. *Auditing and Its Regulators: Proposals for Reform After Enron.*
The Enron Corporation controversy has raised important questions about financial statement audits of corporations. These audits are to be carried out in accordance with generally accepted auditing standards (GAAS), rules that have carefully defined technical meanings. Auditors are regulated by both government agencies and professional organizations, though Enron's bankruptcy raises questions about whether this oversight is adequate. One important question is whether Arthur Andersen, the financial auditor for Enron, compromised the independence it should have maintained as an auditor by engaging in extensive consulting work for Enron.

CRS Report RS21249. *Auditor and Accounting Reform Legislation: H.R. 3763 and S. 2673.*
This report compares the auditing and accounting reform measures passed by the House (H.R. 3763) and reported by the Senate Committee on Banking, Housing, and Urban Affairs.

CRS Report RS20707. *Auditor Independence: The SEC's 2000 Rulemaking.*

Federal securities law requires that the financial statements of companies that sell stock or bonds to the public must be certified by an auditor who is independent of the company and its management. The Securities and Exchange Commission (SEC) has proposed a new rule that would bar accounting firms from providing certain consulting services to the firms they audit. The SEC believes there is an inherent conflict between the public watchdog function of the independent auditor and the role of the consultant, who stands to benefit if the client firm prospers. The accounting profession was generally opposed to the rule, arguing that the prohibition will do significant harm to the accounting industry. Congressional action to block or delay implementation of the proposed rule is possible. This report describes the proposal, sets out the arguments pro and con, and analyzes the potential economic effects.

CRS Report RS21173. *Auditor Oversight: Proposals for a New Regulator.*

The collapse of Enron Corp. raises questions about the effectiveness of independent auditors in preventing deceptive accounting by corporations. Several proposals intended to strengthen auditing propose to create a new oversight body to replace the current system of relying on accountants to police themselves. This report summarizes the major features of these proposals.

CRS Report RL31483. *Auditor Reform Proposals: A Side-by-Side Comparison.*

This report compares the major provisions of three auditor and accounting reform proposals: H.R. 3763, S. 2673, and a rule proposed on June 20, 2002, by the SEC that would create a new auditor oversight board by using the SEC's existing authority to regulate corporate accounting.

CRS Report RS21188. *Enron's Banking Relationships and Congressional Repeal of Statues Separating Bank Lending From Investment Banking.*

This report examines the relationship between the collapse of Enron Corporation and the repeal in 1999 of the Glass-Steagall Act, which had separated commercial lending from investment banking. It traces the passage of the Glass-Steagall Act in 1933 in the aftermath of the 1929 stock market crash and the onset of The Great Depression. It then describes events leading up to the 1999 Gramm-Leach-Bliley Act (P.L. 106-102), which repealed Glass-Steagall and permitted financial holding companies that could combine commercial and investment banking. Finally, the report discusses whether this law was implicated in the Enron collapse, and lists, but does not discuss in detail some related policy questions that Congress is beginning to discuss.

CRS Report RL30516. *Mergers and Consolidation Between Banking and Financial Services Firms: Trends and Prospects.*

The Gramm-Leach-Bliley Act (P.L. 106-102) ended the separation of the investment banking business and commercial banking by its repeal of the Glass-Steagall Act of 1933. The financing of Enron Corp. through both securities issues and loans by prominent financial holding companies may refocus attention on the new regulatory framework.

Derivatives/Stock Regulation

CRS Report RL30434. *CFTC Reauthorization in 2000: Derivatives Regulation Reconsidered.*

This report analyzes the broad issues likely to dominate consideration of legislation to reauthorize the Commodity Futures Trading Commission, which created in 1974 to regulate derivative financial markets.

CRS Report RS20560. *Derivatives Regulation: Legislation in the 106th Congress.*

Industry participants and regulators have called for amendments to the laws regulating derivative financial instruments, to allow derivatives markets to modernize and to prevent the business from moving offshore. This report summarizes derivatives reform legislation before the 106th Congress.

CRS Report RL31348. *Enron and Stock Analyst Objectivity.*

This report examines the conflicts of interests that may compromise the objectivity of some stock analysts who report on and recommend stocks like Enron to investors. It also discusses recent Securities and Exchange Commission (SEC) and congressional interest in this area and discusses private sector and legislative reform initiatives to mitigate some of those conflicts of interests.

CRS Report RS21127. *Federal Securities Law: Insider Trading.*

This report discusses the federal securities statutes which limit or prohibit insider trading in securities.

Pension Issues

CRS Report RL30641. *Employment Benefits in Bankruptcy.*

This report provides an overview of the status of employee wages and benefits, including retiree benefits, when an employer files for bankruptcy.

CRS Report RS 21115. *The Enron Bankruptcy and Employer Stock in Retirement Plans.*

Financial losses suffered by participants in the Enron Corporation's 401(k) plan have prompted questions about the laws and regulations that govern these plans. This report describes current laws governing the holding of employer stock in employee retirement plans and summarizes the key policy questions that pension analysts have raised about holding such stock in defined contribution retirement plans.

CRS Report RL31319. *Employer Stock in Retirement Plans: Bills in the 107th Congress.*

This report describes bills introduced in the 107th Congress, in the wake of the Enron Corp. bankruptcy, which attempt to protect workers from the financial losses that could occur when a large proportion of their retirement savings are invested in securities issued by their employers.

CRS Report RL31248. *Enron: Selected Securities, Accounting, and Pension Laws Possibly Implicated in Its Collapse.*

This report discusses selected federal securities laws, federal pension laws, and accounting standards which Congress and the executive branch will likely examine in its investigations of the Enron collapse.

CRS Report RL31282. *Tittle v. Enron Corp. and Fiduciary Duties Under ERISA.*

The report focuses on Section 404(a) of the Employee Retirement Income Security Act (ERISA), the federal statute that regulates employer-sponsored pension plans. Section 404(a) is considered the "touchstone for understanding the scope and object of an ERISA fiduciary's duties." The report reviews selected cases that have interpreted Section 404(a) and discusses H.R. 3623, the Employee Savings Protection Act of 2002, a bill that would amend Section 404(a) to prohibit misrepresentations relating to employer securities by retirement plan fiduciaries.

Taxes/Political Contributions

CRS Report RL31288. *Soft Money, Allegations of Political Corruption, and Enron.*

This report examines the current state of federal law regarding the most persistent charges of government or political corruption relating to the Enron matter, including federal campaign finance regulation of hard money, the state of the federal law with respect to soft money, bribery, illegal gratuities, extortion, conflicts of interest and required recusals of government officials, and the "revolving door" regulations on former government officials.

CRS Report RS21149. *Enron and Taxes.*

This report briefly examines the role of taxes and tax issues in the recent financial difficulties of the Enron Corporation.

CRS Report RS21198. *Independent Counsel or Special Prosecutor for the Enron Investigation.*

This report discusses the circumstances and authority under which the Attorney General may, in light of the expiration of the Independent Counsel law, appoint a "special counsel" or a "special prosecutor" for a matter such as the Enron Corp. failure investigation and prosecutions.

Congressional Hearings – 2001 to 2002

Direct links to selected statements from recent hearings (available to congressional staff using the online version of this report) are provided at the Web sites of the committees which held the hearings. When a direct link is not available, it indicates that the witness did not provide prepared statements to the committee. Actual testimony is not available. All committee Web sites can be located through [http://www.congress.gov]. Printed copies of these hearings will also be available from the Government Printing Office 4 to 6 months after the hearing date.

House Hearings

02/27/02 House Committee on Education and the Workforce
Subcommittee on Employer-Employee Relations

"Enron and Beyond: Legislative Solutions"
Witness/Testimony–
Mr. Dave Evans, Vice President, Retirement and Financial Services, Independent Insurance Agents of America
Ms. Angela Reynolds, Director, International Pension and Benefits, NCR Corp. (Testifying on behalf of The American Benefits Council)
Mr. Erik Olsen, Member, Board of Directors AARP
Mr. John H. Warner, Jr., Corporate Executive Vice President, Science Applications International Corp. (Testifying on behalf of Profit Sharing Council of America)
Mr. Richard Ferlauto, Director of Pensions and Benefits, AFSCME (Testifying on behalf of AFSCME and AFL-CIO)
Mr. John M. Vine, Esq., Partner, Covington & Burling (Testifying on behalf of the ERISA Industry Committee)

02/13/02 House Committee on Education and the Workforce
Subcommittee on Employer-Employee Relations

"Enron and Beyond: Enhancing Worker Retirement Security"
Witness/Testimony–
Mr. Jack L. VanDerhei, Ph.D., Professor, Fox School of Business and Management, Temple University
Mr. Douglas Kruse, Ph.D., Professor, School of Management and Labor Relations, Rutgers University
Mr. Norman Stein, Douglas Arant Professor of Law, University of Alabama
Ms. Rebecca Miller, CPA, Partner, McGladrey & Pullen, LLP
Senate Committee on Banking, Housing, and Urban Affairs
"Corporate Governance"
Witness/Testimony–
Mr. John H. Biggs, Chairman, President and CEO, Teachers' Insurance and Annuity Association (TIAA)
Mr. Ira M. Millstein, Senior Partner, Weil, Gotshal and Manges

02/07/02 House Committee on Education and the Workforce

"The Enron Collapse and Its Implications for Worker Retirement Security," Part II
Witness/Testimony–
Mr. Thomas O. Padgett, Senior Lab Analyst, EOTT (Enron subsidiary)
Ms. Cindy K. Olson, Executive Vice President Human Resources, Community Relations, and Building Services, Enron Corp.
Ms. Mikie Rath, Benefits Manager, Enron Corp.
Mr. Scott Peterson, Global Practice Leader for Defined Contribution Services, Hewitt Associates
Ms. Teresa Ghilarducci, Associate Professor, Department of Economics, University of Notre Dame

02/06/02 House Committee on Education and the Workforce

"The Enron Collapse and Its Implications for Worker Retirement Security," Part I
Witness/Testimony–
Ms. Elaine Chao, Secretary of Labor, U.S. Department of Labor

06/26/02 House Committee on Energy and Commerce
Subcommittee on Commerce, Trade, and Consumer Protection

"The Financial Accounting Standards Board Act"
Witness/Testimony–
Mr. Edmund L. Jenkins, Chairman, Financial Accounting Standards Board
Mr. John C. Coffee, Jr., Adolf A. Berle Professor of Law, Columbia University Law School
Mr. Ned Regan, President, Baruch College
Mr.Bala G. Dharan, Ph.D., CPAJ., Howard Creekmore Professor of Management , Jesse H. Jones Graduate School of Management, Rice University
Mr. Baruch Lev, Philips Bardes Professor of Accounting and Finance, Department of Accounting Taxation and Business Law & Department of Finance, Director, Vincent C. Ross Institute of Accounting Research, Stern School of Business, NYU

03/14/02 House Committee on Energy and Commerce
Subcommittee on Oversight and Investigations

"Financial Collapse of Enron Corporation"
Witness/Testimony–
Mr. James V. Derrick, Jr. Esq., Former General Counsel, Enron Corp.
Mr. Joseph C. Dilg Esq., Managing Partner, Vinson & Elkins L.L.P.
Mr. Rex R. Rogers Esq., Vice President and Associate General Counsel, Enron Corp.
Mr. Ronald T. Astin Esq., Partner, Vinson & Elkins L.L.P.
Mr. Scott M. Sefton Esq., Former General Counsel, Enron Global Finance
Ms. Carol L. St. Clair Esq., Former Assistant General Counsel, ECT Resources Group, Enron Corp.

02/14/02 House Committee on Energy and Commerce
Subcommittee on Commerce, Trade, and Consumer Protection

"Are Current Financial Accounting Standards Protecting Investors?"
Witness/Testimony–
Mr. Robert K. Herdman, Chief Accountant, SEC
Mr. Edmund L. Jenkins, Chairman, Financial Accounting Standards Board
Mr. James C. Castellano, Chairman of the Board, American Institute of Certified Public Accountants
Ms. Grace L. Hinchman, Senior Vice President, Financial Executives International
Mr. Thomas J. Linsmeier, Associate Professor of Accounting & Information Systems, Eli Broad College of Business, Michigan State University

02/26/02 House Committee on Energy and Commerce
Subcommittee on Oversight and Investigations

"Financial Collapse of Enron Corporation"
Witness/Testimony–
Ms. Sherron Watkins, Vice President of Corporate Development, Enron Corp.

02/13/02 House Committee on Energy and Commerce
Subcommittee on Energy and Air Quality

"The Effect of the Bankruptcy of Enron on the Functioning of Energy Markets"
Witness/Testimony–
Mr. Patrick H. Wood III, Chairman, Federal Energy Regulatory Commission
Mr. Isaac Hunt, Commissioner, SEC
Mr. Thomas L. Welch, Chairman, Maine Public Utilities Commission
Mr. James E. Newsome, Chairman, Commodity Futures Trading Commission
Ms. Mary Hutzler, Acting Director, Office of Integrated Analysis and Forecasting, Department of Energy
Mr. Richard C. Green, Chairman, UtiliCorp United, Inc.
(Testifying on behalf of the Electric Power Supply Association)
Mr. Raymond Plank, Chairman and CEO, Apache Corporation
Mr. Robert McCullough, Managing Partner, McCullough Research
Mr. David Owens, Executive Vice-President, Edison Electric Institute
Mr. Gerald A. Norlander Esq., Executive Director, Public Utility Law Project

02/07/02 House Committee on Energy and Commerce
Subcommittee on Oversight and Investigations

"Financial Collapse of Enron Corporation"
Witness/Testimony–
Mr. Andrew S. Fastow, Former Chief Financial Officer, Enron Corp.
Mr. Michael J. Kopper, Former Managing Director, Enron Global Finance
Mr. Richard B. Buy, Chief Risk Officer, Enron Corp.
Mr. Richard A. Causey, Chief Accounting Officer, Enron Corp.
Mr. John Olson, Senior Vice President and Director of Research, Sanders, Morris, Harris
Mr. Jordan Mintz, Vice President and General Counsel for Corporate Development, Enron Corp.
Mr. Jeffrey K. Skilling, Former President and CEO, Enron Corp.
Mr. Robert Jaedicke, Enron board of directors Chairman of Audit and Compliance Committee, Enron Corp.
Mr. Jeffrey McMahon, President and Chief Operating Officer, Enron Corp.
Mr. Herbert S. Winokur, Jr., Board of Directors, Chairman of the Finance Committee, Enron Corp.
Mr. Thomas H. Bauer, Partner, Andersen LLP

02/06/02 House Committee on Energy and Commerce

"Developments Relating to Enron Corporation"
Witness/Testimony–
Mr. James S. Chanos, President & Founder, Kynikos Associates, Ltd.
Mr. Roman L. Weil, Ph.D., V. Duane Rath Professor of Accounting, University of Chicago, Graduate School of Business
Mr. Baruch Lev, Director, Vincent C. Ross Institute of Accounting Research, Stern School of Business, New York University
Mr. David L Sokol, Chairman & CEO, MidAmerican Energy Holdings Company
Mr. Roger W. Raber, President & CEO, National Association of Corporate Directors
Mr. Bala G. Dharan, Ph.D., CPA, J. Howard Creekmore Professor of Management, Rice University
Mr. Bevis Longstreth, Debevoise & Plimpton

01/24/02 House Committee on Energy and Commerce
Subcommittee on Oversight and Investigations

"The Destruction of Enron-Related Documents by Andersen Personnel"
Witness/Testimony–
David B. Duncan, Arthur Andersen. (Invoked his Fifth Amendment constitutional right against self-incrimination. Hearing postponed indefinitely.)

05/01/02 House Committee on Financial Services
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises

"Corporate Accounting Practices: Is There a Credibility GAAP?"
Witness/Testimony–
Ms. Betty Montgomery, Attorney General, State of Ohio
Mr. William Holder, Ernst & Young Professor of Accounting, University of Southern California
Mr. Charles Hill, Director of Research, Thompson Financial/First Call
Mr. Ken Boehm, Chairman, National Legal and Policy Center

04/09/02 House Committee on Financial Services

"Hearing on H.R. 3763, the Corporate and Auditing Accountability, Responsibility, and Transparency Act of 2002" (Part III)
Witness/Testimony–
Mr. David Walker, Comptroller General of the United States, U.S. General Accounting Office
Mr. Richard C. Breeden, Former Chairman, Securities and Exchange Commission, Richard C. Breeden & Co.
Mr. Donald C. Langevoort, Professor, Georgetown University Law Center
Mr. Damon Silvers, Associate General Counsel, AFL-CIO

03/20/02 House Committee on Financial Services

"Hearing on H.R. 3763, the Corporate and Auditing, Accountability, Responsibility, and Transparency Act of 2002" (Part II)
Witness/Testimony–
Mr. Harvey L. Pitt, Chairman, Securities and Exchange Commission
Mr. Franklin D. Raines, Chairman and CEO, Fannie Mae. (On behalf of The Business Roundtable)
Mr. H. Carl McCall, Comptroller, State of New York, Office of the State Comptroller
Mr. Joseph V. DelRaso, Partner, Pepper Hamilton, LLP
Mr. Philip B. Livingston, President and CEO, Financial Executives International
Mr. Jerry J. Jasinowski, President, National Association of Manufacturers
Mr. Peter C. Chapman, Senior Vice President and Chief Counsel, Corporate Governance, TIAA-CREF

03/13/02 House Committee on Financial Services

"Hearing on H.R. 3763, the Corporate and Auditing, Accountability, Responsibility, and Transparency Act of 2002" (Part I)
Witness/Testimony–
Mr. Marc E. Lackritz, President, Securities Industry Association
Mr. Barry C. Melancon, President and CEO, American Institute of Certified Public Accountants
Mr. James Glassman, Resident Fellow, American Enterprise Institute
Mr. Ted White, Director of Corporate Governance, California Public Employees' Retirement System
Mr. Roderick M. Hills, Former Chairman, Securities and Exchange Commission
Ms. Barbara Roper, Director of Investor Protection, Consumer Federation of America
Mr. Lynn Turner, Director, Center for Quality Financial Reporting

02/05/02 House Committee on Financial Services
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises

"The Enron Matter"
Witness/Testimony–
Mr. Joseph F. Berardino, Managing Partner and Chief Executive Officer, Andersen Worldwide [Arthur Andersen LLP]

02/04/02 House Committee on Financial Services
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises

"The Enron Matter"
Witness/Testimony–
Mr. Harvey L. Pitt, Chairman, SEC
Mr. William C. Powers, Jr., Director, Enron Corp.

12/12/01 House Committee on Financial Services
Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Subcommittee on Oversight and Investigations

"The Enron Collapse: Impact on Investors and Financial Markets"
Witness/Testimony–
Robert K. Herdman, Chief Account, SEC
Mr. Joseph F. Berardino, CEO, Arthur Andersen LLP
Mr. Charles L. Hill, Director of Research, Thomson Financial
Mr. Richard Trumka, Secretary-Treasurer, AFL-CIO

Senate Hearings

03/21/02 Senate Committee on Banking, Housing, and Urban Affairs

"Accounting and Investor Protection Issues Raised by Enron and Other Public Companies"
Witness/Testimony–
Mr. Harvey L. Pitt, Chairman, Securities and Exchange Commission

03/20/02 Senate Committee on Banking, Housing, and Urban Affairs

"Accounting and Investor Protection Issues Raised by Enron and Other Public Companies"
Witness/Testimony–
Hon. Howard M. Metzenbaum, Chairman, Consumer Federation of America, Former U.S. Senator
Mr. Damon Silvers, Associate General Counsel, AFL-CIO
Ms. Sarah Teslin, Executive Director, Council of Institutional Investors
Mr. Thomas A. Bowman, President and CEO, Association for Investment Management and Research.

03/19/02 Senate Committee on Banking, Housing, and Urban Affairs

"Accounting and Investor Protection Issues Raised by Enron and Other Public Companies"
Witness/Testimony–
Mr. Charles A. Bowsher, Chairman, Public Oversight Board, Former Comptroller General of the United States
Ms. Aulana L. Peters, Member, Public Oversight Board
Mr. L. William Seidman, Former Chairman of the Federal Deposit Insurance Corporation and Resolution Trust Corporation
Mr. John C. Whitehead, Former Co-Chairman of Goldman Sachs & Co., Former Deputy Secretary of State
Mr. Michael Mayo, Managing Director, Prudential Securities, Inc. Head of Financial Services Research Group

03/14/02 Senate Committee on Banking, Housing, and Urban Affairs

"Accounting and Investor Protection Issues Raised by Enron and Other Public Companies: Oversight of the Accounting Profession, Audit Quality and Independence, and Formulation of Accounting Principles"
Witness/Testimony–
Mr. James G. Castellano, CPA, Chairman, Board of Directors, American Institute of Certified Public Accountants (AICPA), Managing Partner, Rubin, Brown, Gornstein Co., LLP
Mr. James S. Gerson, CPA, Chairman, Auditing Standards Board, AICPA, Partner, National Office of PricewaterhouseCoopers, LLP
Mr. William E. Balhoff, CPA, CFE, Chairman, Executive Committee AICPA Public Company Practice Section, Senior Audit Director Postlethwaite & Netterville, A.P.A.C
Ms. Olivia F. Kirtley, CPA, Former Chair, Board of Directors, AICPA (1998-99), Retired Vice President and CFO, Vermont American Company
Mr. James E. Copeland, Jr., CPA, Chief Executive Officer, Deloitte & Touche
Mr. Peter J. Wallison, Resident Fellow and Co-Director, Financial Deregulation Project, American Enterprise Institute
Mr. Robert E. Litan, Director, Economic Studies Program, The Brookings Institution, Bear, Stearns & Co. Inc.

02/27/02 Senate Committee on Banking, Housing, and Urban Affairs

"Corporate Governance"
Witness/Testimony–
Mr. John H. Biggs, Chairman, President and CEO, Teachers' Insurance and Annuity Association (TIAA)
Mr. Ira M. Millstein, Senior Partner, Weil, Gotshal and Manges

02/26/02 Senate Committee on Banking, Housing, and Urban Affairs

"Accounting and Investor Protection Issues Raised by Enron and Other Public Companies: Oversight of the Accounting Profession, Audit Quality and Independence, and Formulation of Accounting Principles."
Witness/Testimony–
Mr. Walter P. Schuetze, Chief Accountant, SEC, 1992-95
Mr. Michael H. Sutton, Chief Accountant, SEC, 1995-98
Mr. Lynn E. Turner, Chief Accountant, SEC, 1998-2001
Mr. Dennis R. Beresford, Chairman, Financial Accounting Standards Board, 1987-97

02/14/02 Senate Committee on Banking, Housing, and Urban Affairs

"Accounting and Investor Protection Issues Raised by Enron and Other Public Companies: International Accounting Standards and Necessary Reforms to Improve Financial Reporting"
Witness/Testimony–
Mr. Paul Volcker, International Accounting Standards Board; Chairman of Arthur Andersen's Independent Oversight Board; and Former Chairman, Board of Governors of the Federal Reserve System
Mr. David Tweedie, Chairman of the International Accounting Standards Board; and Former Chairman of the United Kingdom's Accounting Standards Board

02/12/02 Senate Committee on Banking, Housing, and Urban Affairs

"Accounting and Investor Protection Issues Raised by Enron and Other Public Companies"
Witness/Testimony–
Mr. Roderick M. Hills, Chairman, SEC, 1975-77
Mr. Harold M. Williams, Chairman, SEC, 1977-81
Mr. David Ruder, Chairman, SEC, 1987-89
Mr. Richard C. Breeden, Chairman, SEC, 1989-93
Mr. Arthur Levitt, Jr., Chairman, SEC, 1993-20

02/06/02 Senate Committee on Banking, Housing, and Urban Affairs

"The State of Financial Literacy and Education in America"
Witness/Testimony–
Mr. Don Blandin, President, American Savings Education Council
Mr. Steve Brobeck, President, Consumer Federation of America
Ms. Esther "Tess" Canja, President, AARP
Ms. Denise Voigt Crawford, Securities Commissioner, State of Texas
Hon. Susan Molinari, National Chairperson, Americans for Consumer Education and Competition
Mr. H. Patrick Swygert, President of Howard University.
(Testifying on behalf of Historically Black Colleges and Universities)
Mr. Raul Yzaguirre, President, National Council of La Raza

02/05/02 Senate Committee on Banking, Housing, and Urban Affairs

"The State of Financial Literacy and Education in America"
Witness/Testimony–
Mr. Paul O'Neill, Secretary of the Treasury
Mr. Alan Greenspan, Chairman, Board of Governors, Federal Reserve System
Mr. Harvey L. Pitt, Chairman, Securities and Exchange Commission

05/16/02 Senate Committee on Commerce, Science, and Transportation
Subcommittee on Consumer Affairs, Foreign Commerce, and Tourism

"Examining Enron: The Consumer Impact of Enron's Influence on State Pension Fund"
Witness/Testimony–
Mr. Bruce Calvert, Chairman and Chief Executive Officer of the Board, Alliance Capital Management Corporation
Mr. Alfred Harrison, Vice Chairman of the Board, Alliance Capital Management
Mr. C. Coleman Stipanovich, Deputy Executive Director, Florida State Board of Administration
Mr. Trent Webster, Portfolio Manager, Florida State Board of Administration
Mr. James Glassman, American Enterprise Institute
Mr. Michael Musuraca, Assistant Director, Department of Research and Negotiations, District Council 37, American Federation of State, County, and Municipal Employees (AFSCME)
Mr. Travis Plunkett, Legislative Director, Consumer Federation of America
Ms. Sarah Teslik, Executive Director, Council of Institutional Investors

05/15/02 Senate Committee on Commerce, Science, and Transportation
Subcommittee on Consumer Affairs, Foreign Commerce, and Tourism

"Examining Enron: The Consumer Impact of Enron's Influence on State Pension Funds"
Witness/Testimony–
Mr. Patrick Wood, III, Chairman, Federal Energy Regulatory Commission
Ms. Loretta Lynch, President, California Public Utilities Commission
Mr. Joseph Dunn, Senator, State of California
Mr. S. David Freeman, Chairman, California Power Authority
Dr. Frank Wolak, Professor of Economics, Stanford University
Mr. Gary Fergus, Former legal representative for Enron Corp.
Mr. Jean Frizzell, Esq., Gibbs & Bruns, LLP
Mr. Stephen C. Hall, Esq., Director, Legal Services, UBS Warburg Energy, LLC, Portland, OR
Mr. Christian G. Yoder, Director, Legal Services, UBS Warburg Energy, LLC, Portland, OR

04/11/02 Senate Committee on Commerce, Science, and Transportation

"Examining Enron: Electricity Market Manipulation and the Effect on Western States"
Witness/Testimony–
Mr. Joseph Dunn, Senator, State of California
Ms. Loretta Lynch, President, California Public Utilities Commission
Mr. S. David Freeman, Chairman, California Power Authority
Ms. Wenonah Hauter, Director, Critical Mass Energy and Environment Program, Public Citizen
Mr. Robert McCullough, Managing Partner, McCullough Research

02/26/02 Senate Committee on Commerce, Science, and Transportation
Subcommittee on Consumer Affairs, Foreign Commerce, and Tourism

"Enron Collapse"
Witness/Testimony–
Ms. Sherron Watkins, Vice President of Corporate Development, Enron Corp.
Mr. Jeffrey McMahon, President and Chief Operating Officer, Enron Corp.
Mr. Jeffrey Skilling, O'Melveny & Myers (former President and CEO, Enron Corp.)

02/12/02 Senate Committee on Commerce, Science, and Transportation

"Enron Collapse"
Witness/Testimony–
Mr. Kenneth L. Lay, Piper, Marbury, Rudnick & Wolfe, LLP
(Mr. Lay invoked his Fifth Amendment constitutional right against self-incrimination; no statement available electronically.)
Mr. William Powers, Jr., Member of the Enron Corp. board of directors and chairman of the Special Investigation Committee.

02/03/02 Senate Committee on Commerce cancelled hearings on Enron Corp. after Kenneth L. Lay declined to appear before the Committee.

12/18/01 Senate Committee on Commerce, Science and Transportation

"Issues Surrounding the Collapse of Enron Corporation"
Witness/Testimony–
Mr. Donald Eri, Special Tester (retired), Portland General Electric, Gresham, OR
Ms. Janice Farmer, Enron Corp. (retired), Orlando, FL
Ms. Mary Bain Pearson, Enron Corp. shareholder, Houston, TX
Mr. Charles Prestwood, Enron Corp. (retired), Conroe, TX
Mr. Robert Vigil, Electrical Machinist Working Foreman, Portland General Electric, Madras, OR
Mr. Kenneth Lay, Chairman & Chief Executive Officer, Enron Corp. (Scheduled but did not appear)
Mr. C.E. Andrews, Global Head of Auditing and Business Advisory, Arthur Andersen LLP
Mr. Scott Cleland, Chief Executive Officer, The Precursor Group
Mr. John C. Coffee, Jr., Adolf Berle Professor of Law, Columbia University School of Law
Mr. Bill Mann, Senior Analyst, Motley Fool
Mr. Damon Silvers, Associate General Counsel, AFL-CIO

05/15/02 Senate Committee on Energy and Natural Resources

"To Examine Manipulation in Western Energy Markets During 2000-2001"
Witness/Testimony–
Mr. Patrick Wood, III, Chairman, Federal Energy Regulatory Commission
Mr. Terry Winter, Chief Executive Officer, California Independent System Operator, Folsom, CA
Mr. Jean Frizell, Attorney at Law, Gibbs & Bruns, LLP, Houston, TX
Mr. Christian Yoder, Attorney at Law, UBS Warburg Energy LLC, Portland, OR
Mr. Gary Fergus, Former legal representative for Enron Corp.
Mr. Stephen Hall, Attorney at Law, UBS Warburg Energy LLC, Portland, OR
Ms. Cynthia First, Commissioner, Snohomish Public Utility District, Everett, WA
Mr. Gary Ackerman, Executive Director, Western Power Trading Forum, San Mateo, CA
Mr. Henry Martinez, Assistant General Manager, Power Services, Los Angeles Department of Water & Power, Los Angeles, CA

01/29/02 Senate Committee on Energy and Natural Resources

"The Effect of the Enron Collapse on Energy Markets"
Witness/Testimony–
Mr. Patrick Wood III, Chairman, Federal Energy Regulatory Commission, Washington, D.C.
Mr. William Nugent, President, National Association of Regulatory Commissioners, Washington, D.C.
Mr. James Newsome, Chairman, Commodity Futures Trading Commission, Washington, D.C.
Mr. Robert McCullough , Managing Partner, McCullough Research, Portland, OR
Mr. Lawrence Makovich, Senior Director and Co-head, North American Energy Group, Cambridge, MA

02/27/02 Senate Committee on Finance

"Retirement Security: Picking Up the Enron Pieces"
Witness/Testimony–
Mr. David M. Walker, Comptroller General, GAO
Mr. William F. Sweetnam, Jr., Benefits Tax Counsel, Department of the Treasury
Mr. Steven A. Kandarian, Executive Director, Pension Benefit Guaranty Corporation
Mr. Jack L. VanDerhei, Ph.D., Research Director, Employee Benefit Research Institute
Mr. R. Bradford Huss, Esq., Trucker Huss, San Francisco.(Testifying on behalf of the American Society of Pension Actuaries)

12/11/02 Senate Committee on Governmental Affairs

"Oversight of Investment Banks' Response to the Lessons of Enron"
Witness/Testimony–
Mr. Charles O. Prince, III, Chairman & CEO, Citigroup Global Corp & Investment Bank
Mr. Richard Caplan, Managing Director & Co-Head, Salomon Smith Barney, North American, Credit/Citigroup
Mr. David C. Bushnell, Managing Director, Citigroup/Salomon Barney
Mr. William T. Fox, III, Managing Director, Global Power & Energy Group, Citibank/Citigroup
Mr. Michael E. Patterson, Vice Chairman, J.P. Morgan Chase & Co.
Mr. Robert W. Traband, Vice President, J.P. Morgan Chase & Co.
Mr. Andrew T. Feldstein, Managing Director, Co-Head, J. P. Morgan Chase Co.
Mr. Eric N. Peiffer, Vice President, J. P. Morgan Chase & Co.
Ms. Muriel Siebert, President and Chairperson, Muriel Siebert & Co.
Mr. Richard Spillen Kothen, Director, Division of Banking Supervision & Regulation, Federal Reserve, Washington
Ms. Annette Nazareth, Director, Division of Market Regulation, U. S. Securities and Exchange Commission, Washington
Mr. Douglas W. Roeder, Senior Deputy Comptroller of Large Bank Supervision, Office of the Comptroller of the Currency, Washington

07/30/02 Senate Committee on Governmental Affairs

"The Role of the Financial Institutions in Enron's Collapse"
Witness/Testimony—
Mr. G. Kelly Martin, Senior Vice President and President of International Private Client, Merrill Lynch & Co.
Mr. Robert Furst, Former Managing Director, Merrill Lynch & Co.
Mr. Schuyler Tilney, Managing Director, Global Energy and Power, Merrill Lynch & Co.

03/20/02 Senate Committee on Governmental Affairs

"Rating the Raters: Enron and the Credit Rating Agencies"
Witness/Testimony–
Mr. Ronald Barone, Managing Director, Standard & Poor's
Mr. John C. Diaz, Managing Director, Moody's Investors Service
Mr. Ralph G. Pellecchia, Senior Director, Fitch Ratings
Mr. Isaac C. Hunt, Jr., Commissioner, Securities and Exchange Commission
Mr. Jonathan R. Macey, J. DuPratt White Professor of Law, Cornell Law School
Mr. Glenn L. Reynolds, Chief Executive Officer, Credit Sights, Inc.
Mr. Steven L. Schwarcz, Professor of Law, Duke University

02/27/02 Senate Committee on Governmental Affairs

"The Watchdogs Didn't Bark: Enron and the Wall Street Analyst"
Witness/Testimony–
Mr. Anatol Feygin, J.P. Morgan Chase
Mr. Richard Gross, Analyst, Equity Research Division, Lehman Brothers, Inc.
Mr. Curt N. Launer, Managing Director, Equity Research Group, Credit Suisse First Boston
Mr. Ray Niles, Citigroup Salomon Smith Barney
Mr. Howard M. Schilit, Ph.D., CPA, President and Founder, Center for Financial Research & Analysis, Inc.
Mr. Thomas A. Bowman, CFA, President and CEO, The Association for Investment Management and Research
Mr. Robert R. Glauber, Chairman and CEO, National Association of Securities Dealers
Mr. Charles L. Hill, Director, Financial Research, Thomson Financial
Mr. Frank C. Torres III, Legislative Counsel, Consumers Union

02/05/02 Senate Committee on Governmental Affairs

"Retirement Insecurity: 401(k) Crisis at Enron"
Witness/Testimony–
Mr. William D. Miller, Jr., Business Manager & Financial Secretary, International Brotherhood of Electrical Workers, Local 125, Portland General Electric
Ms. Deborah G. Perrotta, Former Senior Administrative Assistant, Enron Corp.
Ms. Catheryn Graham, Total Benefits Administration Business Group, Hewitt Associates, LLC
Ms. Cindy Y. Olson, Executive Vice President, Human Resources, Employee Relations & Building Services, Enron Corp.
Ms. Mikie Rath, Benefits Manager, Enron Corp.
Mr. Joseph P. Szathmary, Associate Northern Trust Retirement Consulting, LLC
Ms. Karen W. Ferguson, Director, Pension Rights Center
Mr. James A. Klein, President, American Benefits Council
Mr.Erik D. Olsen, Member, Board of Directors, AARP
Mr. Stephen M. Saxon, Society of Professional Administrators & Record Keepers
Ms. Susan J. Stabile, Professor, St. John's School of Law

01/24/02 Senate Committee on Governmental Affairs

"The Fall of Enron: How Could It Have Happened?"
Witness/Testimony–
Mr. Arthur Levitt, Jr., Former Chairman, SEC
Mr. Lynn E. Turner, Former Chief Accountant, SEC
Mr. Bruce B. Henning, Director, Regulatory and Market Analysis Energy and Environmental Analysis, Inc.
Mr. John H. Langbein, Sterling Professor of Law, Yale University Law School
Mr. Frank Partnoy, Professor of Law, University of San Diego School of Law

02/07/02 Senate Committee on Health, Education, Labor, and Pensions

"Protecting America's Pensions: Lessons from the Enron Debacle"
Witness/Testimony–
Hon. Barbara Boxer, United States Senate
Hon. Jon Corzine, United States Senate
Hon. Ken Bentsen, United States House of Representatives
Ms. Elaine Chao, Secretary, Department of Labor
Mr. Steve Lacey, Portland General Electric worker, Portland, OR
Mr. Jan Fleetham, Former Enron Corp. employee, Bloomington, MN
Mr. Karl V. Farmer, Former Polaroid Employee, Lawrence, MA
Mr. James Prentice, Chairman, Administrative Committee, Enron Corp. Savings Plan
Dr. Alicia Munnell, Peter F. Drucker Chair in Management Sciences, Boston College
Ms. Dallas L. Salisbury, President and CEO, Employee Benefits Research Institute

Chronology

2003

January.

01/04/03 Florida's Attorney General Richard Dorn drops a year-long investigation of Alliance Capital Management after finding no evidence of racketeering. The company had invested Florida state pension funds into declining Enron stock, resulting in a loss of $300 million.

01/02/03 J.P. Morgan Chase announces that it has settled its legal dispute with 11 insurance companies that contested Enron-related surety bonds.

2002

December.

12/13/02 Federal Energy Regulation Commission judge Bruce Birchman states that energy companies (Enron Corp., Duke Energy, Dynegy, Mirant, Reliant Energy Company, and the Williams Company) overcharged the state of California by $1.8 billion.

12/03/02 Philip Levy, J.P. Morgan Chase's associate general counsel, testifies in federal court about his involvment with circular oil deals between Enron and J.P. Morgan.

November.

11/26/02 Lawrence Lawyer, a former Enron finance employee, pleads guilty to filing false federal income tax returns on unreported money. He failed to report nearly $80,000 which he received from ex-Enron executive Michael Kopper.

11/22/02 Portland General Electric, an Enron utility based in Oregon, admits to technical violations regarding public disclosures of transactions with Enron Power Marketing.

11/16/02 Sherron Watkins, vice president of corporate development for Enron, resigns.

11/06/02 Former Enron Chief Financial Officer Andrew Fastow pleads not guilty to a 78-count federal indictment in Houston.

October.

10/30/02 Federal officials file a 78-count indictment against Andrew Fastow. Charges against Fastow include: wire fraud, conspiracy to commit wire fraud, conspiracy to commit wire and securities fraud, obstruction of justice, money laundering, and money laundering conspiracy.

Enron receives permission from U.S. bankruptcy judge Arthur Gonzales, to halt payment of legal fees for former Enron employees who are cooperating in government investigations of the corporation but who are not targets.

10/16/02 U.S. district judge Melinda Harmon sentences Arthur Andersen LLP to the maximum punishment of 5 years probation and a $500,000 fine for altering its documents relating to Enron.

10/02/02 Securities and Exchange Commission files a civil action complaint against Andrew Fastow at the U.S. District Court in Houston. In a separate court proceeding, the Justice Department files a criminal complaint that outlines five crimes against Andrew Fastow. Fastow provides bail of $5million.

September.

09/25/02 LJM2 Co-Investment, an enterprise associated with past Enron assets and financial accounting practices, files for Chapter 11 bankruptcy protection in Dallas.

09/19/02 Merrill Lynch fires its vice chairman, Thomas Davis, and managing director of investment banking, Schuyler Tilney, for violation of corporate policies.

09/13/02 Enron task force prosecutor Thomas Hanusik asks U.S. Magistrate Frances Stacy to approve arrest warrants for three former British bankers: Gary Mulgrew, Giles Darby, and David Bermingham.

09/04/02 Ohio Attorney General Betty Montgomery's office withdraws from the federal class-action lawsuit against Enron. Ohio officials state they have a better chance in state courts to recover more of the losses to Ohio state pension funds.

August.

08/29/02 U.S. bankruptcy judge Arthur Gonzales approves a $28.8 million severance agreement for nearly 4,200 former Enron employees.

08/21/02 Former Enron executive Michael J Kopper pleads guilty in federal court to conspiracy to commit wire fraud and conspiracy to engage in unlawful monetary transactions.

Securities and Exchange Commission files a civil action complaint against Michael J. Kopper for violation of various federal securities laws.

08/15/02 Enron and Dynegy agree on litigation settlement. Dynegy will pay $25 million to Enron for wrongful termination of their merger attempt.

U.S. bankruptcy judge Arthur Gonzales rules to grant 115 Enron employees legal waivers that exempt them from returning any of the bonuses they received prior to the corporation's Chapter 11 filing.

July.

07/09/02 President Bush delivers a speech before the corporate executives in New York City on corporate accountability and fraud.

07/03/02 U.S. bankruptcy judge Arthur Gonzales approves Enron's request to obtain a $250 million credit line.

June.

06/27/02 The Justice Department has charged three former British bankers of National Westminster Bank Plc ("Nat West")—Gary Steven Mulgrew, 40, Giles Robert Hugh Darby, 40, and David John Bermingham, 39 —with wire fraud in an alleged $7.3 million scheme involving Enron.

06/20/02 The Security and Exchange Commission proposed a regulatory process creating a nine-member Public Accountability Board to oversee auditors.

06/14/02 Arthur Andersen LLP is found guilty of obstruction of justice by a nine-man, three-woman jury, after more than 72 hours of deliberations. Andersen acknowledges that the jury verdict will effectively end the firm's audit practice as early as August 31, 2002, depending on the amount of time needed for the government and Andersen to brief and argue post-trial motions.

06/06/02 Enron's board accepts the resignations, effective today, of the four remaining long-standing directors, Robert A. Belfer, Norman P. Blake, Dr. Wendy L. Gramm, and Herbert S. Winokur, Jr.

May.

05/30/02 Dr. John Mendelsohn, president of the University of Texas M.D. Anderson Cancer Center, and Frank Savage, former chairman of Alliance Capital Management, resign from the Enron Corp. board of directors.

05/22/02 The White House releases a seven-page list of contacts between Administration officials and Enron executives .

The Enron Corp. board of directors announces today the election of John W. Ballantine and Corbin A. McNeill, Jr., to the company's board of directors.

05/03/02 Enron's interim CEO, Stephen F. Cooper, meets with the committee of creditors to discuss a plan to create a new power and pipeline company in North, Central, and South America.

April.

04/24/02	The House passed H.R. 3763, a measure on financial accounting oversight, by a vote of 334 to 90.
04/23/02	The Federal Regulatory Commission announces that it has contracted with outside experts to assist with its fact-finding investigation on manipulation of energy prices. The outside experts are: Hendrik Bessembinder, University of Utah; Edward P. Kahn, Analysis Group/Economics; Robert S. Pindyk, Massachusetts Institute of Technology; Chester S. Spatt, Carnegie Mellon University; and Michael J. Quinn, Analysis Group/Economics. In addition, the Commission selected the Aspen System Corporation, which specializes in electronic data retrieval and analysis, to help with its investigation.
4/22/02	The Federal Energy Regulatory Commission approves Enron's sale of its wholesale power and natural gas trading operations to UBS Warburg, a subsidiary of Switzerland-based UBS AG. Enron's SEC filing indicates that the value of its assets was overstated by approximately $24 billion.
04/19/02	Jeff McMahon, president and chief operating officer of Enron Corp., announces his resignation from the company, effective June 1, 2002.
04/16/02	The House Committee on Financial Services approves H.R. 3763, a measure on financial accounting oversight, by a vote of 49 to 12.
04/10/02	U.S. bankruptcy judge Arthur Gonzales approves the purchase of Enron Espana Generacion by Iberdrola, a Spanish energy producer. David Duncan, former auditor of Arthur Andersen LLP, enters a guilty plea to a single felony charge of obstructing justice, and he agrees to serve as a federal government witness regarding its investigations into Enron and Arthur Andersen LLP.
04/09/02	U.S. bankruptcy judge Arthur Gonzales orders an independent examiner to probe Enron Corp. and the financial transactions that helped propel it into bankruptcy after requests for an investigation by securities regulators and shareholders.
04/08/02	Arthur Andersen LLP announces a reduction of its U.S. workforce by approximately 7000 positions during the next 2 months.
04/05/02	U.S. bankruptcy judge Arthur Gonzales gives approval to make acting Enron chief executive Stephen F. Cooper a full-time employee at $1.32 million in annual salary.

March.

03/27/02 U.S. Trustee overseeing Enron Corp.'s Chapter 11 reorganization appoints a five-member committee, in order that workers will have input into the bankruptcy proceedings.

New Power Holdings, a proposed Enron Corp. spinoff to Centrica (Britain's largest natural gas supplier), was jeopardized when bankruptcy judge Arthur Gonzalez refused to release Centrica from potential liability for Enron's taxes. The proposed deal would pay Enron $56.5 million for its 44% stake in New Power.

The Chairman of the Senate Committee on Government Affairs seeks information from the current Administration and the Archivist of the United States on all national energy policy communications concerning Enron, since 1992, with the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Federal Energy and Regulatory Commission, the Departments of Labor, Energy, and Commerce, the Export Import Bank, and the Overseas Private Investment Corporation. The Chairman sent letters to members of the Vice President's energy task force, seeking similar information.

03/26/02 Joseph Berardino, Arthur Andersen LLP chief executive, resigns.

03/23/02 Senate Committee on Governmental Affairs issues 29 subpoenas to Enron Corp.; its former auditing firm, Arthur Andersen LLP; and members of the Andersen board going back to 1992.

03/22/02 The Andersen Independent Oversight Board outlines a new framework for the reform and rebuilding of Arthur Andersen LLP as a firm dedicated, first and foremost, to quality auditing.

03/21/02 Senate Committee on Health, Education, Labor and Pensions approves, by a vote of 11-10, S. 1992, a bill with provisions affecting employer stock in 401(k) retirement plans.

03/19/02 House Committee on Education and the Workforce approves, by a vote of 28-19, H.R. 3762, a bill with provisions affecting employer stock in 401(k) retirement plans.

The Securities and Exchange Commission announces final plans for completing reviews of auditor independence systems and controls for each of the five largest independent auditing firms.

03/15/02 The General Services Administration suspends Enron Corp., related entities, several former Enron officials, Arthur Andersen LLP, and a former Andersen official from conducting new business with the federal government. The suspension is for a period of 12 months for all parties except for Andersen, whose suspension is for the duration of the indictment.

The Federal Energy Regulatory Commission issues a subpoena to Enron Corp. to produce certain documents on or before 3/29/02.

Federal Judge Melinda Harmon, U.S. District Court for the Southern District of Texas in Houston, names the University of California as lead plaintiff in a shareholders' class action lawsuit against Enron Corp. senior executives and its former accounting firm, Arthur Andersen LLP.

03/14/02 Deputy Attorney General Larry Thompson holds a news conference regarding the Arthur Andersen indictment.

House Committee on Ways and Means approves, by a vote of 36-2, H.R. 3669, a bill with provisions affecting employer stock in 401(k) retirement plans.

The U.S. Department of Labor announces that State Street Bank and Trust of Boston, Mass., will act as the independent fiduciary for Enron Corp.'s retirement plans.

03/11/02 The Andersen Independent Oversight Board releases a preliminary report on the reform and rebuilding of Arthur Andersen LLP.

03/07/02 President Bush proposes his Ten-Point Plan to improve corporate responsibility.

03/06/02 U.S. bankruptcy judge Arthur Gonzales gives approval for $1,100 for each laid-off Enron employee.

03/01/02 U.S. Treasury provides access to some Enron-related documents via its frequently requested FOIA-processed records on its Web site.

February.

02/27/02 U.S. bankruptcy judge Arthur Gonzales rules that Enron Corp. executives cannot secure millions of dollars from the company for their legal fees.

02/27/02 U.S. General Accounting Office releases a report on Enron and its private pension plan.

02/22/02 U.S. bankruptcy judge Arthur Gonzales rules on the appointment of an examiner in the Chapter 11 case of Enron North America. The examiner is to be selected by the Office of the U.S. Trustee. Thirty-three states ask Judge Arthur Gonzales to block Enron Corp. executives from securing advance money for their legal defense from the bankruptcy estate.

02/20/02 James Derrick, Jr., Enron Corp.'s executive vice president and general counsel, resigns.

02/18/02 The Financial Services Authority (United Kingdom) announces an investigation into the role of British bankers who helped Enron Corp. create financing schemes.

02/18/02 UBS Warburg reports that its bid for Enron Corp.'s North American wholesale electricity and natural gas trading business has been approved by the United States Bankruptcy Court in New York.

02/13/02 The Federal Energy Regulatory Commission releases communications of an investigation showing how Enron Corp., through its affiliates, used its market position to distort electric and natural gas markets in the West.

02/11/02 The former EnronOline, Enron Corp.'s Internet-based transaction system, makes its reappearance as UBS Warburg Energy (UBSWenergy.com). Lawrence Whalley, Enron's former president, assumes the same position with UBS Warburg Energy.

02/08/02 UBS Warburg announces today that it has completed the transaction under which it has obtained from Enron Corp. an exclusive license to the technology to operate North American natural gas and power trading operations.

02/05/02 The Enron Europe group, the European bankrupted arm of Enron Corp., has liabilities of more than $2 billion, according to PricewaterhouseCoopers.

02/04/02 Kenneth L. Lay resigns from Enron Corp. board of directors.

02/3/02 Andersen Worldwide, S.C., announces that former Federal Reserve Board Chairman Paul A. Volcker has agreed to chair an Independent Oversight Board (IOB) to work with Arthur Andersen LLP in making fundamental changes in its audit practice.

02/01/02 Enron Corp.'s Special Investigative Committee of the board of directors releases its report, known as the Powers Report.

January.

01/31/02 Governor of California requests the U.S. Federal Energy Regulatory Commission to investigate possible energy market manipulation by Enron Corp.

01/28/02 The Severed Enron Employees Coalition files suit in order to recoup losses by participants in Enron Corp.'s bankrupt 401k retirement plan.

01/27/02 Enron Corp. board names Stephen F. Cooper interim CEO and chief restructing officer.

01/25/02 J. Clifford Baxter, former Enron Corp. vice chairman, is found dead.

01/24/02 Price-Waterhouse-Coopers reports that Enron Europe's liabilities are in excess of $1 billion, but a little more than $100 million is anticipated to be generated through settlement of outstanding contracts.

01/23/02	Enron Corp. announces that Kenneth L. Lay has resigned as Chairman of the Board and Chief Executive Officer of Enron Corp. Mr. Lay, who will also retire as an Enron employee, will remain on the company's board of directors.
01/17/02	Enron Corp. fires Arthur Andersen LLP in all capacities.
01/15/02	Arthur Andersen fires David B. Duncan, lead partner on the Enron Corp. account. Thomas H. Bauer, Debra A. Cash, and Roger D. Willard are placed on administrative leave. Houston-based partners being relieved of management responsibilities are: D. Stephen Goddard, Jr., Michael M. Lowther, Gary B. Goolsby, and Michael C. Odom.
	New York Stock Exchange suspends trading in Enron Corp. shares.
01/14/02	Sale of Enron's energy trading operations to UBS, a Swiss financial service conglomerate is made public.
01/11/02	Federal bankruptcy judge Arthur Gonzalez rules that Enron Corp.'s bankruptcy (Chapter 11) case will remain in the state of New York.
01/10/02	U.S. Attorney General John Ashcroft and David Ayres, his chief of staff, recuse themselves from the Justice Department's criminal investigation of Enron Corp.
	Arthur Anderson notifies the SEC, the FBI, and several congressional committees that a significant but undetermined number of Enron-related electronic and papers documents were destroyed.
01/10/02	Administration acknowledges that Kenneth L. Lay met with Treasury Secretary last October, regarding concerns of Enron Corp.'s not being able to meet its financial obligations.
01/09/02	U.S. Department of Justice confirms that an Enron-related criminal investigation has begun.
01/04/02	Enron Energy Services group wins approval of the U.S. Bankruptcy Court, Southern District of New York, to void nearly 700 contracts to supply power and gas to businesses and local and state government entities throughout the United States.

2001

12/13/01 The SEC announces that on December 12, 2001, it filed a subpoena non-compliance enforcement action in U.S. District Court for the District of Columbia against Andrew S. Fastow, the former chief financial officer of Enron Corp. Pursuant to a subpoena issued on October 31, 2001, Mr. Fastow was obligated to appear for testimony before the SEC staff at 9:30 a.m. on December 12, 2001. Mr. Fastow chose not to appear and instead informed the SEC staff, through counsel, that he would not appear as required by the subpoena.

12/11/01 The California Public Utilities Commission (PUC) orders an investigation to assess the effects of Enron Corp.'s bankruptcy filing on California customers.

12/10/01 SEC chairman, Harvey L. Pitt, delivers speech about Enron Corp.'s collapse.

12/03/01 Enron Corp. announces that it has arranged up to $1.5 billion of debtor-in-possession (DIP) financing. The financing, arranged by Citigroup and J.P. Morgan Chase, will be syndicated and is secured by substantially all of the company's assets.

Enron Corp. announces the layoff of more than 4,000 company employees.

12/02/01 Enron Corp. and 13 of its subsidiaries file voluntary petitions for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Southern District of New York.

11/30/01 Enron Corp. lays off 1,100 workers in Britain.

11/28/01 Dynegy Inc. and Enron Corp. merger agreement dissolves. Enron Corp.'s bonds downgraded to below investment grade, or junk bond status.

11/13/01 Enron Corp. reports that the board of directors has elected Raymond M. Bowen, Jr., executive vice president–finance and treasurer. Mr. Bowen had been serving as chief operating officer of Enron Industrial Markets.

11/09/01 Dynegy Inc. and Enron Corp. agree to a merger.

11/08/01 Enron Corp. provides additional information about related parties and off-balance sheet transactions and restates earnings for 1997-2001.

Enron Corp. announces that it has filed its third quarter 2001 10-Q report with the Securities and Exchange Commission.

11/07/01 Azurix Corp., Enron Corp.'s United Kingdom water subsidiary, announces that it has completed the sale of its wholly owned subsidiaries, Azurix North America Corp. and Azurix Industrial Corp., to American Water Works Company, Inc., which will assume $6.1 million of previous debt.

11/01/01	Enron Corp. announces that J.P. Morgan and Salomon Smith Barney, Inc. have executed commitment letters to provide $1 billion of secured credit lines supported by Enron's Northern Natural Gas Company and Transwestern Pipeline Company assets.
10/31/01	Enron Corp.'s board of directors appoints a Special Committee, to be chaired by William Powers, Jr., to examine and take any appropriate actions with respect to transactions between Enron and entities connected to related parties. The board also reports that the SEC has opened a formal investigation into certain of the matters that are the subject of current press accounts and that previously were the subject of its informal inquiry.
10/24/01	Jeff McMahon replaces Andrew Fastow as Enron Corp.'s chief financial officer.
10/22/01	Enron Corp. announces that the SEC has requested that Enron voluntarily provide information regarding certain related party transactions.
10/16/01	Enron, during its posting of third quarter earnings, reports its first loss in 4 years.
09/14/01	Enron Corp. reports that it is donating $1 million to support the relief and recovery efforts arising from the terrorist actions of Sept. 11.
08/28/01	Enron Corp. promotes Greg Whalley to president and chief operating officer and Mark Frevert to vice chairman.
08/14/01	Board of directors for Enron Corp. reports a regular quarterly dividend of $0.125 per share on the corporation's common stock to shareholders. The indicated annual rate is $0.50 per share. Jeffrey K. Skilling resigns as Enron Corp.'s president and CEO. He will continue to serve as a consultant to Enron and its board of directors. Kenneth L. Lay, currently Enron's chairman of the board, will assume the additional responsibilities of president and CEO. Sherron Watkins subsequently sends Kenneth L. Lay an unsigned memorandum warning of accounting irregularities and possible scandals to come.
05/02/01	Enron Corp.'s vice chairman, J. Clifford Baxter, resigns.
04/26/01	Enron Corp. and Sierra Pacific Resources announce they have agreed to terminate their purchase and sale agreement for Enron's wholly owned electric utility subsidiary Portland General Electric.
03/09/01	Enron Broadband Services announces that it has terminated its exclusive relationship with Blockbuster, Inc.
02/12/01	Jeffrey K. Skilling becomes CEO of Enron Corp.
01/30/01	Enron Corp. announces pricing of 20-year, zero coupon convertible senior debt securities. Gross proceeds of this offering will be $1.25 billion. The securities will carry a 2.125% yield to maturity with an aggregate face value of $1.90 billion, convertible into common stock at an initial premium of 45%.

01/19/01	Enron Energy Services and Owens-Illinois, Inc. announce a 10-year energy management agreement.
01/16/01	Kenneth L. Lay becomes an adviser on the Administration's transition team on energy.

2000

12/18/00	Broadband Services, a wholly-owned subsidiary of Enron Corp., and Blockbuster, Inc., announces it has begun delivering movies via the Blockbuster Entertainment On-Demand service over Enron's broadband network in Seattle, Portland, OR, and Salt Lake City, UT.
12/13/00	Enron Corp. announces that Jeffrey K. Skilling has been elected CEO effective Feb. 12, 2001, assuming this role in addition to those of president and chief operating officer. Kenneth L. Lay will continue to serve as chairman of the board.
12/07/00	London's Financial Times Energy (FT Energy) names Enron Corp. company of the year.
10/05/00	New Power Company, an energy trading company via the Internet, initial public offering of shares is priced at $21 per share.
08/23/00	Enron's Corp. stock reaches record high of $90.75 a share.
07/19/00	Blockbuster and Enron Broadband Services announce a 20-year agreement to launch entertainment on-demand service through Enron Intelligent Network.
05/16/00	Enron Corp. with IBM and AOL as investors form an independent company, New Power Company. Headed by H. Eugene Lockhart, New Power will market power and natural gas over the Internet to homes and businesses.
05/02/00	Enron Corp. begins to provide bandwidth products via EnronOnline.
04/18/00	First appearance of Raptor, special-purpose entity to remove certain investment losses from Enron Corp.'s books.
03/09/00	Enron Corp. announces the launch of the first online sulfur dioxide emissions allowance auction. The auction will be accessible through Enron's Internet-based transaction system, EnronOnline.
02/23/00	Enron Corp. starts Enroncredit.Com, a real-time credit department for business-to-business customers.
01/20/00	Sun Microsystems and Enron Corp. agree to accelerate the adoption of broadband services. Enron Corp. hosts its annual equity analyst conference in Houston. Kenneth L. Lay, chairman and CEO, highlights Enron's 700% return to shareholders over the past decade.
01/10/00	*Fortune* magazine rates Enron Corp. 24th of its 100 best companies to work for in America.

1999

12/02/99	Enron Communications announces its first commodity bandwidth trade.
11/09/99	U.S. Treasury releases the Report of the President's Working Group on Financial Markets: "Over the Counter Derivatives Markets and the Commodity Exchange Act."
10/26/99	Enron Corp. announces the launch of EnronOnline, a global Internet-based transaction system for wholesale energy and other commodities.
10/21/99	Nelson Mandela, former president of South Africa, to accept the prestigious Enron Prize for Distinguished Public Service from the James A. Baker III Institute for Public Policy of Rice University.
07/22/99	Steven J. Kean, executive vice president of Enron Corp., testifies before the House Committee on Commerce, Subcommittee on Energy and Power.
07/20/99	Enron Corp. and Enron Oil & Gas Company (EOG) announce a transaction to establish EOG as a widely held public company that will be independent of Enron. Under the share exchange agreement, Enron Corp. will exchange 62.27 million of its 82.27 million shares of EOG common stock for EOG's China and India operations. In connection with the exchange, EOG will contribute $600 million in cash to one of EOG's India subsidiaries that will be transferred to Enron. The $600 million will be used to finance international activities.
07/15/99	Steven J. Kean, executive vice president, Enron Corp. , testifies before the Senate Committee on Energy and Natural Resources. (Testifying on behalf of the Electric Power Supply Association)
07/13/99	Ground breaking ceremony for Enron Corp.'s new 40-story office tower in Houston.
07/01/99	Roger Fragua, manager, American Indian affairs, Enron Corp., testifies before the House Committee on Resources, Subcommittee on Water and Power.
07/01/99	Enron Corp. promotes Joseph Stutton to vice chairman.
05/20/99	Enron Communications announced a plan to commence the trading of bandwidth as a commodity.
04/14/99	John Hardy, Jr., vice president, project finance, Enron International, testifies before the House Committee on International Relations, Subcommittee on International Economic Policy and Trade. (Testifying on behalf of the Coalition for Employment Through Exports, International Energy Development Council, and the National Foreign Trade Council)
04/07/99	Houston Astros baseball franchise and Enron Corp. agree to name the major league ballpark "Enron Field," part of a 30-year contract.

02/03/99 Tim Rebhorn, commercial director of iron and steel initiatives, Enron International, testifies before the House Committee on Ways and Means, Subcommittee on Trade.

02/03/99 Rebecca A. McDonald becomes executive managing director of Enron International.

02/02/99 Enron Corp. to issue 12 million shares of common stock.

01/21/99 Enron Communications and Realnetworks form an alliance to deliver broadband steering media service.

1998

09/24/98 Steven J. Kean, senior vice president of government affairs, Enron, testifies before the Senate Committee on Energy and Natural Resources.

07/24/98 Enron Corp. forms Global Water Company. Enron's purchase of Wessex Water (England) provides the basis of Azurix, Enron's United Kingdom water subsidiary.

05/20/98 Mary Joyce, senior director of compensation and benefits, Enron Corp., testifies before the House Committee on Education and the Workforce, Subcommittee on Oversight and Investigations. Elizabeth A. Tilney, senior vice president, advertising, communications and organizational development, Enron Corp., testifies before the House Committee on Education and the Workforce, Subcommittee on Oversight and Investigations.

01/19/98 CalPERS, the nation's largest public pension fund, commits $500 million to a $1 billion partnership (JEDI 2) established with a direct investment vehicle, Enron II. Enron II is the second investment partnership between CalPERS and Enron Corp.

01/15/98 Enron Corp. signs a power agreement with Pacific Telesis.

01/14/98 Ralph Hodge, chairman, and David Lewis, vice president, both of Enron Europe, provide testimony before the Trade and Industry Select Committee of the House of Commons.

1997

10/23/97 Enron Corp. makes an entry into the California electricity market.

10/13/97 Mikhail Gorbachev, former president of the Soviet Union, to accept the prestigious Enron Prize for Distinguished Public Service from the James A. Baker III Institute for Public Policy of Rice University.

07/31/97 Edmund P. Segner III, executive vice president and chief of staff, Enron, testifies before the House Committee on Resources, Subcommittee on Energy and Natural Resources.

06/04/97 Enron Corp. and Portland General Corp., a holding company, receive final merger approval from Oregon Public Utility Commission.

05/09/97	Jeffrey K. Skilling, president and chief operating officer, Enron Corp., testifies before the House Committee on Commerce, Subcommittee on Energy and Power.
05/01/97	Enron Corp. and Amtrak agree to a wholesale pact for purchase of electrical power.
04/16/97	Mark Haedicke, general counsel and managing director, Enron Capital and Trade Resources Corp., testifies before the House Committee on Agriculture, Subcommittee on Risk Management and Speciality Crops. (Testifying on behalf of the International Swaps and Derivatives Association.)
03/19/97	Enron Renewable Energy Corp., a majority-owned subsidiary of Enron Corp., announces that its subsidiary, Zond Corporation, has signed a major contract with MidAmerican Energy Company. This is the largest wind energy supply contract in history.
03/16/97	Linda F. Powers, senior vice president, Global Finance, Enron International, testifies before the House Committee on International Relations, Subcommittee on International Economic Policy and Trade.
03/06/97	Jeffrey Skilling, president and chief operating officer, Enron Corp., testifies before the Senate Committee Energy and Natural Resources

1996

12/01/96	Jeffrey K. Skilling becomes president and chief operating officer of Enron Corp.
10/08/96	Enron Corp. consortium begins construction of Trakya power project in Turkey.
06/27/96	Andrew N. Hoyle, vice president–marketing, Enron Oil & Gas Company, testifies before the House Committee on Resources, Subcommittee on Energy and Mineral Resources.
06/03/96	Enron Europe opens an office in Norway, Enron Nordic Energy.
05/15/96	Kenneth L. Lay, chairman and CEO, Enron Corp. , testifies before the House Committee on Commerce, Subcommittee on Energy and Power.
04/23/96	Ken Dorland, representing Enron Corp., testifies before the House Committee on Ways and Means, Subcommittee on Trade.
02/29/96	Harvey Forest, CEO, Solarex Business Unit of Amoco/Enron Solar, testifies before the House Committee on Appropriations, Subcommittee on Energy and Water Development.

1995

12/21/95	Enron Europe opens trading operations in London.
04/04/95	Linda F. Powers, vice president, Global Finance, Enron Development Corp., testifies before the House Committee on International Relations.

03/30/95 Linda F. Powers, vice president, Global Finance, Enron Development Corp. testifies before the Senate Committee on Foreign Relations.

03/23/95 Kenneth L. Lay, chairman of Enron Corp., testifies before the House Committee on Appropriations, Subcommittee on Foreign Operations, Export Financing, and Related Programs.

03/07/95 Rebecca P. Mark, chairman and CEO, Enron Development Corp., testifies before the Senate Committee on Foreign Relations, Subcommittee on Near Eastern and South Asian Affairs.

02/10/95 Forrest E. Hoglund, chairman and CEO of Enron Oil & Gas Company, testifies before the House Ways and Means Subcommittee on Trade.

01/31/95 Linda F. Powers, vice president, Global Finance, Enron Development Corp., testifies before the Committee on Appropriations, Subcommittee on Foreign Operations.

1994

10/00/94 Enron Corp. to form new company, Enron Global Power & Pipelines, for developing-nation projects.

06/13/94 Robert H. Butts becomes vice president and comptroller of Enron Corp.

06/03/94 Enron Power Marketing and Citizens Power & Light continue negotiating energy commodity deals in which they diminish fluctuations in electricity prices to their customers and link the customer's buy or sell price to the price of another commodity.

1993

09/23/93 Kenneth L. Lay, Chairman and CEO, Enron Corp., testifies before the House Ways and Means Committee, Subcommittee on Trade (Testifying on behalf of Greater Houston Partnership).

06/30/93 Enron Capital Corp., a subsidiary of Enron Gas Services Corp. (EGS), and the California Public Employees Retirement System (CalPERS) announce that they have agreed to form the Joint Energy Development Investments Limited Partnership (JEDI). Each contributed $250 million to the partnership.

05/06/93 Enron Corp.'s UK Ltd. power plant begins operation in Teesside, England.

1992

12/16/92 Enron Corp. and a consortium acquire Transportadora de Gas del Sur SA, operator of the southern Argentina pipeline system. This is Enron's first presence in South America.

1991

03/19/91 Forrest E. Hoglund, chairman and president of Enron Oil & Gas Co, testifies before the Texas Railroad Commission.

1990

07/17/90 Jeffrey K. Skilling becomes chairman and chief executive officer of Enron Finance Corp., a subsidiary of Enron Corp.

07/11/90 In U.S. Southern District of New York, a former Enron Corp. vice president, who was also secretary and treasurer, is sentenced to 400 hours of community service and required to pay an unspecified amount of restitution to Enron Corp. for fraud. Another former Enron executive was sentenced the previous month to one year plus one day in prison, and fined more than $5 million for the same crime.

1989

11/16/89 Richard Kinder, vice chairman of Enron Corp., announces before the New York Society of Security Analysts, a shift in the psychology of natural gas users away from spot purchases.

1988

06/14/88 Enron Corp. announces it has established a wholly owned subsidiary, Enron UK Ltd. in London, England, where the power industry has been deregulated. Enron Corp.'s corporate strategy shift – to capture unregulated markets in addition to its regulated pipeline operations – is disclosed to corporate officials at a meeting that becomes known as the "Come to Jesus" meeting.

1987

03/12/87 Kenneth L. Lay, Chairman and CEO of Enron Corp., testifies before the Senate Subcommittee on Energy Regulation and Conservation.

01/25/87 Enron Corp. reports that its oil trading subsidiary, Enron Oil Corp., lost nearly $1 billion in unauthorized trading. Enron Corp. eventually pays $142 million for violating trading limits.

1986

04/10/86 Stockholders at the annual meeting of HNG/InterNorth approve changing the corporation's name to Enron Corp.

1985

07/17/85 Stockholders of Houston Natural Gas Corporation (HNG) agree to a $2.3 billion merger with InterNorth Inc., forming America's second-largest pipeline system and the first nationwide natural gas pipeline network. Management reports it would, in the interim, conduct its business as HNG/InterNorth.

Web Sites for Other Government and Industry Agencies Having Oversight Authority on Enron Related Issues

American Institute of Certified Public Accountants
[http://www.aicpa.org/index.htm]

California Public Utilities Commission
[http://my.ca.gov/state/portal/myca_homepage.jsp]

Financial Accounting Standards Board
[http://www.fasb.org/]

Texas Workforce Commission
[http://www.twc.state.tx.us/]

U.S. Bankruptcy Court Southern District of New York
[http://www.nysb.uscourts.gov/]

U.S. Department of Labor, Pension and Welfare Benefits Administration
[http://www.dol.gov/dol/pwba/]

Table 1. Monthly Adjusted Stock Prices – 2/29/00 to 1/31/02[a]

Date	Close Price	Date	Close Price
01/31/02	0.414	01/31/01	80.000
12/31/01	0.600	12/29/00	83.125
11/30/01	0.260	11/30/00	64.750
10/31/01	13.900	10/31/00	82.062
09/28/01	27.230	09/29/00	87.641
08/31/01	34.990	08/31/00	84.875
07/31/01	45.350	07/31/00	73.750
06/29/01	49.000	06/30/00	64.500
05/31/01	52.910	05/31/00	72.875
04/30/01	62.720	04/28/00	69.688
03/30/01	58.100	03/31/00	74.875
02/28/01	68.500	02/29/00	68.750

Source: DIALOG–Tradeline–ENRN–Q Enron. Prices are in U.S. currency as reported by the New York Stock Exchange.
a. The New York Stock Exchange suspended trading in Enron shares on January 15, 2002.

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APPENDIX B

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Minutes, Special Meeting of the Board of Directors, Enron Corporation (September 27, 1993) B-404

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Estimated Project Fees Paid To Date
6/4/2001

Apache	
Chase	10,362,038
Syndicate Bank Fees	2,070,000
Freshfields LLC	300,000
Shearman & Sterling	1,108,940
Debrauw Blackstone	135,000
Loeff Clays Verbeke	12,500
Nixon, Hargraves, Devans & Doyle	47,500
Davis Polk & Wardwell	87,500
Arthur Andersen	75,500
	14,198,978
Cochise	
Bankers Trust	11,250,000
Legal	1,022,774
	12,272,774
Condor	
Deloitte& Touche	8,325,000
Renegade	0
Steele	
Bankers Trust	8,200,000
Akin Gump	1,000,000
Arthur Andersen	49,600
	9,249,600
Tammy I	
Deloitte & Touche	8,000,000
Akin Gump	235,234
Vinson & Elkins	698,775
Chase Bank	2,289,400
Arthur Andersen	152,250
LeBouef, Lamb, Greene & Mac.	219,231
Freshfields Bruckhaus Deringer	145,000
Other	267,376
	12,007,266
TammyII	0
Teresa	
Bankers Trust	8,839,106
King & Spaulding	1,046,000
Other	250,000
	10,135,106
Tomas	
Bankers Trust	11,875,000
Akin Gump	813,694
Arthur Andersen	252,593
Other	600,000
	13,541,287
Valhalla	
Vinson Elkins	609,960
Clifford Chance	253,059
Holmes Roberts	37,993
Freshfields Deringer	261,350
Other	22,663
	1,185,025
Total All Projects	80,915,036

EC2 000036379

ENRON PRESENTATION TO JOINT COMMITTEE ON TAXATION STAFF, JUNE 7, 2002

CONFIDENTIAL

ENRON CORP.
PRESENTATION TO THE JOINT COMMITTEE ON TAXATION

B-9

WASHINGTON, DC
June 7, 2002

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I. INTRODUCTION AND OVERVIEW

I. INTRODUCTION AND OVERVIEW

A. Scope

1. **Broad overview of Enron's tax history.**

2. **Framework that may assist the Senate Finance Committee (SFC) and Joint Committee on Taxation (JCT) in their review.**

   (a) **This presentation covers a substantial amount of information relating to Enron's tax history; however, it does not cover all activities, transactions, and issues that may be of interest to SFC and JCT.**

   (b) **In addition, this presentation does not cover all issues raised by the Internal Revenue Service (IRS) during its previous and current examinations of the Company.**

3. **Enron Corp. Tax Department representatives have varying degrees of knowledge regarding the particular topics to be discussed.**

B. Decentralized Business Structure

1. **Enron Corp. (ENE) - primarily a holding company.**
2. **Pipeline Group (ETS) – domestic pipeline system; transportation services; wholly-owned, minority, and MLP investments.**
3. **EOG Resources (EOGR, fka EOG) – exploration and production; was tax consolidated with ENE until December 1995; current ownership approximately 10%.**
4. **Enron North America (ENA, aka EWS, fka ECT) – commenced late 1980s; physical/financial commodity dealer; primarily natural gas and electricity; U.S. and Canada; online trading platform introduced 1999; hard asset investments (e.g., domestic power plants); financings; merchant investments.**
5. **International infrastructure (EGAS, fka EI, fka EDC) – commenced early 1990s; foreign power plants and pipelines; greenfield, privatizations and acquisitions.**
6. **Enron Europe (Europe) – commenced mid-1990s; commodity dealer in UK and Continental Europe; primarily natural gas and electricity; some power plant and pipeline development.**

7. **Enron Energy Services (EES) – commenced mid-1996; natural gas and electricity dealer serving commercial end-users in deregulated markets; bundled energy outsourcing; energy efficiency programs; facilities management; energy related construction and services projects; minority owner of residential energy service provider (TNPC).**

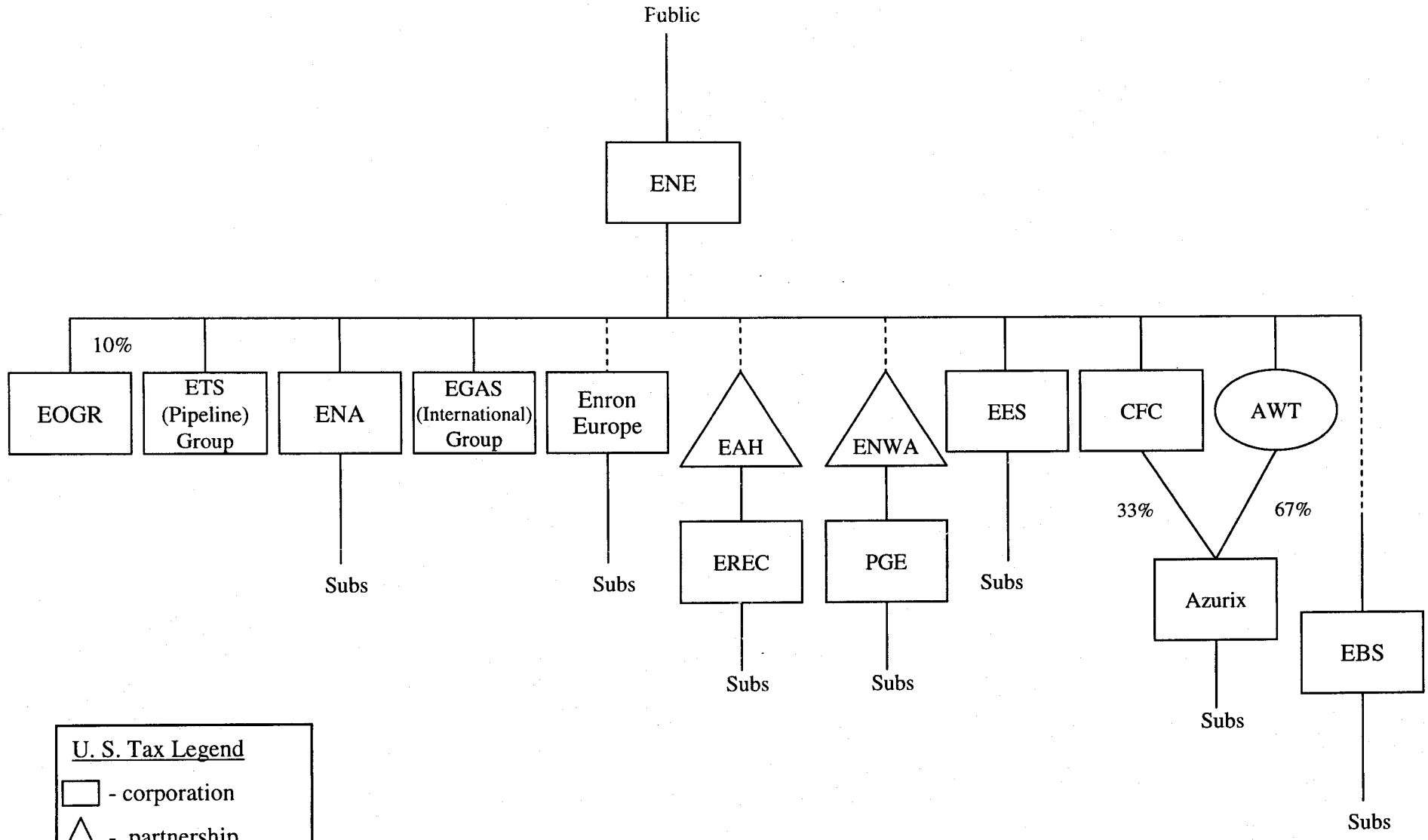
8. **Enron Renewable Energy (EREC or Wind, fka Zond) – acquired early 1997; wind farm developments; turbine manufacturing; substantially all of its assets recently sold to General Electric.**

9. **Portland General Electric (PGE) – acquired July 1997; regulated electric utility in Portland.**

10. **Azurix – formed August 1998; principal asset is Wessex Water, a regulated water company in the U.K.; sale of Wessex Water recently announced.**

11. **Enron Broadband Services (EBS) – commenced mid-1999; bandwidth trading; telecom investments.**

Simplified Structure – November 2001



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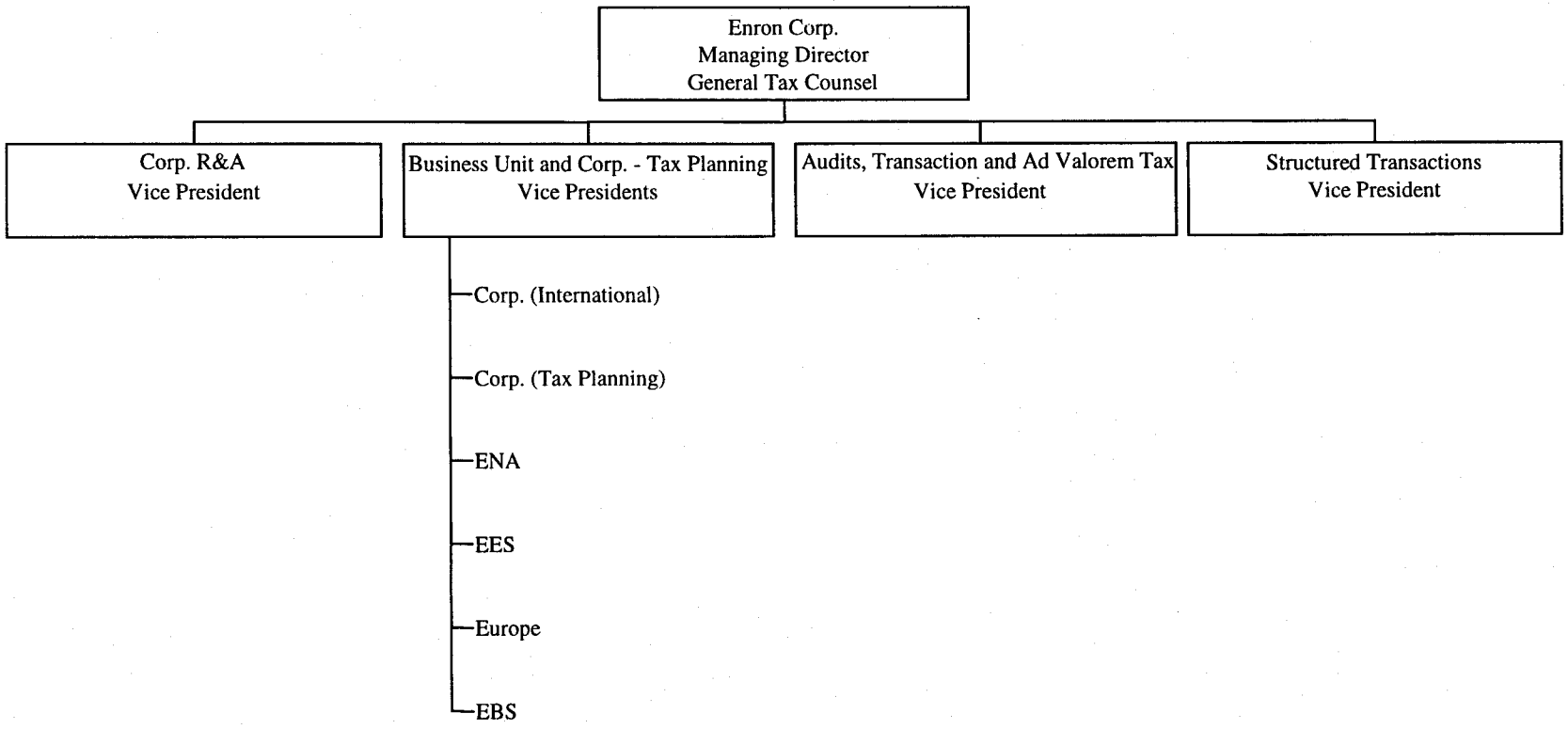
C. **Tax Department Organization**

1. **Decentralized Business Unit organization with separate tax departments within a larger tax department headed by the General Tax Counsel.**
2. **Each Business Unit had a Planning and a Reporting & Analysis (R&A) team.**
3. **Planning interfaced with Commercial teams on deal development.**
4. **R&A interfaced with Tax Planning and Accounting on jurisdictional compliance and financial reporting.**
5. **Department-wide functions existed within the Corporate group, including:**
   (a) **Consolidated Audit function for federal and state income taxes;**
   (b) **Transaction Tax function responsible for sales and use and property taxes; and**
   (c) **Systems.**
6. **Structured Transaction Group identified and implemented tax-advantaged financings and other structured transactions or investments.**

TAX DEPARTMENT ORGANIZATION
As of January 1, 2001



Enron Corp. Tax Department
Summary Headcount Analysis

Function	1996	1997	1998	1999	2000	2001	2002
Managing Director/General Tax Counsel	1	1	1	1	1	1	1
Planning	13	18	24	33	37	27	8
Reporting & Analysis	31	46	61	69	80	81	50
Tax Systems	0	1	3	4	9	5	4
Structured Transactions	1	1	2	12	17	9	6
Audits	6	6	7	8	9	5	10
Sales and Use Tax	5	5	8	14	19	20	15
Ad Valorem Tax	9	8	8	9	9	6	3
Administrative	11	11	12	17	29	17	13
Azurix	--	--	2	4	2	--	--
PGE - Portland	--	9	9	7	7	7	7
London	6	10	12	20	34	5	--
	83	116	149	198	253	183	117

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*U. S. TAX RETURN STATISTICS **

	1997	1998	1999	2000
Federal:				
Total Number of Returns Prepared for Enron Consolidated Tax Return	274	333	502	713
Total Number of Returns Prepared for Entities filed outside of the Enron Consolidated Tax Return * *	58	164	178	190
Total Number of Entities/Branches included in Foreign Information Returns	628	842	1,048	1,485
Total Number of Entities/Branches included in Partnership Returns	42	66	94	98
Total Federal Returns	**1,002**	**1,405**	**1,822**	**2,486**
Number of Unitary Returns	22	33	24	22
Number of Non-Unitary Returns	600	800	1,000	1,400
Total State Returns	**622**	**833**	**1,024**	**1,422**
Total Federal and State Income/Franchise Tax Returns	**1,624**	**2,238**	**2,846**	**3,908**

* *Includes "pro-forma" returns for check-the-box, accounting, and legal branches.*

* * *Approximately 15-20 separate company or consolidated returns.*

Enron Corp. and Subsidiaries
Estimated External U. S. Tax Advisor Fees
for Years 1996 through 2001

	1996	1997	1998	1999	2000	2001
General Tax Advice	1,400,000	1,800,000	2,200,000	3,900,000	4,500,000	2,400,000
Structured Transactions	100,000	2,000,000	2,000,000	10,000,000	10,000,000	- 0 -

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Notes:

1. General Tax Advice includes tax return preparation, transfer pricing documentation, state tax issues, tax audit support, and federal tax consulting.
2. Structured Transactions also incurred significant placement fees for raising capital.

II. TAX SUMMARY

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A. **Significant Pre-1996 Tax Items**

1. **Take-or-Pay on Gas Purchase Contracts**

   (a) **Enron paid approximately $900 million on Take-or-Pay contracts from 1986-1995.**

   (b) **Approximately $175 million was capitalized and amortized over the life of contracts.**

2. **Section 29 Credits**

   (a) **Enron claimed approximately $150 million of Section 29 (Tight Sands) credits for years 1991-1995.**

3. **Mark-to-Market (MTM) Accounting**

   (a) **Enron adopted MTM accounting for financial reporting purposes in 1992 for its trading operations.**

   (b) **Tax reported on an accrual basis.**

4. **Teesside**

   (a) **First power plant Enron built outside of the U.S.**

   (b) **Began operating in 1993.**

   (c) **Constructed under turn-key contract by Enron Power Construction Limited (U. K.).**

5. **MIPS – See Section IV. F. 1.**

6. **Enron Management, Inc. (Project Tanya)**

   (a) **This company assumed and managed Enron's deferred compensation and post-retirement benefit obligations (i.e., FAS 106 liabilities).**

   (b) **Common and preferred stock initially held by Enron Corp. and preferred stock subsequently sold to two employees.**

   (c) **Preferred stock sale resulted in the recognition of a capital loss of approximately $188 million on Enron Corp.'s 1995 consolidated tax return.**

   (d) **The capital loss was examined and allowed by the IRS in its audit of Enron's 1995 consolidated tax return. The IRS has proposed adjustments to disallow deductions for the deferred compensation and post-retirement benefit payments for post-1995 tax years.**

B. Post-1995 Tax Position

1.

Enron Corp. Consolidated Tax Return
Summary of TI, AMTI and Tax Liabilities
For the Taxable Years 1996 to 2001 (As filed or Amended)

	1996	*1997*	*1998*	*1999*	*2000*	*2001* (Estimated)
Ordinary Income<Loss>	(399,359,014)	(580,847,967)	(813,454,028)	(1,844,706,362)	(3,022,694,974)	(3,296,576,000)
Capital Gain <Loss>	89,127,806	77,310,084	60,671,198	386,285,429	6,122,751,118	(4,044,143,000)
Taxable Income <Loss> Before NOL	(310,231,208)	(503,537,883)	(752,782,830)	(1,458,420,933)	3,100,056,144	(7,340,719,000)
Net Operating Loss C/F Deduction	0	0	0	0	(3,039,243,513)	0
Regular Taxable Income <Loss>	(310,231,208)	(503,537,883)	(752,782,830)	(1,458,420,933)	60,812,631	(7,340,719,000)
AMT Adjustments including NOL Limit	46,050,745	(2,139,894)	47,009,820	78,882,457	255,041,692	50,000,000
AMT Income <Loss>	(264,180,463)	(505,677,777)	(705,773,010)	(1,379,538,476)	315,854,323	(7,290,719,000)
Tax Liabilities (Refunds)	0	0	0	0	63,170,865	(63,170,865)

NOTES:
1. A refund claim is expected to be filed for the taxes paid in 2000.
2. Projected NOL carryforward to 2002 is approximately $6.3 billion.
3. Projected capital loss carryforward to 2002 is approximately $1 billion.

2. Chiricahua Partnerships (Project NOLy)

(a) Objective – accelerate taxable income in 2000 to utilize all NOL and credit carryovers so that the 1996-2000 tax audit could be settled.

(b) Effect on 2000 taxable income – $5.556 billion capital gain recognized due to §1259.

(c) NOLy structure unwound in December 2001.

- **ENE and ENA filed for Chapter 11 on December 2, 2001.**
- **Unwind triggered a $5.556 billion capital loss resulting in a carryback claim to 2000.**
- **The carryback is expected to free-up approximately $3 billion of tax losses that would carry forward to 2002.**

(d) The IRS is in the process of reviewing this transaction.

3.

Enron Corp. & Consolidated Financial Statement Subsidiaries
Approximate U. S. Federal Tax Liability
For the Years Ended 1996 thru 2000

	1996	1997	1998	1999	2000
Enron Consolidated Return	-	-	-	-	63,000,000
EOG Consolidated Return*	10,000,000	10,000,000	8,000,000	9,000,000	-
Other Returns	9,000,000	24,000,000	24,000,000	46,000,000	68,000,000
Total Federal Tax Liabilities	**19,000,000**	**34,000,000**	**32,000,000**	**55,000,000**	**131,000,000**

* Enron's ownership of EOG from January 1996 to August 1999 ranged from 53% to 79%. Thus, EOG was included in Enron's consolidated financial statements for this period, but not in Enron's consolidated tax return.

4. Anticipated §6405 Refund Claims

(a) Enron Corp. Consolidated – Approximately $63 million.

(b) Organizational Partners, Inc. (Project Teresa) – Approximately $107 million.

(c) Oneida Leasing, Inc. (Project Tomas) – Approximately $13 million.

(d) Enron Export Sales Ltd. (FSC) – Approximately $2.5 million.

(e) Enron Equity Corp. – Approximately $30 million.

III. TAX ACCOUNTING – BOOK/TAX DIFFERENCES (1996-2000)

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III. TAX ACCOUNTING – BOOK/TAX DIFFERENCES (1996-2000)

A. Overview

1. See following Schedule for a high-level reconciliation of consolidated financial statement net income to taxable income <loss> per the Enron Corp. consolidated tax return. Comparing consolidated financial statement income to Enron Corp.'s consolidated taxable income <loss> is largely an "apples-to-oranges" comparison because many entities are consolidated for financial statement purposes that are not included in the Enron Corp. consolidated tax return.

2. Major book-tax differences for the Enron Corp. consolidated tax group and related entities for 1996-2000 are discussed in the remainder of Section III.

3. Similar book-tax differences existed for 2001.

Enron Corp & Subsidiaries
Reconciliation of Net Income per Annual Report to Taxable Income per Enron's Consolidated Tax Return
For the Calendar Years 1996 thru 2000
($ in Millions)

	1996	*1997*	*1998*	*1999*	*2000*
Net Income per Annual Report	**584**	**105**	**703**	**893**	**979**
Equity Earnings Adjustments	945	1,045	1,043	2,251	5,039
Other Net Consolidation Adjustments	(96)	(189)	(134)	(32)	(122)
Sub-Total	849	856	909	2,219	4,917
Net Book Income per Tax Return (Schedule M-1)	**1,433**	**961**	**1,612**	**3,112**	**5,896**
Book-to-Tax Adjustments:					
Federal Income Taxes	159	(35)	45	(128)	193
Net Partnership Adjustments	(107)	(122)	(109)	(338)	(481)
Net Mark-to-Market Adjustments	(118)	118	(333)	(906)	(537)
Section 1259 Income	0	0	0	0	5,566
Net Interest Adjustments	(2)	(24)	(3)	(12)	(149)
COLI Adjustment	(19)	(24)	(27)	(35)	(20)
Stock Option Deduction	(113)	(9)	(92)	(382)	(1,560)
Depreciation	(67)	(65)	(57)	(124)	(154)
Equity Earnings Reversal Per Tax Return	(1,183)	(1,023)	(1,688)	(2,868)	(5,516)
All other Book-to-Tax Differences	(293)	(281)	(101)	223	(137)
Taxable Income (Loss) per Enron's Consolidated Tax Return	**(310)**	**(504)**	**(753)**	**(1,458)**	**3,101**

B. Mark-to-Market – 1996-2000 Adjustment $1.8 billion decrease

1. Financial statements used MTM accounting for commodity trading, merchant investments and specific components of bundled energy deals.

2. For income tax purposes, all Enron entities were accrual taxpayers through 2001. Accordingly, the unrealized MTM book income and expense was reversed and the realized income and expense was recorded for tax purposes. (Enron's commodity trading entities made MTM elections for tax purposes effective January 1, 2002.)

3. The yearly book increase in MTM originations generally exceeded the tax recognition of accrual income, causing the net book-tax difference to increase each year.

C. Constructive Sale – 1996-2001 Adjustment net zero

1. Project NOLy – Timing difference that originated in 2000 and reversed in 2001. See Section II. B. 2. This book-tax difference is labeled "Section 1259 Income" on the Schedule on p. 20.

D. Stock Option Exercises – 1996-2000 Adjustment $2.1 billion decrease

1. Stock options granted as a key component of employee compensation.

2. Significant share price increase from 1997 through 2000 (i.e., $20 per share to $90 per share) resulted in a significant amount of options exercised.

3. As options were exercised, a deduction was taken for tax purposes for the spread between the grant price of the option and the exercise price. The spread was taxable income to the employees and federal income and payroll taxes were withheld.

4. Neither the expense nor the tax benefit from the exercise of stock options flowed through book income. The tax benefit was recorded as a debit to Taxes Payable and a credit to Paid-in-Capital. This results in a significant book-tax adjustment each year.

5. Also book-tax timing differences created by restricted stock.

E. Depreciation – 1996-2000 Adjustment $466 million decrease

1. Significant investment in pipeline assets which have an extended book life.

2. Tax depreciation is significantly accelerated for almost all assets – usually no longer than 15 years.

3. The pipelines have continued to expand their asset presence and increase the depreciable base, continually refreshing the large depreciation deductions available in the early years of the asset life.

F. Interest Expense – 1996-2000 Adjustment $190 million decrease

1. Financing structures that were treated as other than debt for financial reporting were treated as debt for tax (e.g., minority interest financings). The resulting interest expense created a book-tax difference.

G. Corporate-Owned Life Insurance – 1996-2000 Adjustment $125 million decrease

1. Life insurance policies are taken out on employees with company named as beneficiary.

2. Premium costs are not deductible for tax purposes; death benefits are not taxable income when received.

3. The net build-up of cash surrender value was recorded as book income.

4. Enron and its affiliates borrowed against the cash surrender value of certain of the policies. The interest paid on these loans was deductible for tax purposes (i.e., grandfathered pre-June 21, 1986 policies).

H. Tax-Free Transactions

1. PGE

(a) Portland General Holdings merged into Enron Corp. in a tax-free "A" merger in July 1997. Portland General Electric became a subsidiary of Enron Corp.

(b) Books used purchase accounting. Tax used carryover basis.

(c) Book-tax differences are represented by depreciation and goodwill.

2. **EOG**

   (a) **In August 1999, EOG transferred the ownership of EOGII to Enron in exchange for 62 million shares of EOG stock.**

   (b) **Transaction qualified as a tax-free §355 split-off.**

   (c) **For book purposes, a pre-tax gain of $454 million was reported.**

I. **Securitizations – 1996-2000 Adjustment $1.2 billion decrease**

1. **Business impetus to generate cash associated with MTM and fair value financial assets -- such as commodity contracts (e.g., gas and power) and merchant equity interests (e.g., venture capital-type investments).**

2. **Financial statement treatment as a sale under FAS 125/140; tax characterization and reporting as a borrowing based on general tax principles applied to the economics of the transaction.**

J. **Partnerships**

1. **Ordinary book-tax differences at the partnership level flowed-through to the partners.**

K. **Foreign Income**

1. **Books recorded equity and consolidated foreign affiliate income when earned; tax reported the income as dividends when actually or deemed received (e.g., under Subpart F).**

2. Significant Subpart F income was reported for tax on intercompany loans that were mostly eliminated on the consolidated financial statements.

L. Liability Management Transactions

1. Enron Management, Inc. (Project Tanya) – See Section II. A. 6.

2. ECT Strategic Value Corp. (Project Valor)

(a) This company managed the credit and price risk on physical and financial commodity contracts with third parties.

(b) Preferred voting stock issued to ECT in exchange for intercompany notes and unrelated party power and gas contracts.

(c) Preferred stock subsequently sold to three employees of ECT resulting in a capital loss of $235 million on Enron Corp.'s 1996 consolidated tax return. This loss was not recognized for book purposes.

(d) The IRS has proposed to disallow the capital loss on the preferred stock sale and losses from physical and financial commodity contracts and third party credit risks.

M. Carryover Tax Basis Transactions – 1996-2001 Adjustment $110 million decrease

1. ECT Investing Partners, L. P. (Project Steele)

(a) Corporate joint venture with a Bank. Bank contributed low-value, high-tax basis REMIC residual interests. Closed October 1997.

(b) Through 2001, the Enron Corp. consolidated tax group has claimed approximately $110 million of deductions.

(c) The REMIC-related deductions are not expenses for book purposes.

2. Maliseet Properties, Inc. (Project Cochise)

(a) REIT joint venture with a Bank and individual investors. Bank contributed low-value, high-tax basis REMIC residual interests. Closed January 1999.

(b) Through 2001, the Enron Corp consolidated tax group has not claimed any material deductions from this structure.

(c) The REMIC-related deductions are not expenses for book purposes.

N. Tax Basis Step-Up Transactions – 1996-2001 Adjustment $60 million decrease

1. Seneca Leasing Partners, L.P. (Project Tomas)

(a) Partnership joint venture with a Bank. Upon formation in September 1998, an Enron affiliate contributed high-value, low-tax basis assets as well as other assets and liabilities. The partnership redeemed the Enron affiliate in late 2000.

(b) The Enron affiliate met the grandfather exception to the 1999 legislative change that enacted §732(f).

(c) Enron was not subject to tax on approximately $270 million of built-in gain.

2. **ENA Asset Holdings, L. P. (Project Condor)**

   (a) **Enron Corp. is a partner in Whitewing Associates, L. P. (Whitewing), a partnership with a third party investor group. An Enron affiliate contributed a high-value, low-tax basis asset to Whitewing. It was anticipated that Whitewing could redeem the Enron affiliate in the future in a manner that would step-up the tax basis of the affiliate's asset.**

   (b) **No tax benefits have been (or will be) claimed by Enron from this transaction.**

   (c) **No effect on the book basis of the affiliate's asset.**

3. **Enron Leasing Partners, L. P. (Project Teresa)**

   (a) **Partnership leasing joint venture (JV) between a tax deconsolidated Enron affiliate and a Bank formed in March 1997. Due to redemptions of corporate stock held by the JV, increases to the Enron affiliate's outside tax basis in the JV exceeded taxable income allocated to the Enron affiliate. It was anticipated that the JV could later liquidate in a manner that would step-up the tax basis of certain assets. Book basis in the assets would not be adjusted.**

   (b) **No incremental tax benefits have been (or will be) claimed by Enron or its affiliates from this transaction.**

(c) **The Enron affiliate paid approximately $107 million of separate company U. S. federal tax from 1997-2000. Refund claims will be filed due to NOL carrybacks from 2001 and 2002.**

O. <u>Structured Financings</u> – 1996-2001 Adjustment $180 million decrease

1. Cherokee Finance VOF (Project Apache)

(a) An Enron foreign subsidiary raised $500 million of minority interest financing in May 1999. The funds raised were used to finance the factoring of Enron's third party account receivables.

(b) Book income earned by the foreign subsidiary was not subject to U. S. federal tax.

(c) Project Gladiator – Similar structure, but never implemented.

2. Enron Finance Partners, LLC (Project Tammy I)

(a) Various Enron entities contributed appreciated assets subject to debt to a partnership. The partnership raised $500 million of minority interest financing in November 2000. It was anticipated that the partnership could redeem one of the Enron partners in a manner that would step-up the tax basis of an asset. Book basis in the asset would not be adjusted.

(b) No incremental tax benefits have been (or will be) claimed by Enron from this transaction.

(c) **Enron Northwest Finance, LLC (Project Tammy II) – was intended to be a similar structure, but was never fully implemented. Accordingly, no tax benefits have been (or will be) realized by Enron.**

3. **Enron Valkyrie, LLC (Project Valhalla)**

   (a) **An Enron affiliate served as the counterparty for a financing done by a foreign Bank.**

   (b) **Closed in May 2000. Net annual fee income of $20 million recognized by Enron for book and tax (i.e., no book-tax difference).**

4. **Wiltshire Financial Asset Company, LLC (Project Renegade)**

   (a) **An entity that is consolidated with Enron for book purposes effectively raised net $8 million of low-cost FASIT debt in December 1998. Enron also earned a $1 million fee.**

   (b) **No book-tax differences.**

IV. FINANCINGS

IV. FINANCINGS

A. Public Debt

1. Commercial Paper
2. $4 - $6 billion "plain vanilla" bonds
3. $1.25 billion zero coupon convertible notes (February 2001)
4. Two issuances of ACES:
   (a) 1995, 6.25%, $217 million proceeds, extinguished December 1998 with 10.5 million shares of EOG common stock; and
   (b) 1999, 7%, $255 million proceeds, exchangeable for 11.5 million shares of EOGR common stock, due July 31, 2002.
   (c) Tax characterization is forward contract secured by a cash deposit.
5. Also "plain vanilla" bonds of subsidiaries – NNG, PGE, Azurix

B. Revolver

1. Two separate facilities: A $1.75 billion 364-day Revolving Credit Agreement and a $1.25 billion 5-year Revolving Credit Agreement
2. Wide syndication among over 100 banks; Citibank and JP Morgan Chase served as co-agents.
3. Never drawn until October 2001; previously, Enron accessed the Commercial Paper market.

C. **Prepays**

1. **Historically entered into by Enron as a means to generate cash flow; approximately $3.7 billion in prepayments from 1993 through 2001; structured both as commodity (i.e., physical) and financial prepays.**

2. **For financial statement purposes, the prepayment is reported as part of the Company's price risk management liability (PRM) and not as debt.**

   (a) **PRM reports instruments utilized in connection with trading activities measured on a MTM basis.**

   (b) **Cash reported as from operations, not from borrowings.**

3. **Special tax rules relating to prepayments for "inventoriable" goods (e.g., gas, power, oil) provide that such prepayments must be included in the recipient's income no later than the second taxable year following the receipt of a "substantial advance payment". *Treas. Reg. § 1.451-5(b)(ii)* and *(c).***

   (a) **The Regulations also provide that the taxpayer must match the gross income received with the associated estimated cost of goods sold.**

   (b) **End result is that the net prepayment amount is subject to tax in the second year following receipt.**

4. **Prepayments merely requiring Enron to pay a specified amount of money based on a notional principal amount of an indexed commodity were reported as borrowings for federal income tax purposes.**

D. Securitizations

1. **Enron implemented numerous FAS 125/140 securitizations to fund assets off-balance sheet.**

2. **The Hawaii 125-0 Trust structure is typical of Enron's securitizations.**

   (a) **Assets are securitized through a special purpose Delaware business trust in accordance with FAS 125/140.**

   (b) **Two companion trusts: Hawaii I 125-0 Trust and Hawaii II 125-0 Trust:**

   - **Hawaii I: $171 million 364-day facility; and**
   - **Hawaii II: $385 million 2-year facility.**

   (c) **The securitizations are reported as sales for financial statement purposes.**

   (d) **Tax characterization is as a secured borrowing as generally determined by existence of following factors:**

   - **Commercial banks generally served as lenders;**
   - **Sponsor (i.e., the asset owner) effectively pledged the underlying asset as collateral;**
   - **Enron Corp. guaranteed 97% of the debt, typically through a total return;**

- **Sponsor obligated to repay proceeds and receive back asset typically through pre-maturity unwind or auction process; and**
- **Holders of the 3% Certificates viewed as lenders for tax because (i) no potential to realize more than their principal and accrued yield, (ii) generally same parties held both Notes and Certificates, and (iii) existence of over-collateralization.**

E. Off-Balance Sheet Debt

1. **Book consolidation generally required if Enron held more than 50% of vote or 80% of value of an entity.**
2. **Tax characterization of the structures determined using general tax principles.**
3. **Domestic off-balance sheet projects:**
   (a) **Typically structured as a partnership for tax; and**
   (b) **Partnership interest expense flows through to partners based on sharing ratios.**
   (c) **The more significant domestic off-balance sheet structures are discussed in items 4 – 7 below.**
4. **JEDI I: Limited partnership between Enron-affiliate and third party investor, ChewCo. Primary assets held were 12 million shares of Enron Corp. stock and equity interests in Mariner Energy, Inc., Hanover Compressor, and CGAS, Inc.**

(a) **JEDI I originally reported as an unconsolidated affiliate for financial statement purposes, and thereby removed from Enron's balance sheet the invested assets and associated debt; entity was subsequently consolidated in 2001 retroactive to 1997.**

(b) **For tax purposes, Enron reported its pro rata share of income and losses.**

5. **JEDI II: Limited partnership between an Enron affiliate and CalPERS.**

(a) **Not consolidated for financial statement purposes.**

(b) **For tax purposes, Enron reported its pro rata share of income and losses.**

6. **Whitewing: A limited partnership owned by Enron Corp. and the Osprey investor group. Osprey contributed $2.4 billion cash, which generally was used to purchase Enron debt securities and other assets.**

(a) **Osprey owned by small group of insurance and trust companies.**

(b) **A Share Settlement Agreement allowed the Osprey investors to benefit from additional Enron stock as collateral.**

(c) **Whitewing not consolidated for financial statement purposes.**

(d) For tax purposes, the sale by Enron of its assets to Whitewing treated as a realization event. Further, Enron reported its pro rata share of taxable income and loss. The yield paid to the Osprey investors flowed through as a tax deduction to Enron.

7. Atlantic Water Trust, Marlin Water Trust, and Preferred Voting Trust (Project Marlin): Finance structure that owns approximately 67% of Azurix Corp., a U.S. multinational water company with its primary subsidiary being the Wessex Water Company.

(a) Azurix was not consolidated with Enron for financial reporting purposes.

(b) The Marlin structure was treated as a financing for tax, with Enron Corp. as the borrower.

8. Foreign off-balance sheet projects – See Section VI. D. 1.

F. Minority Interest Financings

1. MIPS

(a) $214 million issuance in 1993. $75 million issuance in 1994.

(b) Public holders invested in a partnership that loaned funds to Enron.

(c) GAAP balance sheet accounting was originally "Preferred Stock of Subsidiary Company." GAAP was modified in 1995 to "Company – Obligated Preferred Securities of Subsidiaries."

(d) **Rating agencies give some equity credit.**

(e) **IRS challenged interest deductions in 1995. The IRS conceded the issue after docketed with the Tax Court.**

2. **TOPrS**

(a) **Three separate issuances from 1995–1997. Total principal of $550 million.**

(b) **The public holders held their partnership interests through a grantor trust. Otherwise, very similar to MIPS.**

(c) **Issue Forms 1099 instead of Schedules K-1.**

3. **Sundance Assets, L. P. (Project Rawhide)**

(a) **$750 million over-collateralized financing executed December 1998.**

(b) **Book accounting as "Minority Interest".**

(c) **For tax purposes, the return paid to the third party lenders was a §707(c) guaranteed payment.**

4. **Other – <u>See</u> Sections III. O. 1. and III. O. 2.**

V. LJM TRANSACTIONS

V. LJM TRANSACTIONS

A. Overview

1. Transactions engaged in by Enron with LJM are reported in a variety of ways for financial statement purposes, including as sales and unconsolidated joint ventures.

2. For tax, the underlying transactions were characterized based on general tax principles.

   (a) Transactions treated as tax sales included the sale of cable fiber and interests in international assets such as the Cuiaba (Brazil) pipeline and the Nowa Sarzyna (Poland) power plant.

   (b) Transactions treated as financings for tax purposes included the hedging transactions engaged in by the Raptor structures.

B. Rhythms Stock Hedge

1. Enron owned approximately 5.3 million shares of Rhythms Netconnections, a highly volatile telecom stock.

2. Enron Corp. sold restricted Enron shares to LJM L. P. in exchange for a note receivable and various options tied to Rhythms stock.

3. Rhythms stock price declined substantially. Accordingly, the options became "in-the-money" to Enron.

4. **Options settled after 9 months for a net $104 million book gain. LJM L. P. used the Enron Corp. restricted stock to settle the option.**

5. **Tax followed books and treated the option settlement as a realization event; no tax reporting change following the Form 8-K restatement.**

C. **Raptors**

1. **Structures and related transactions were entered into by Enron and certain affiliates with LJM2 and its affiliates for the purpose of hedging price volatility associated with a number of Enron merchant investments.**

   (a) **Enron accounted for the Raptor – LJM2 entities using the cost method. Accordingly, for book purposes Enron accounted for its derivative transactions with these entities as hedges.**

   (b) **LJM2 relied on unrealized gains in Enron stock (subject to restrictions) to absorb losses associated with these transactions.**

2. **For federal income tax purposes, however, the hedging activities were conducted between disregarded entities owned by Enron. Therefore, there was no tax effect to Enron from these activities. LJM2 was a lender for tax.**

VI. INTERNATIONAL OPERATIONS

VI. INTERNATIONAL OPERATIONS

A. Overview

1. The number of foreign entities is far fewer than reported in the media.
2. As of December 31, 2001:
   (a) Approximately 1,300 foreign entities;
   (b) Approximately 220 entities associated with active operations;
   (c) Approximately 80% were inactive; and
   (d) Fewer than 80 foreign entities are partnerships for U. S. tax.
3. Information for all foreign entities was provided annually according to U. S. tax reporting rules. For 2000:
   (a) Approximately 680 Forms 5471 for CFCs;
   (b) Approximately 60 Forms 8865 for CFPs; and
   (c) The remaining entities were 10/50 companies, non-controlled foreign partnerships and other entities that do not require annual reporting.
4. Once formed, foreign entities typically were not dissolved due to non-tax considerations.

B. Infrastructure Projects

1. Infrastructure projects were Enron's first major expansion into international operations.
2. Business was initially focused on power plants, but later included gas pipelines and related energy projects.

3. **Where possible, projects were structured in a manner commonly used to defer U. S. tax on income earned and reinvested in foreign countries. See following Diagrams.**

   (a) **Flow-through**

   - **Active project income earned by Project Company partnership.**
   - **Partnership distribution is not Subpart F income to Foreign HoldCo.**
   - **Funds reinvested by Foreign HoldCo outside the U. S.**

   (b) **High-tax**

   - **Foreign HoldCo's gross E&P from Foreign OpCo dividend is reduced by E&P deduction for interest on bank debt incurred to acquire Foreign OpCo.**
   - **Foreign HoldCo's taxes deemed paid (from Foreign OpCo dividend) divided by Foreign HoldCo's E&P >31.5% (i.e., U. S. tax rate 35% x 90%).**
   - **Funds reinvested by Foreign HoldCo outside the U. S.**

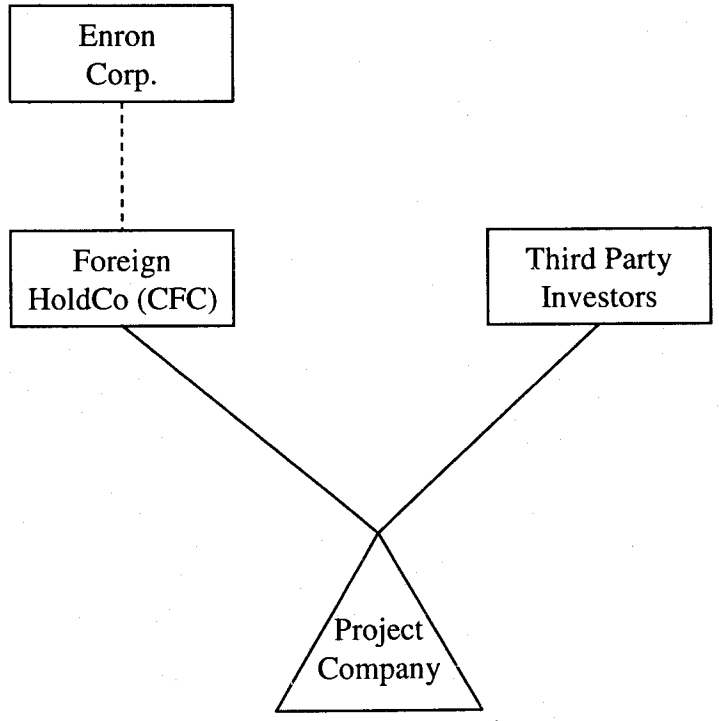
   (c) **Same country**

   - **Local Country HoldCo and Local Country OpCo are both CFCs incorporated in the same country.**
   - **Dividend from Local Country OpCo to Local Country HoldCo meets same country exception.**
   - **Funds reinvested by Local Country HoldCo outside the U. S.**

(d) Non-deferral

- **Foreign OpCo's E&P tax rate <31.5%.**
- **Foreign OpCo and Foreign HoldCo not incorporated in same country.**
- **Foreign OpCo is not a CFC.**
- **Dividend from Foreign OpCo to Foreign HoldCo is Subpart F FPHCI.**

Typical Flow-Through Structure

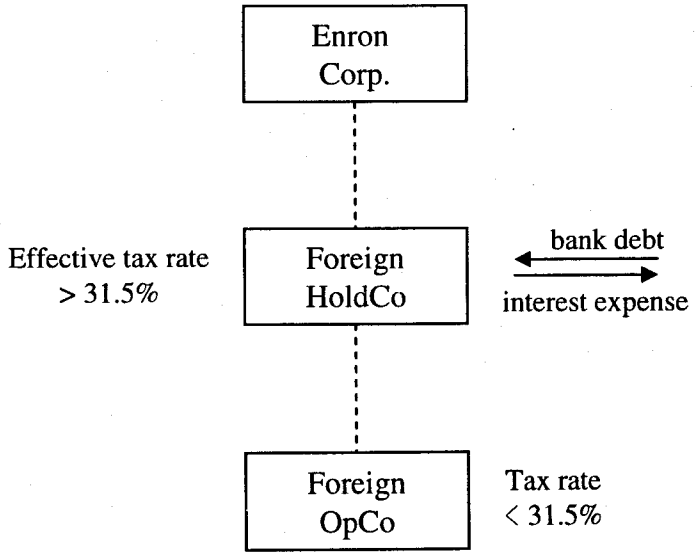


U. S. Tax Legend

- corporation

- partnership

Typical High-Tax Structure



U. S. Tax Legend

☐ - corporation

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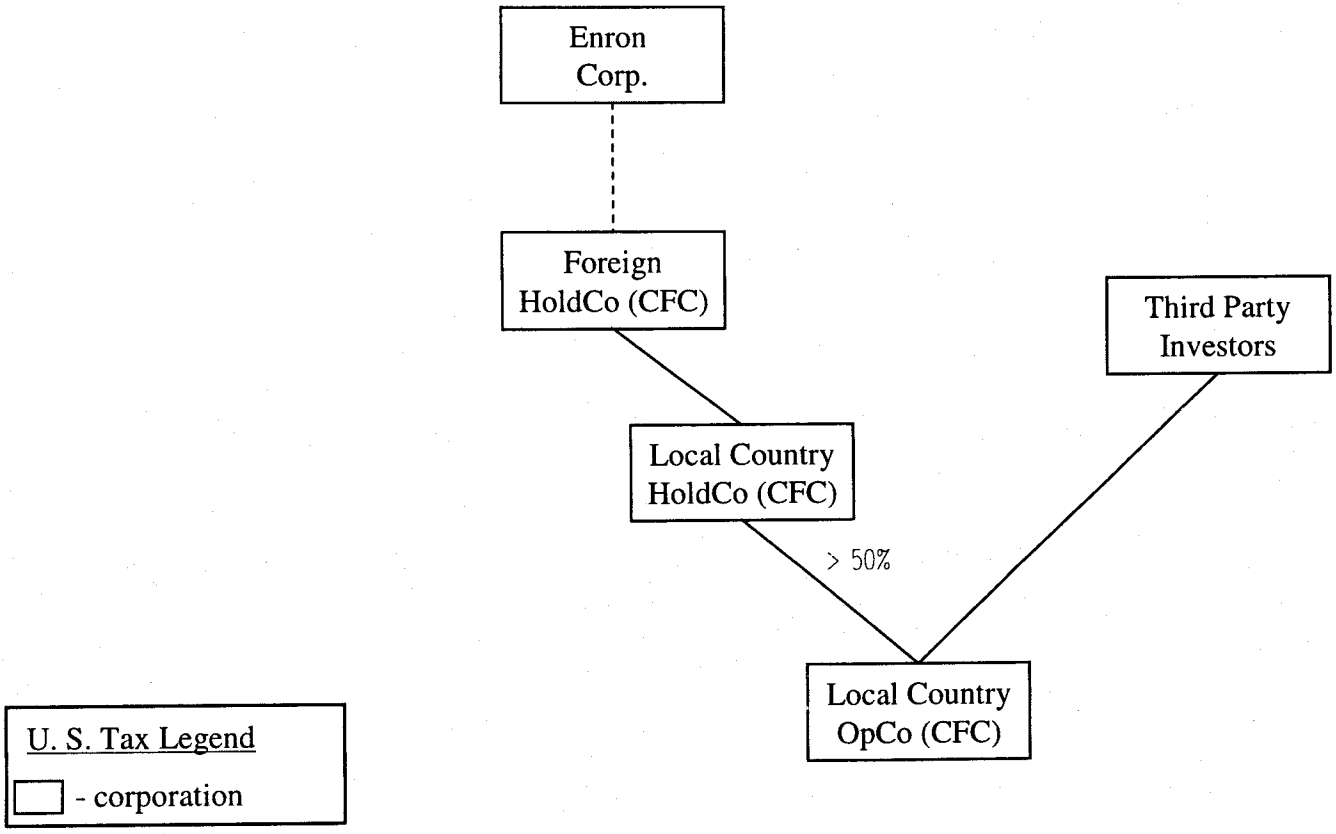
Typical Same Country Structure



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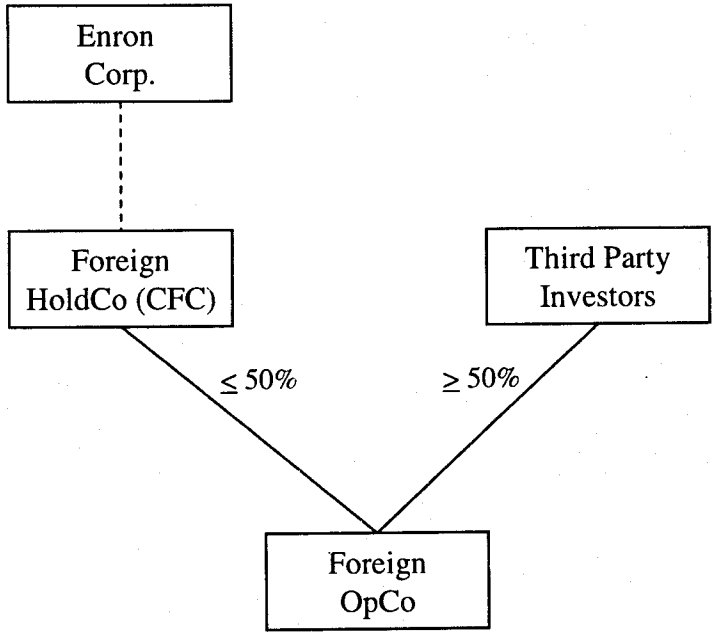
Typical Non-Deferral Structure



U. S. Tax Legend

☐ - corporation

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4. **Costs related to development of projects were capitalized until project was sold, abandoned or otherwise disposed of (i.e., generally tax followed book).**

5. **See the following Table for a summary of the completed projects.**

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Enron International Infrastructure Assets

Country	Project Name	Asset Type	Year Started	Year Operational	Year Disposed
Argentina	TGS	Pipeline	1992	1992	
Bolivia	Transredes	Pipeline	1997		
Brazil	CEG/CegRio	Gas LDC	1997		
Brazil	Copel	Stock Investment	1999		2001
Brazil	Cuiaba	Power Plant / Pipeline	1997	1999	
Brazil	Electrobolt	Power Plant	2000	2001	
Brazil	Elektro	Electricity LDC	1998	1998	
Brazil	Gaspart	Gas LDC	1997	1997	
Brazil-Bolivia	Brazil-to-Bolivia Pipeline	Pipeline	1994	1999	
China	Eclipse	Power Plant	1999	1999	
China	EnronChina	E&P	1997	1998	2001
China	Hainan	Power Plant	1994	1996	2001
Colombia	Centragas	Pipeline	1994	1996	
Colombia	Promigas	Pipeline	1996	1976	
Dominican Republic	Haina	Power Plant	1999		2000
Dominican Republic	SECLP	Power Plant	1993	1994	
Germany	Bitterfield	Power Plant	1993	1933	1999
Guam	Piti	Power Plant	1997	1999	
Guatemala	Puerto Quetzal	Power Plant	1992	1993	
India	Broadband Solutions	Data Center	1999	2000	2002
India	Dahbol	Power Plant	1993	1999	
India	EOGIL	E&P	1993	1994	2002
India	GAIL	Stock Investment	1999	N/A	
India	Greenfield Shipping	LNG Transporation	1999	2001	
Italy	Sarlux	Power Plant	1992	1999	
Jamaica	IGL	LPG Facility	1985		2002
Korea	SK-Enron	Gas Distr.	1999	1999	
Nicaragua	Corinto	Power Plant	1999	1999	
Nigeria	Nigeria Power Barge	Power Plant	1999	1999	2000
Palestine	Gaza	Power Plant	1999		
Panama	BLM	Power Plant	1998	1999	
Philipines	Batangas	Power Plant	1992	1993	
Philipines	Subic	Power Plant	1993	1994	
Poland	ENS	Power Plant	1996	2000	
Puerto Rico	EcoElectrica	Power Plant	1997	2000	
Puerto Rico	ProCaribe	LPG Facility	1986		
Puerto Rico	Progasco	LPG Facility			2001
Puerto Rico	San Juan Gas	Gas LDC	1985	1911	
Turkey	Trakya	Power Plant	1993	1999	
United Kingdom	Sutton Bridge	Power Plant	1997	1999	
United Kingdom	Teeside	Power Plant	1992	1993	
Venezuela	Accroven	Gas Processing	1998	2001	
Venezuela	Bachaquero	Gas Compression	1997	1998	2001
Venezuela	Madosa	Appliances			1998
Venezuela	Vengas (fka Ventane)	LPG Facility	1992		

C. **Commodity Trading**

1. **Large operations in Western Europe with smaller operations in South America and Australia.**

2. **Mostly Energy-Related Commodities:**

   (a) **natural gas;**

   (b) **electricity;**

   (c) **coal;**

   (d) **oil;**

   (e) **metals (mid-1999); and**

   (f) **both physical and financial in most commodities.**

3. **Potential Subpart F Application:**

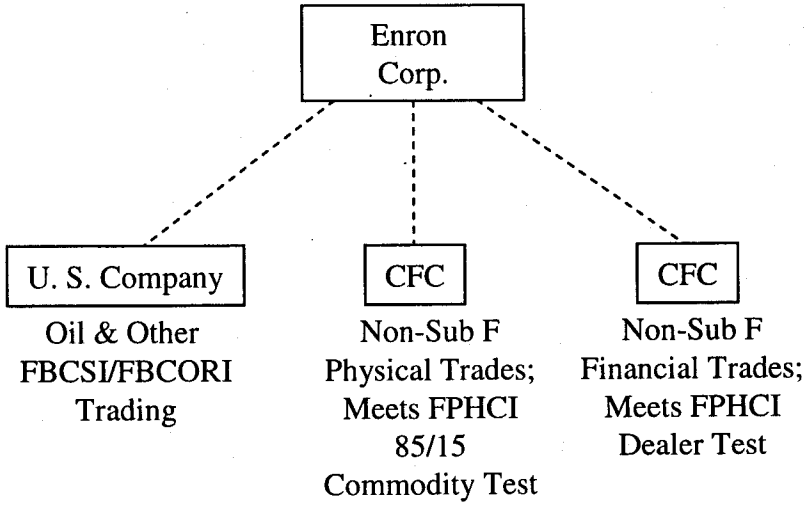
   (a) **Foreign Personal Holding Company Income (FPHCI);**

   (b) **Foreign Base Company Sales Income (FBCSI); and**

   (c) **Foreign Base Company Oil-Related Income (FBCORI).**

   (d) **See following Diagram for typical structure.**

Commodity Trading – Simplified Structure



U. S. Tax Legend

☐ - corporation

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D. Financings

1. **Most infrastructure projects had debt at the project company level.**
   - (a) **Few project companies were book consolidated so debt (and related asset) was not on Enron's financial statements.**
   - (b) **Foreign entities not in U. S. consolidated tax return, so no U. S. deduction for interest expense.**
   - (c) **Financings were routine project-finance in accordance with industry terms and practices.**
   - (d) **No "double-dip" structures.**
2. **Financing hubs**
   - (a) **Earnings from foreign projects were loaned to foreign affiliates through wholly-owned cash management companies.**
   - (b) **Followed typical practices to re-invest foreign income to defer book and cash tax.**
   - (c) **Interest income on intercompany loans was Subpart F income unless an exception was met.**
3. **Compagnie Papiers Stadacona (Project Slapshot)**
   - (a) **A Canadian subsidiary raised a $375 million net loan from commercial bank to finance the acquisition of Canadian paper mill in 2001.**
   - (b) **Provided Canadian tax benefits to wholly-owned Canadian subsidiaries (controlled foreign corporations); no U. S. tax effect.**

E. Other

1. **In addition to core trading and infrastructure businesses:**
   - (a) **Bottled gas businesses in Puerto Rico, Jamaica and Venezuela, and**
   - (b) **Wind turbine manufacturing in Germany**
2. **Enron did not make material use of techniques described in Notices 98-11 and 98-35.**
3. **Transfer Pricing**
   - (a) **Enron's business did not involve extensive cross-border transactions between related parties.**
   - (b) **Foreign use of trademarks and commodity trading systems was covered under qualified cost-sharing agreements.**
   - (c) **Enron recently received a copy of an IRS National Office FSA to the IRS audit team concerning related-party services associated with a foreign infrastructure project.**
   - (d) **Section 6662(e) documentation was prepared and provided to IRS examiners.**
4. **The Enron Corp. consolidated tax group had a significant overall foreign loss. Thus, actual or deemed foreign dividends to the Enron consolidated tax group resulted in double tax.**

VII. REGISTERED TAX SHELTERS AND LISTED TRANSACTIONS

VII. REGISTERED TAX SHELTERS AND LISTED TRANSACTIONS

A. § 6111(c) Tax Shelters

1. **Renewable Energy Partnerships**

   (a) **Wind power limited partnerships formed in 1984 allowed participants to invest in renewable or "Green" energy wind farms located in California.**

   (b) **Enron Wind's ownership percentage in partnerships is minimal (.5%-1%).**

2. **Master Limited Partnerships (MLP)**

   (a) **Energy-related publicly traded partnerships (NYSE) syndicated prior to 1995. Commercial activity of the partnerships is the transportation and marketing of natural gas, gas liquids, crude oil, and crude oil products.**

   - **Enron Liquids Pipeline L.P. (1992)**
   - **Northern Border Partners, L.P. (1993)**
   - **EOTT Energy L.P. (1994)**

   (b) **MLP prospectus informed investors of intent to register as a tax shelter.**

3. **Enron Leasing Partners, L. P. (Project Teresa) – See Section III. N. 3.**

B. § 6111(d) Tax Shelters and Listed Transactions

1. **No § 6111(d) tax shelters.**

2. **The only Enron transactions described as "listed transactions" in Notice 2001-51 are two transactions undertaken in 1995 and 1996 (i.e., Projects Tanya and Valor).**

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XIII. EFFECTIVE TAX RATE

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XIII. EFFECTIVE TAX RATE

A. Enron's 1998 – 2000 financial statement effective tax rate (ETR) reconciliation was as follows:

	1998	1999	2000
Statutory federal income tax provision	35.0 %	35.0 %	35.0 %
Net state income taxes	1.7	1.8	2.5
Foreign tax rate differential	0.8	(7.0)	(2.4)
Equity earnings	(4.3)	(10.1)	5.3
Basis and stock sale differences	(14.2)	(10.8)	(11.9)
Goodwill amortization	2.0	1.6	1.6
Audit settlement related to Monthly Income Preferred Shares	-	(1.8)	-
Other	(1.0)	0.5	0.6
	20.0 %	9.2 %	30.7 %

See footnote 5 to Enron's 2000 Annual Report.

B. Typical ETR reconciliation items – state taxes, foreign tax rate differential, equity earnings, goodwill, meals and entertainment, etc.

C. Tax benefit of non-qualified stock option deductions does not affect the ETR or book income

D. Impact of "structured transactions" on the ETR

1. The 1995 – 2001 impact on book income of "structured transactions" was approximately $933 million. This would translate to approximately $2,666 million of current and future deductions or income not subject to U. S. federal income tax.

2. **The cumulative tax return effect through 2001 of these transactions is as follows:**

   (a) **4 transactions – Approximately $770 million of deductions or income not subject to U. S. federal income tax.**

   (b) **3 transactions – Approximately $230 million of U. S. federal taxable income.**

   (c) **4 transactions – No tax return impact.**

   (d) **Net combined tax return effect through 2001 – approximately $540 million of deductions or income not subject to U. S. federal income tax.**

APPENDIX

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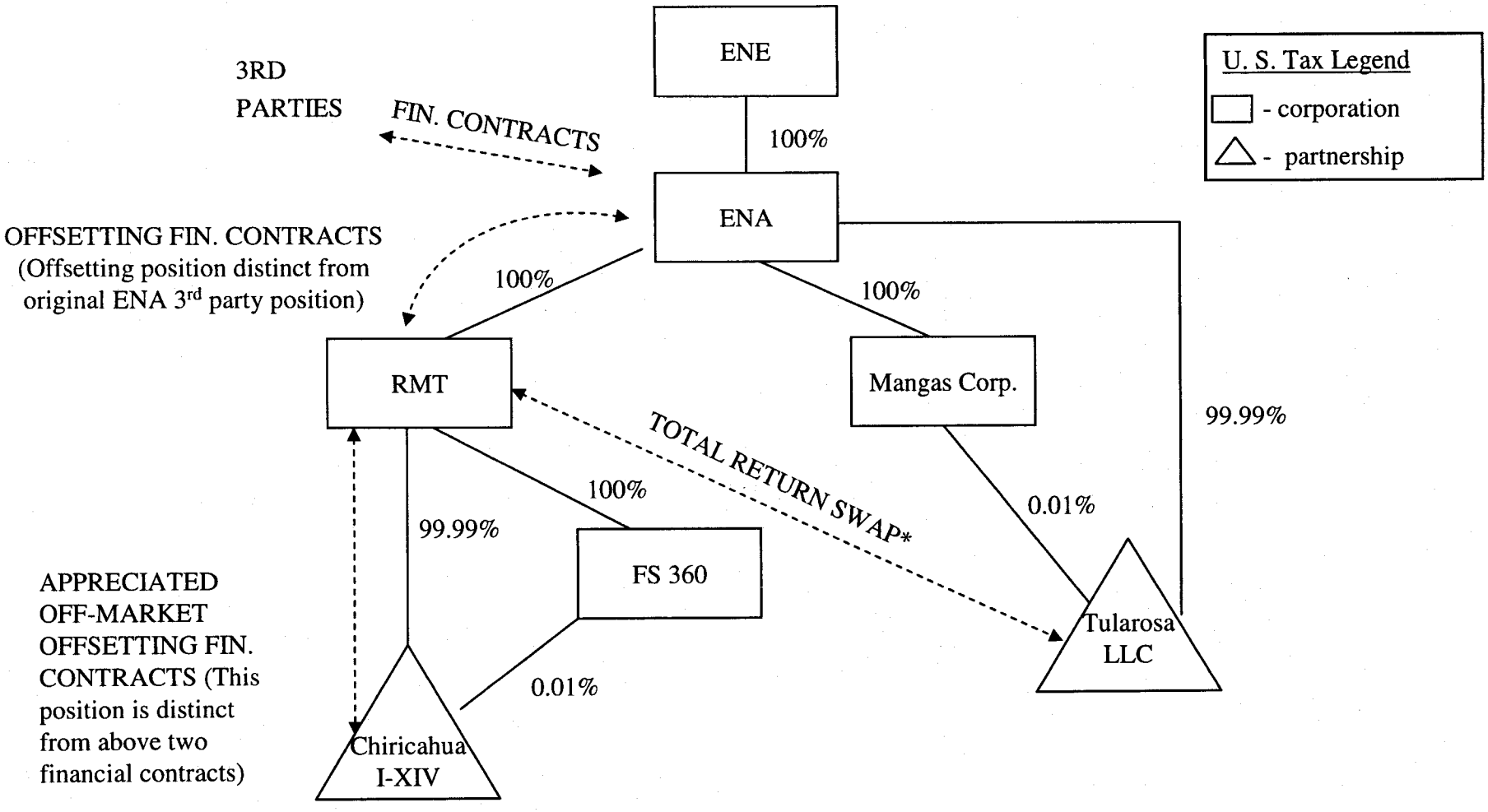
Project NOLy – December 2000



*Total return swap contract whereby Tularosa LLC agrees to pay RMT $5.556 billion in return for RMT's obligation to pay to Tularosa LLC all returns related to RMT's interest in Chiricahua LLC. Net cash settlement of difference between (i) FMV of Chiricahua interest at settlement date + distributions on such interest, and (ii) $5.556 billion fixed payment.

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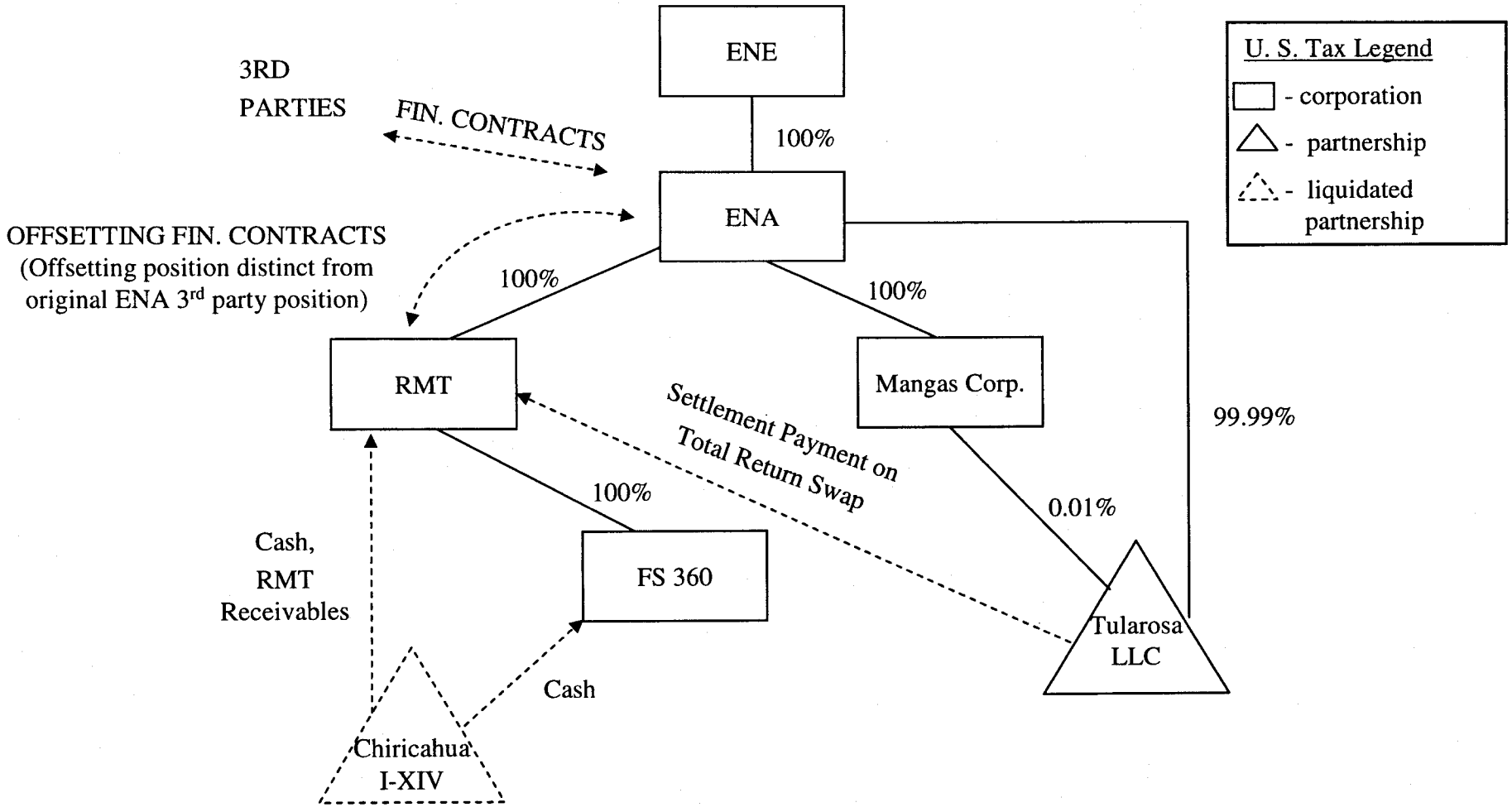
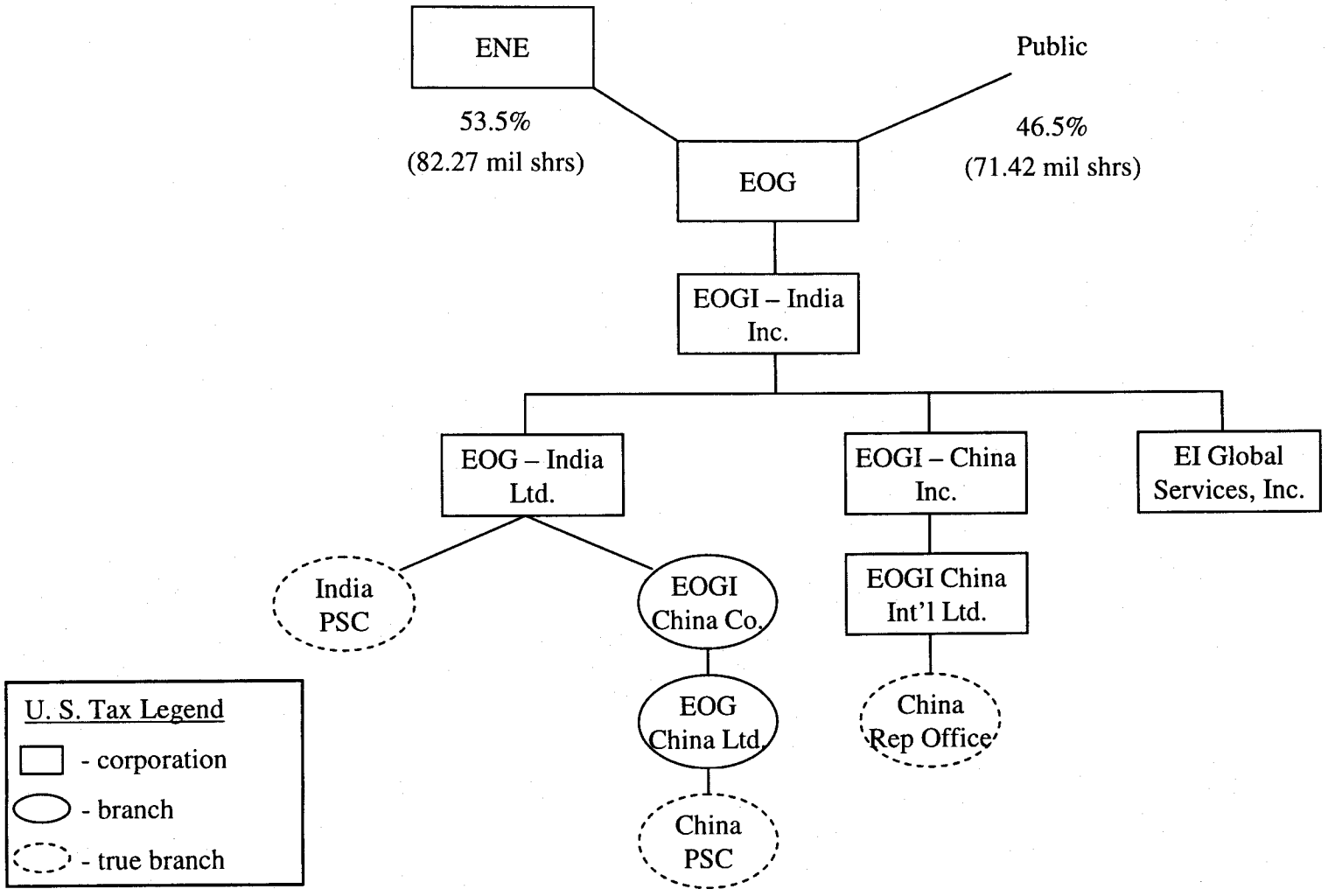
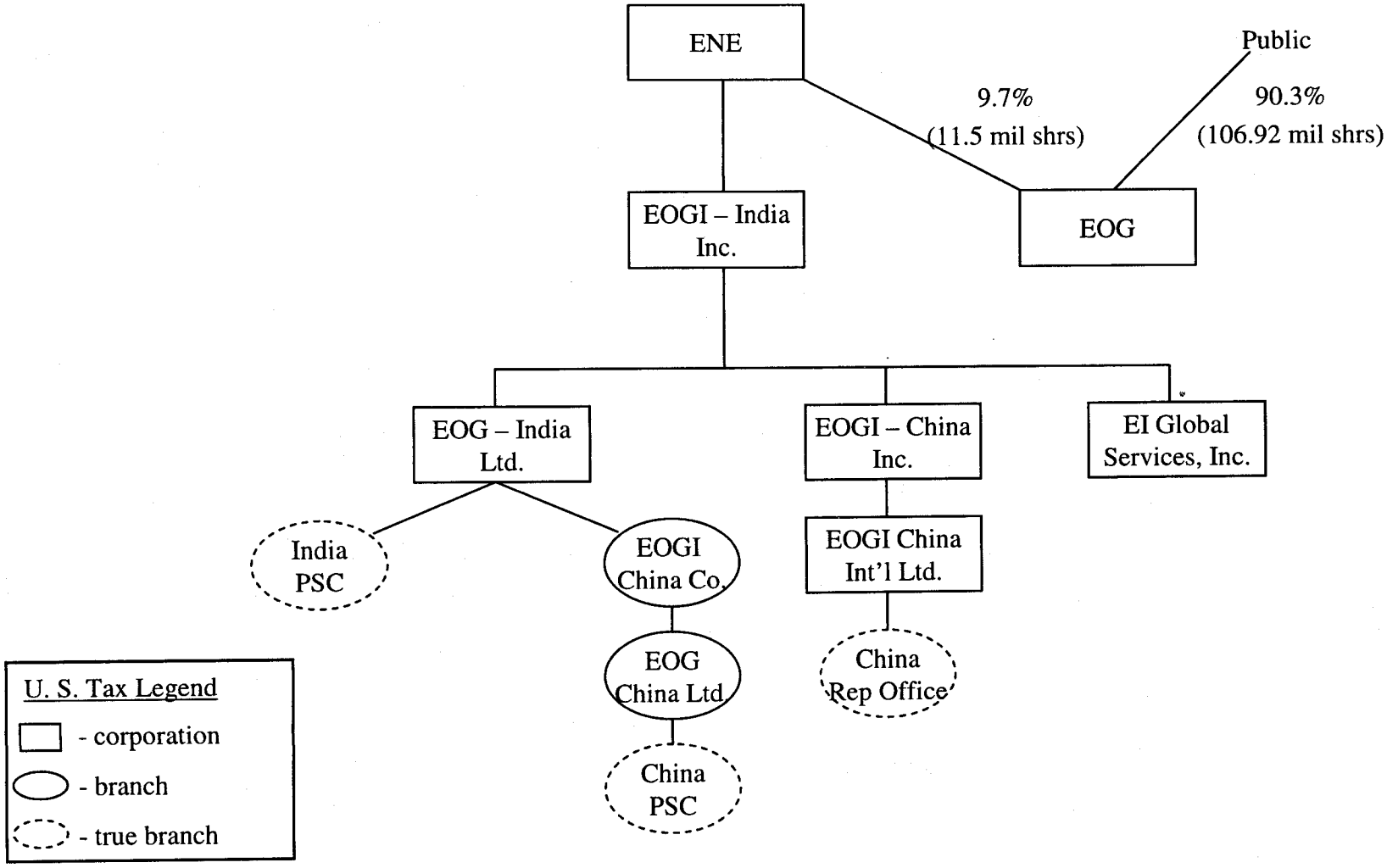
Project NOLy Unwind – December 2001



EOG Split-off
U. S. Tax Structure Immediately before the Share Exchange Closing



EOG Split-off
U. S. Tax Structure after the Share Exchange and EOG Stock Offering



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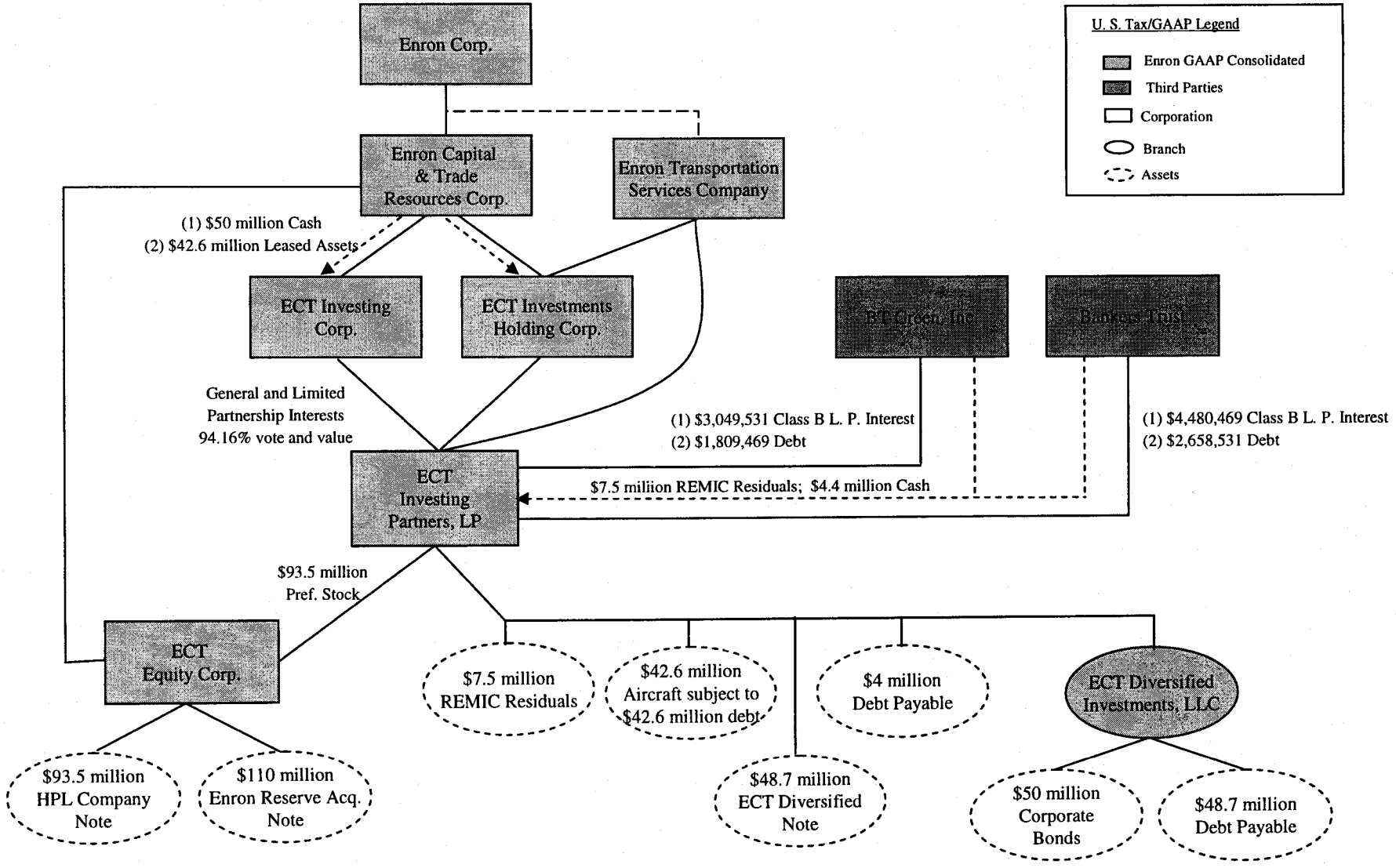
Project Steele
Structure as of October 31, 1997



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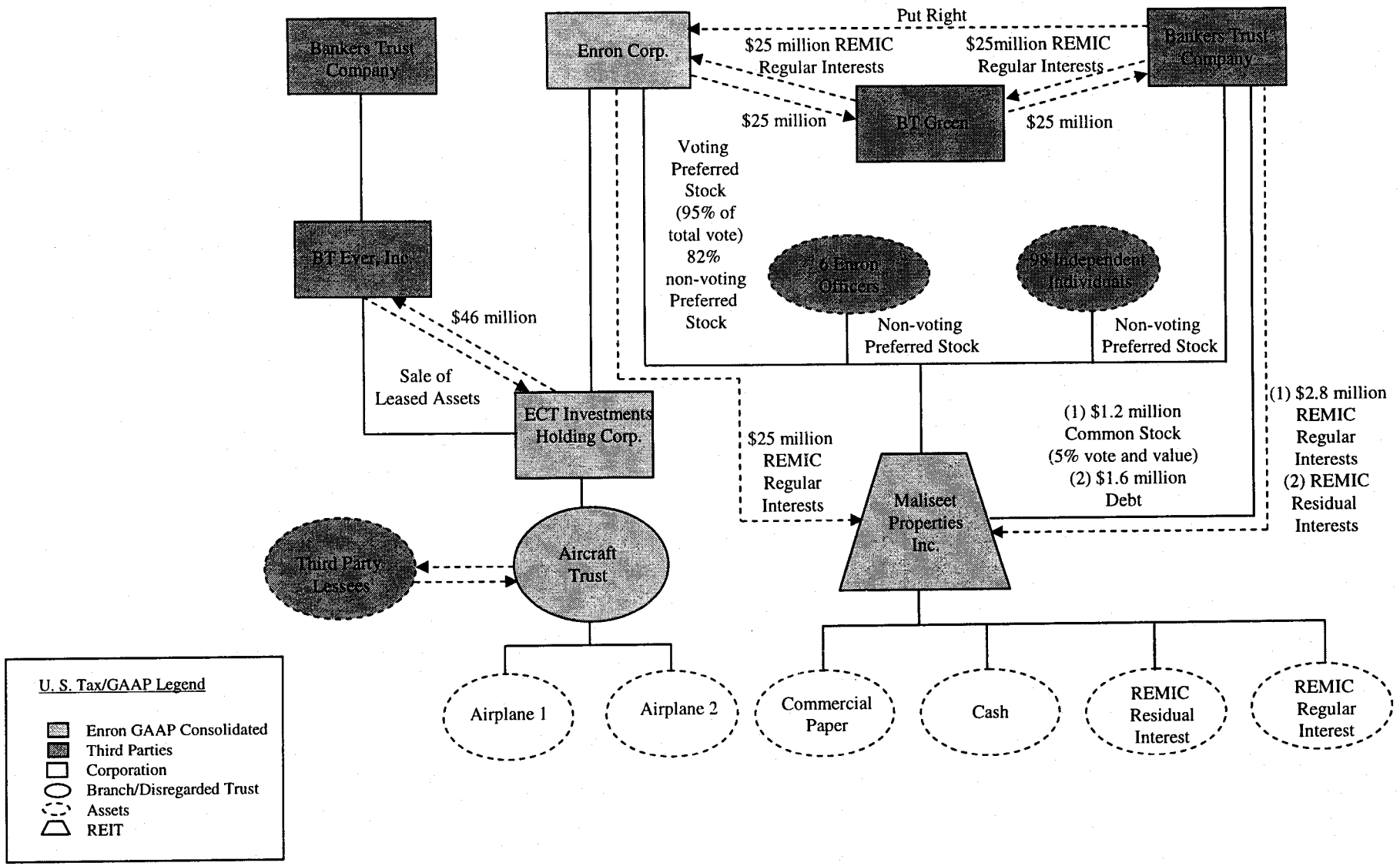
Project Cochise
Structure as of January 1999



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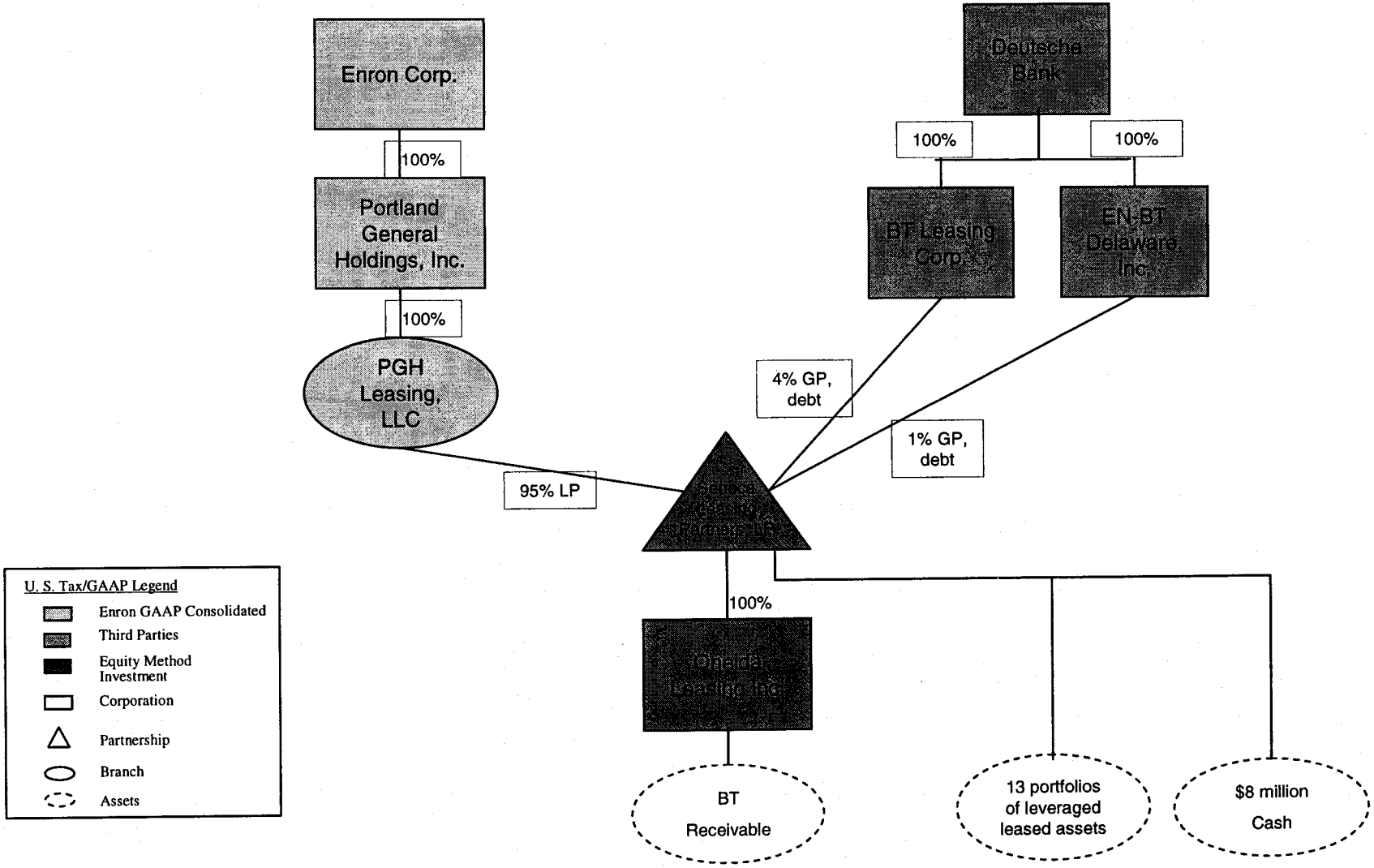
Project Tomas
Structure as of September 30, 1998



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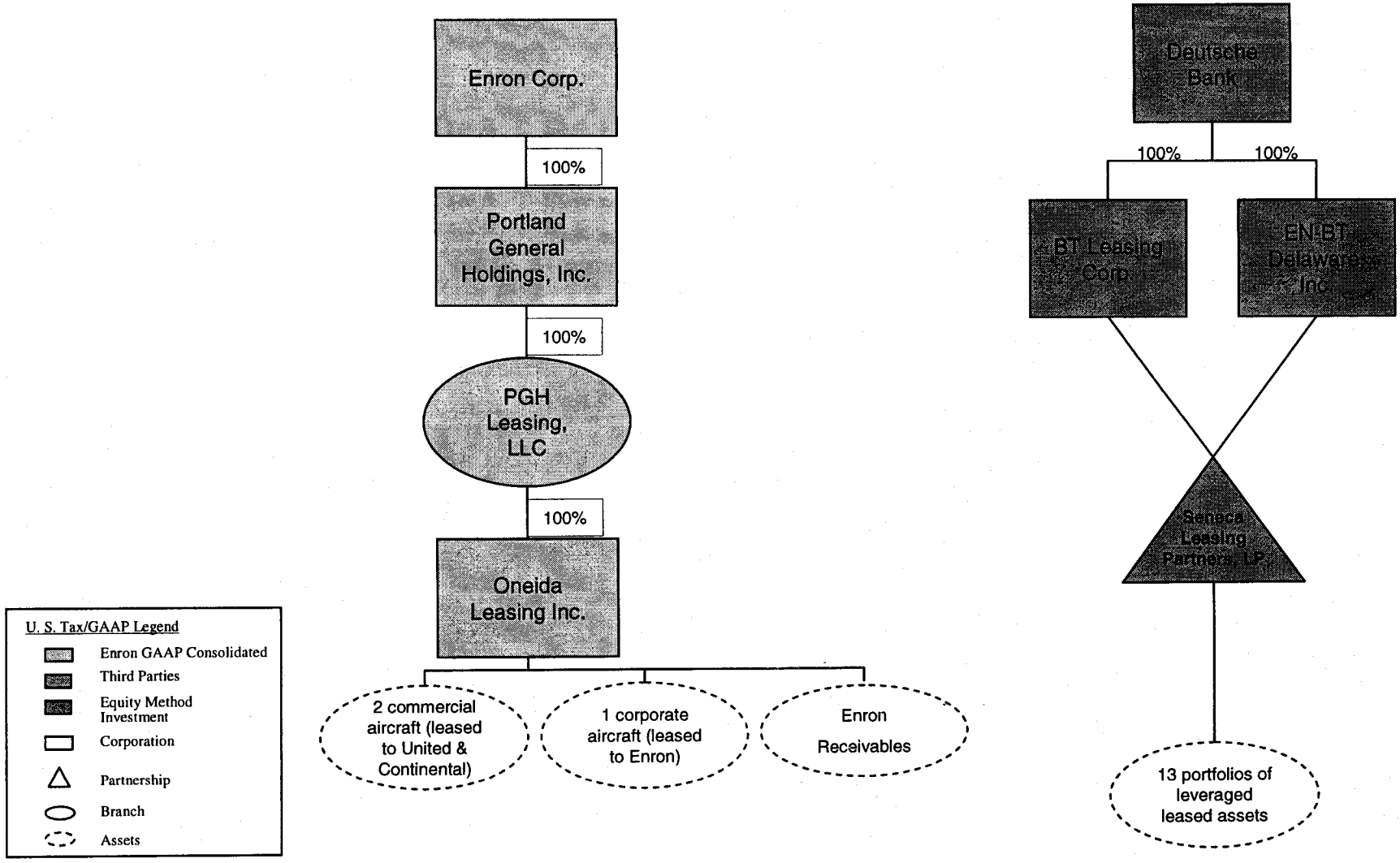
Project Tomas
Structure as of December 31, 2001



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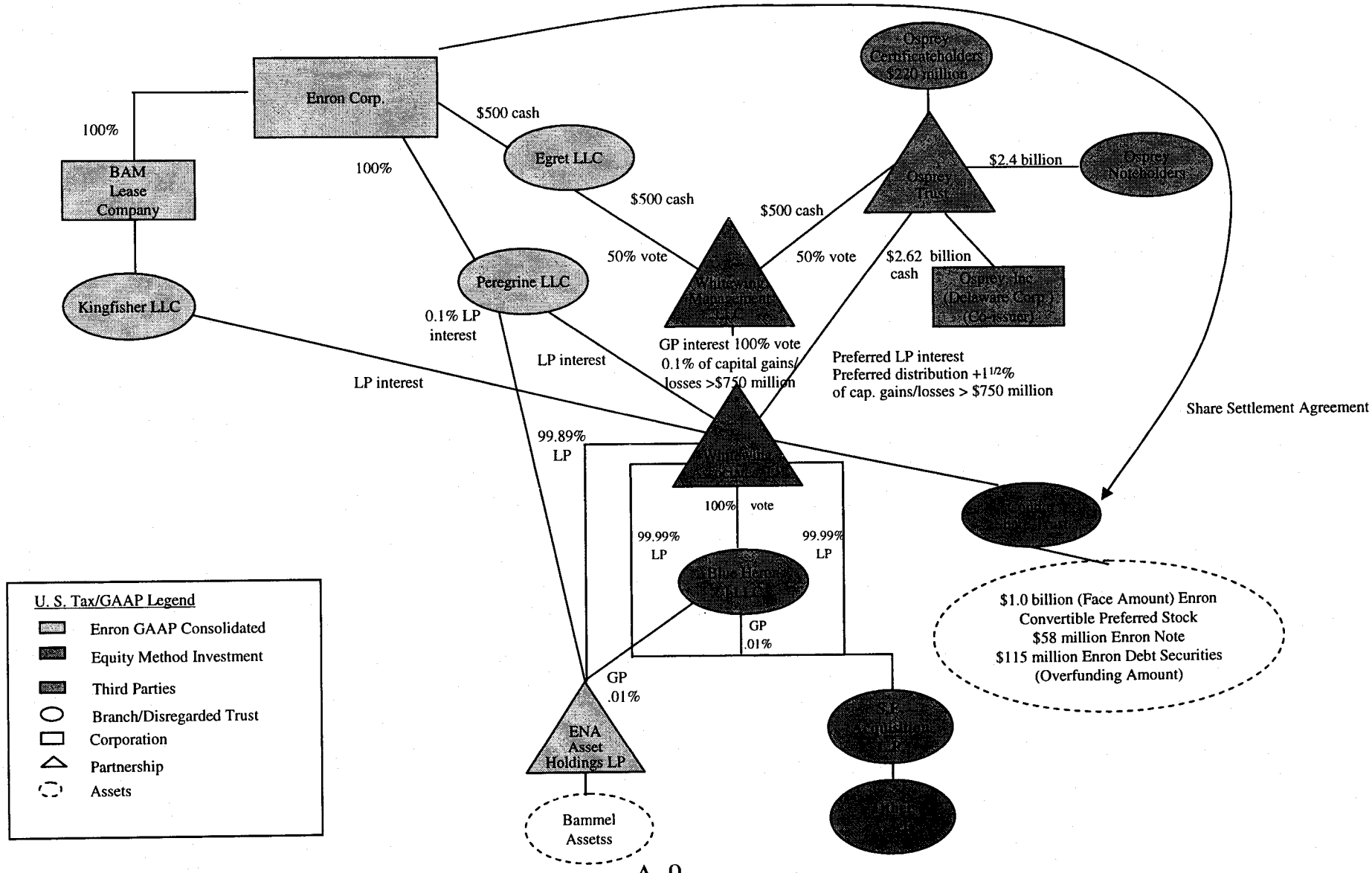
Project Condor
Structure as of December 31, 2001



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Project Teresa
Structure as of December 2001

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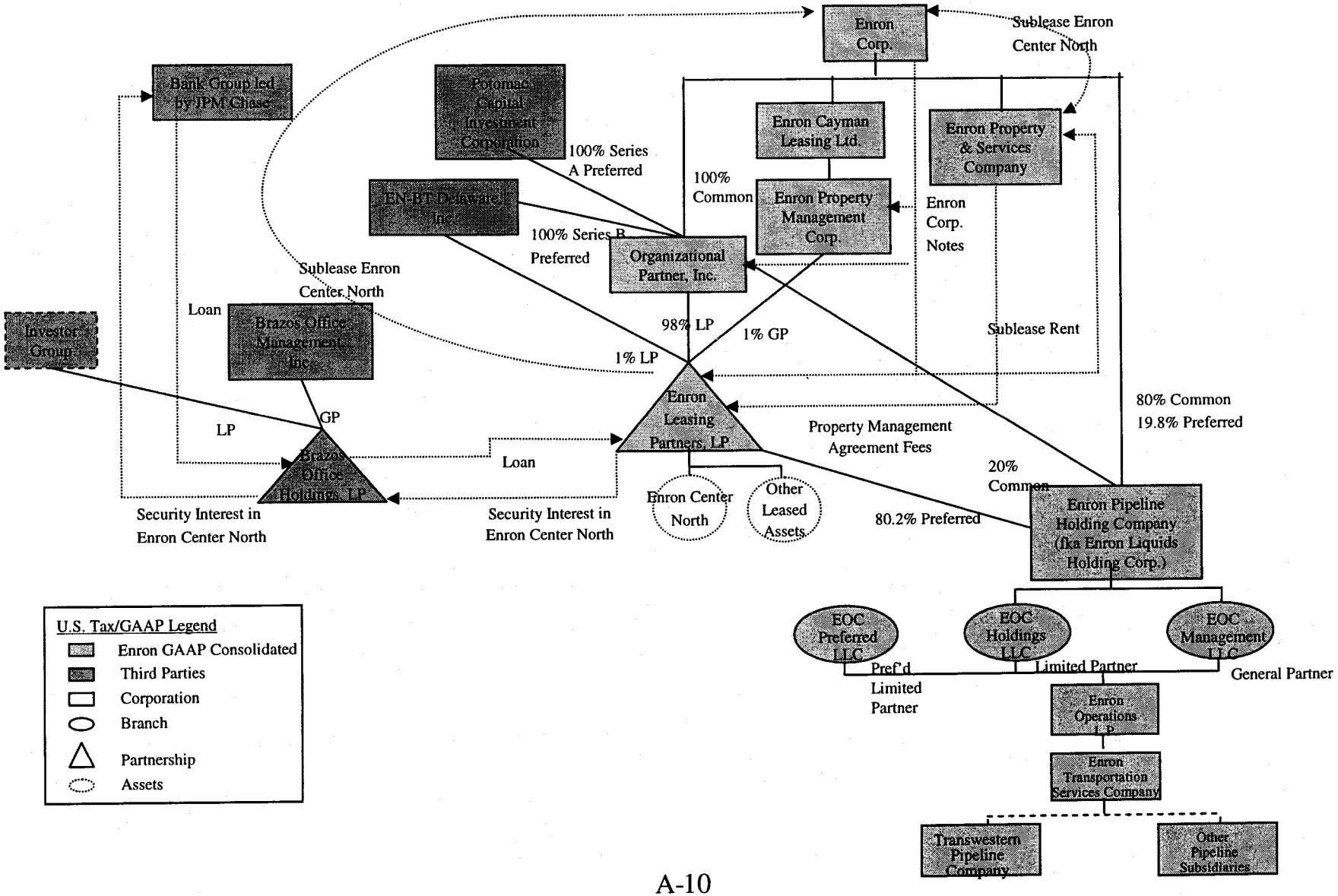

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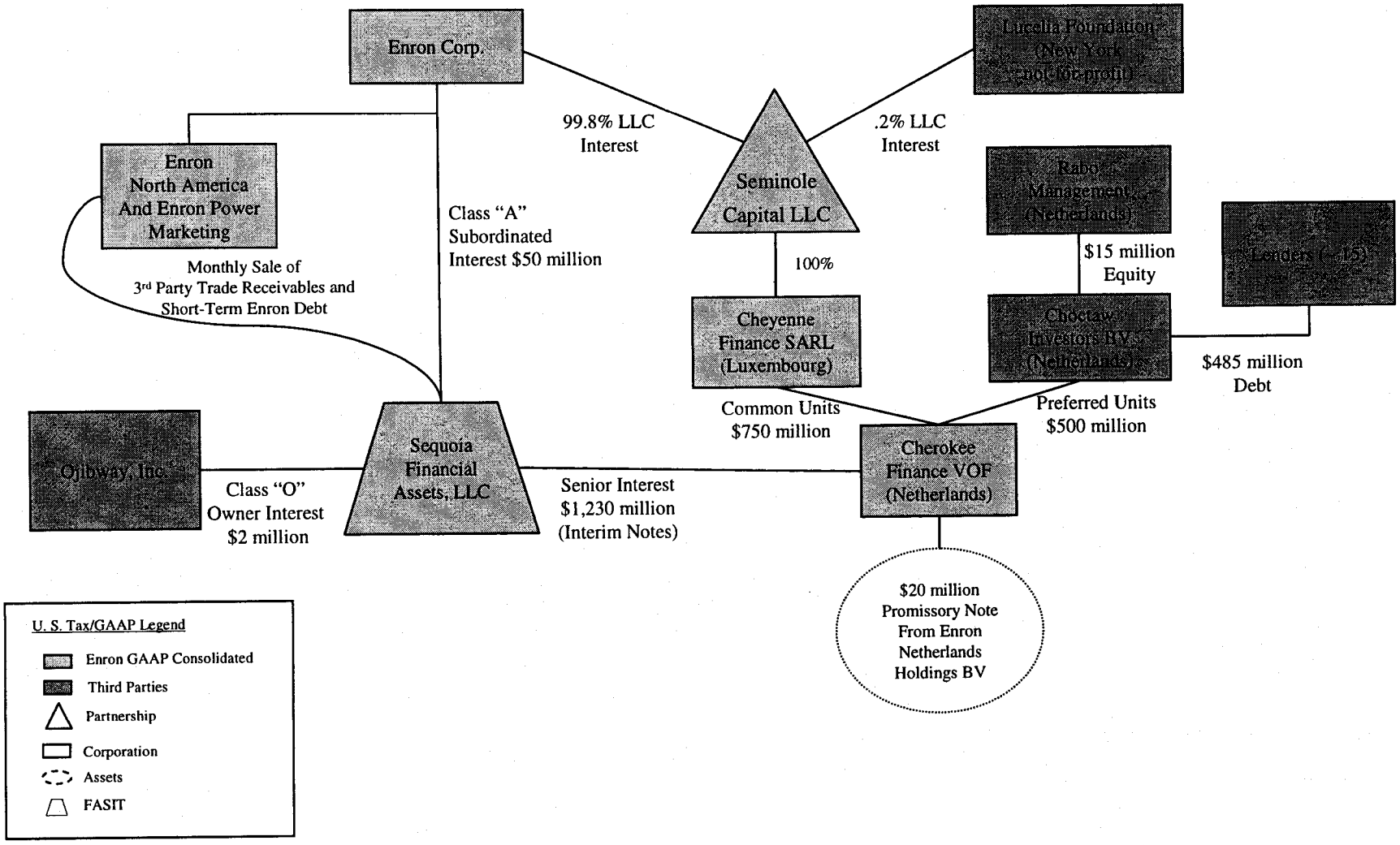
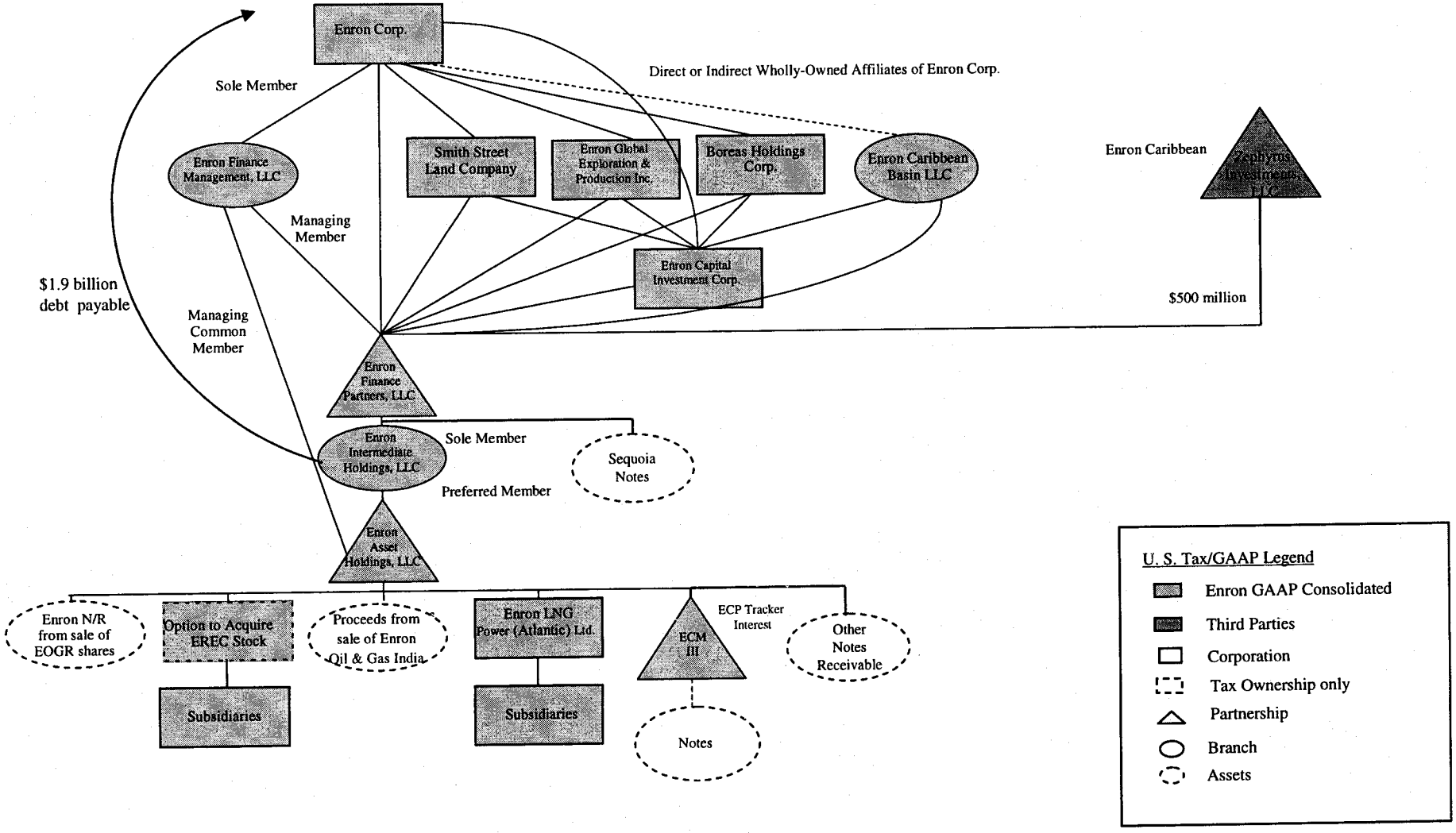
Project Apache
Structure as of May 28, 1999



Project Tammy I
Structure as of December 2001



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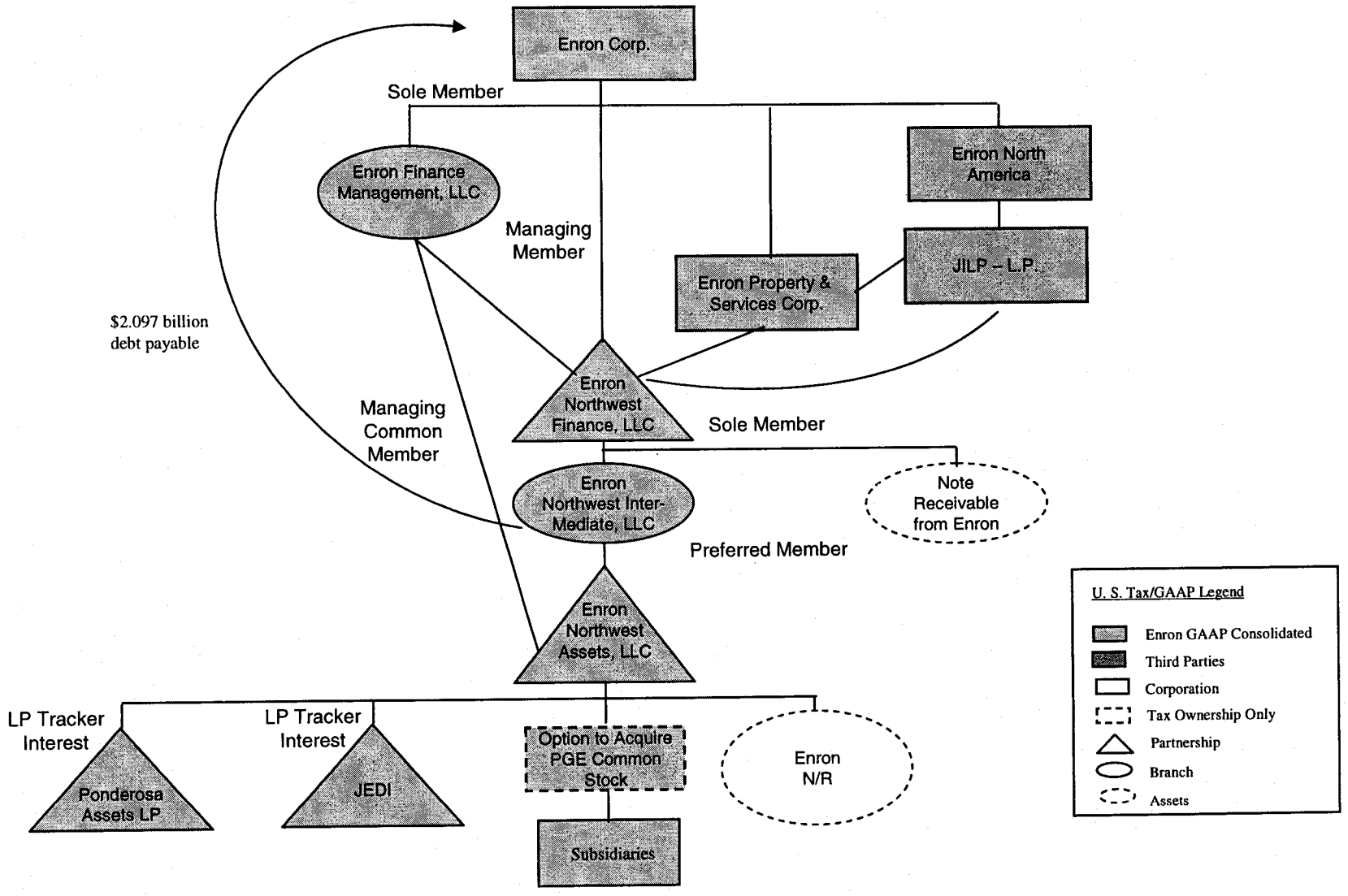
Project Tammy II
Structure as of December 2001



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Project Renegade
Structure as of December 29, 1998

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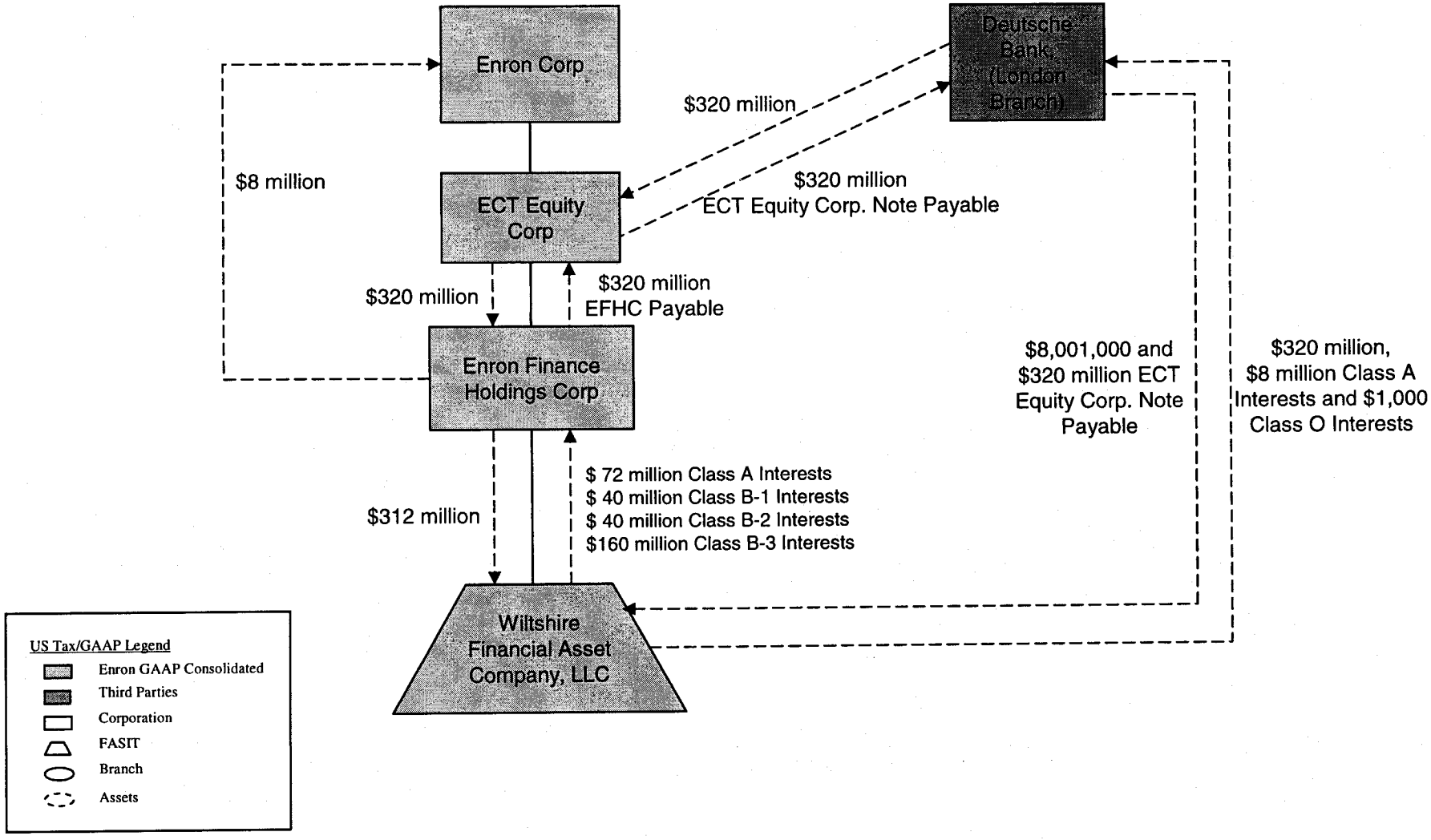
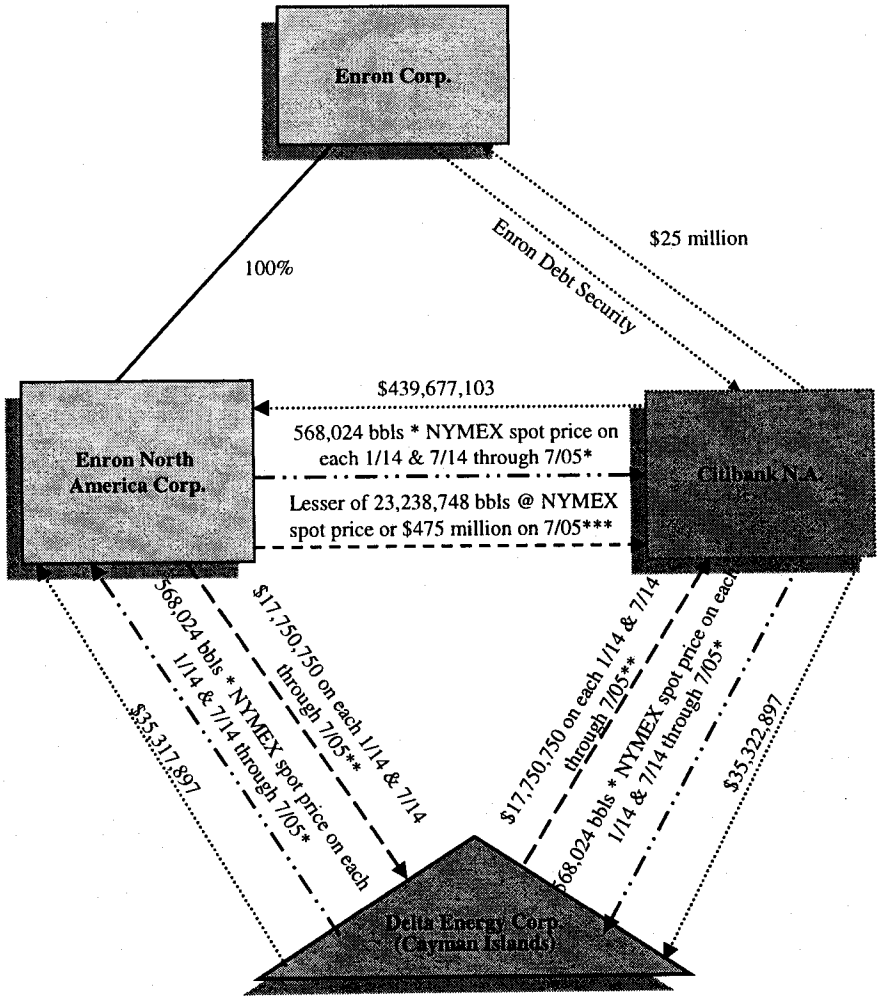


ENA $475 Million Prepay Transaction
August 25, 2000
(Partial Diagram)



U.S. GAAP/Tax Legend

- Enron GAAP Consolidated
- Third Parties
- Corporation
- Partnership

Prepay Legend

- **Initial Payments**
- **Periodic Floating Payments**
- **Periodic Fixed Payments**
- **Final Payment**

*As a result of the 8/25 closing date, the notional amount for the first periodic floating payment was 533,312 bbls

**As a result of the 8/25 closing date, the the first periodic fixed payment was $16,665,982

***Any shortfall below $475 million on the final payment to Citibank is made up through a final payment on the ENA/Delta Swap and Delta/Citibank Swap.

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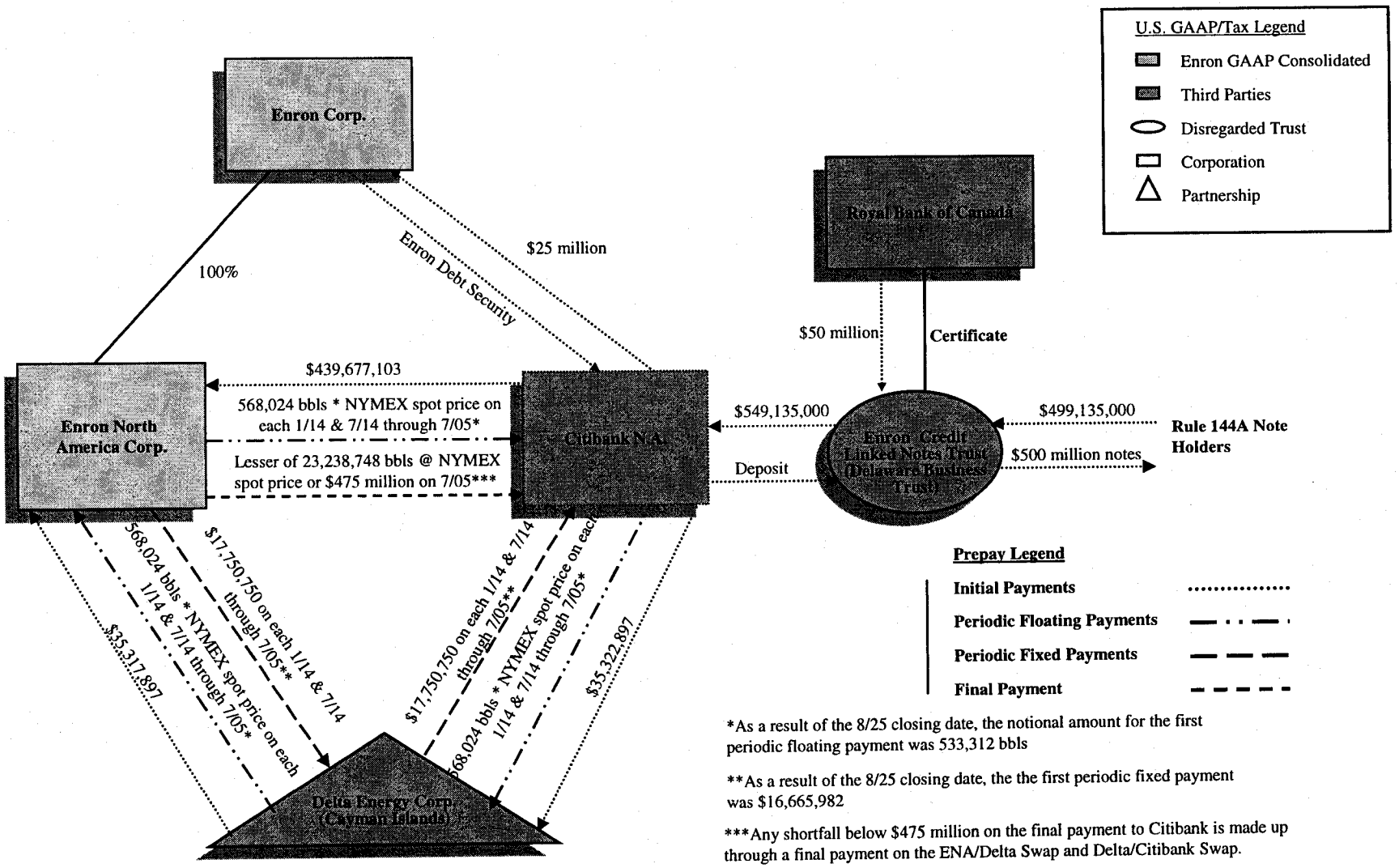
ENA $475 Million Prepay Transaction
August 25, 2000



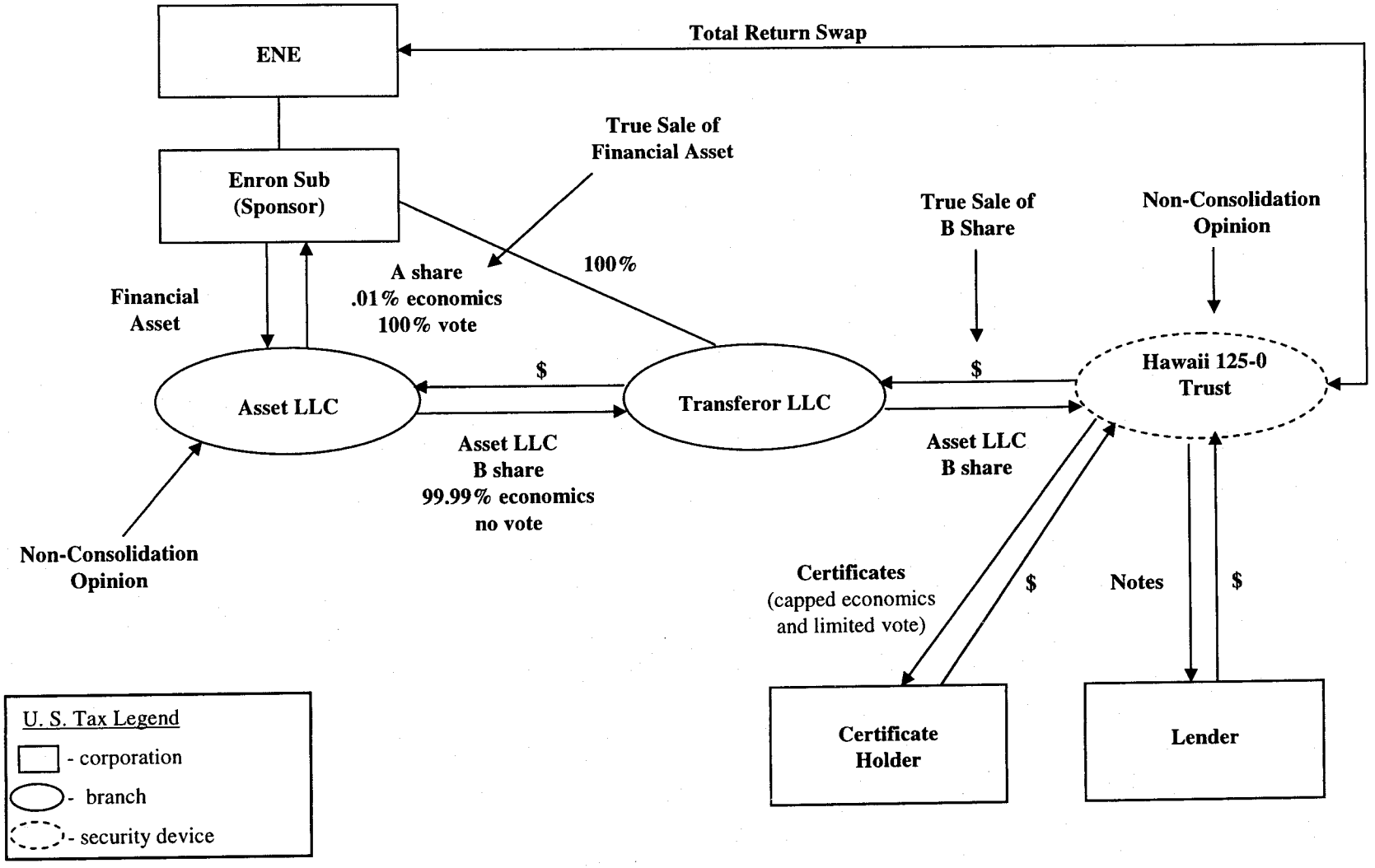
*As a result of the 8/25 closing date, the notional amount for the first periodic floating payment was 533,312 bbls

**As a result of the 8/25 closing date, the the first periodic fixed payment was $16,665,982

***Any shortfall below $475 million on the final payment to Citibank is made up through a final payment on the ENA/Delta Swap and Delta/Citibank Swap.

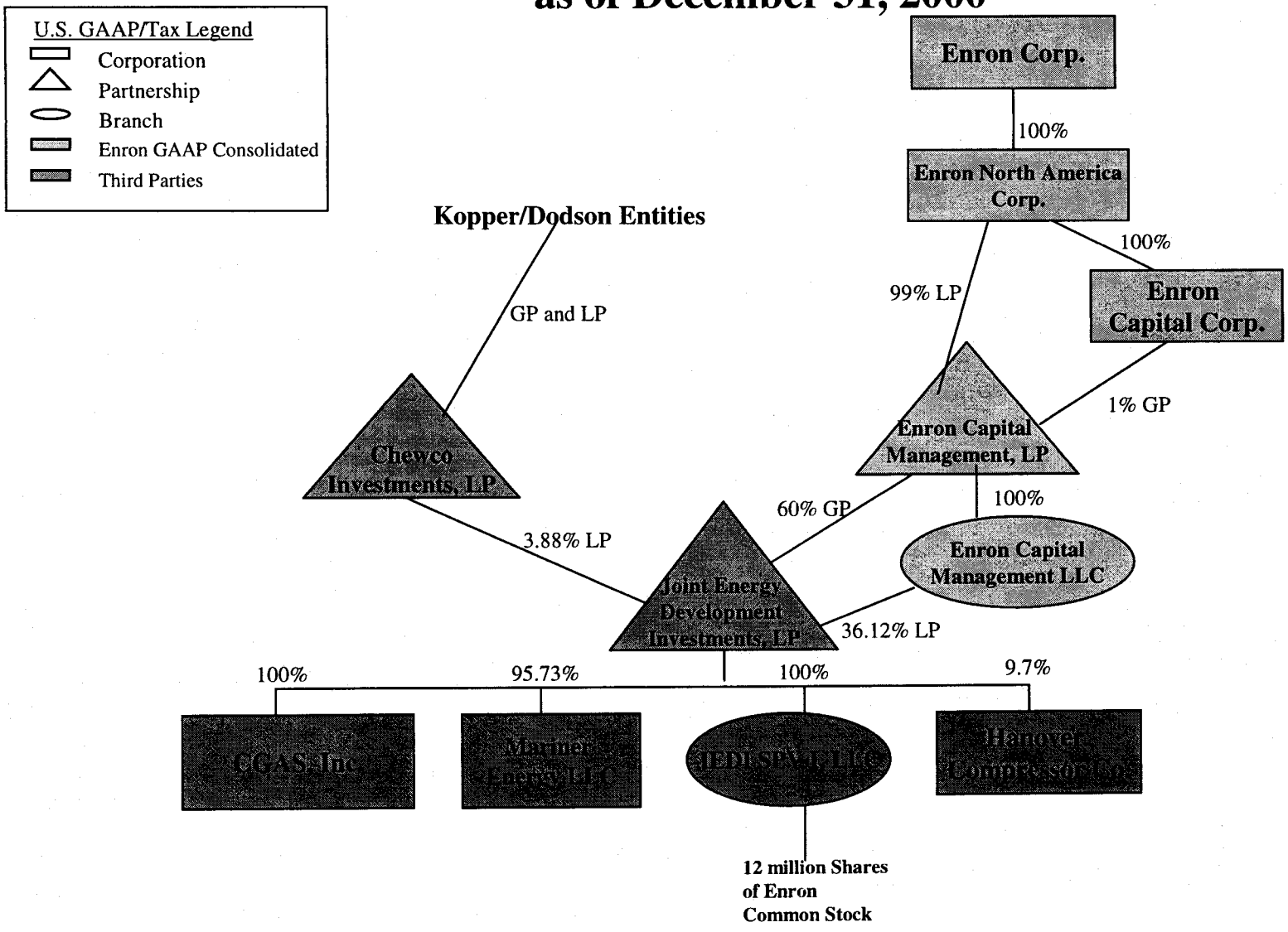
Confidential

Hawaii 125-0 Structure Diagram



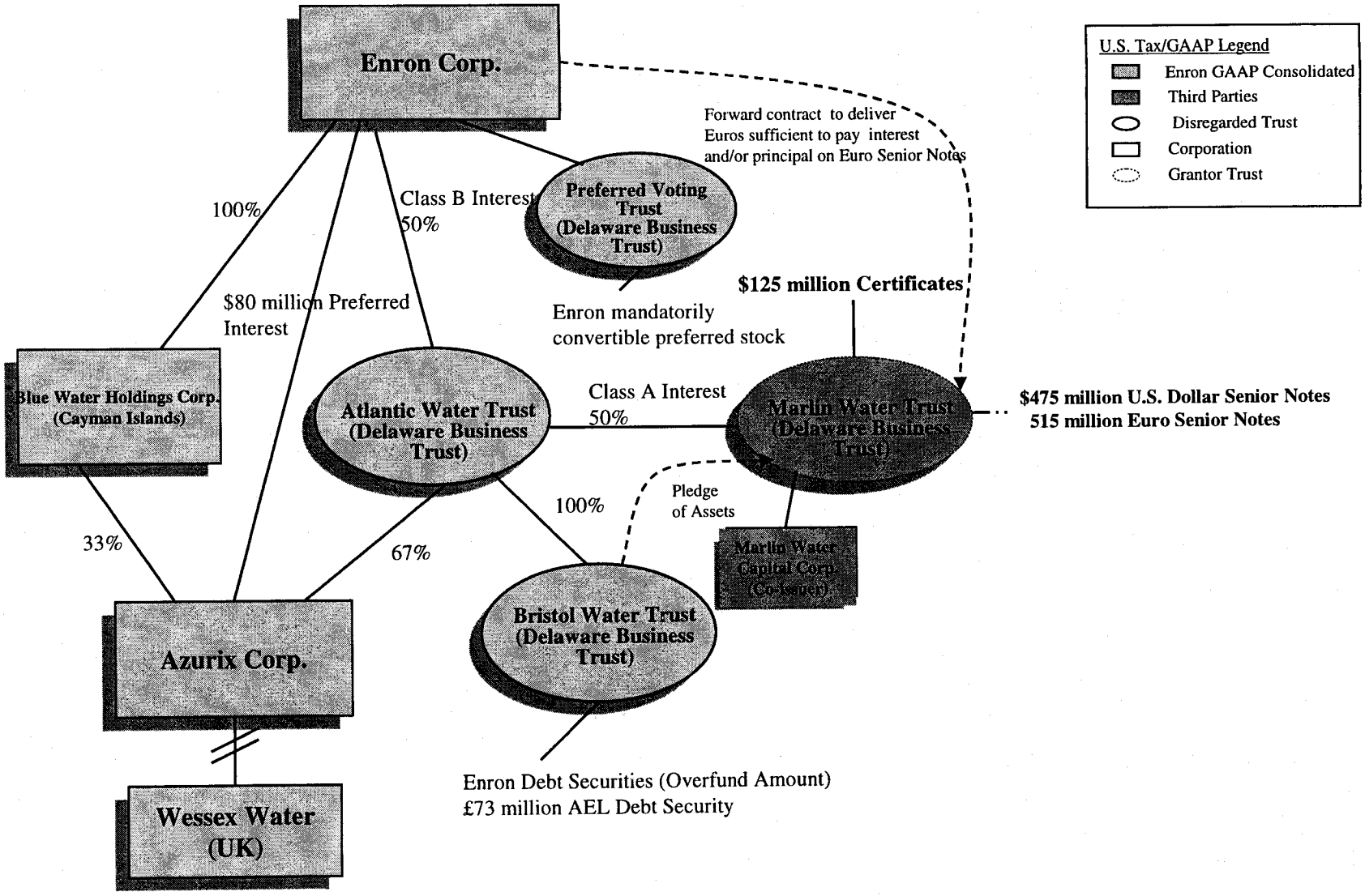
Confidential

JEDI I Ownership Structure as of December 31, 2000



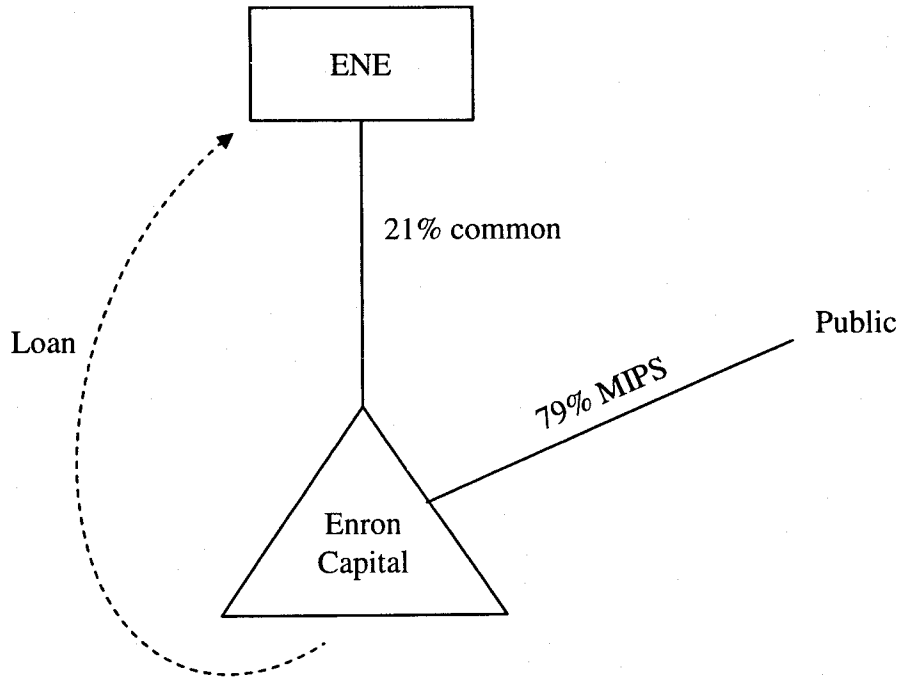
Project Marlin
Structure as of December 31, 2001

Confidential



B-91

MIPS Financing



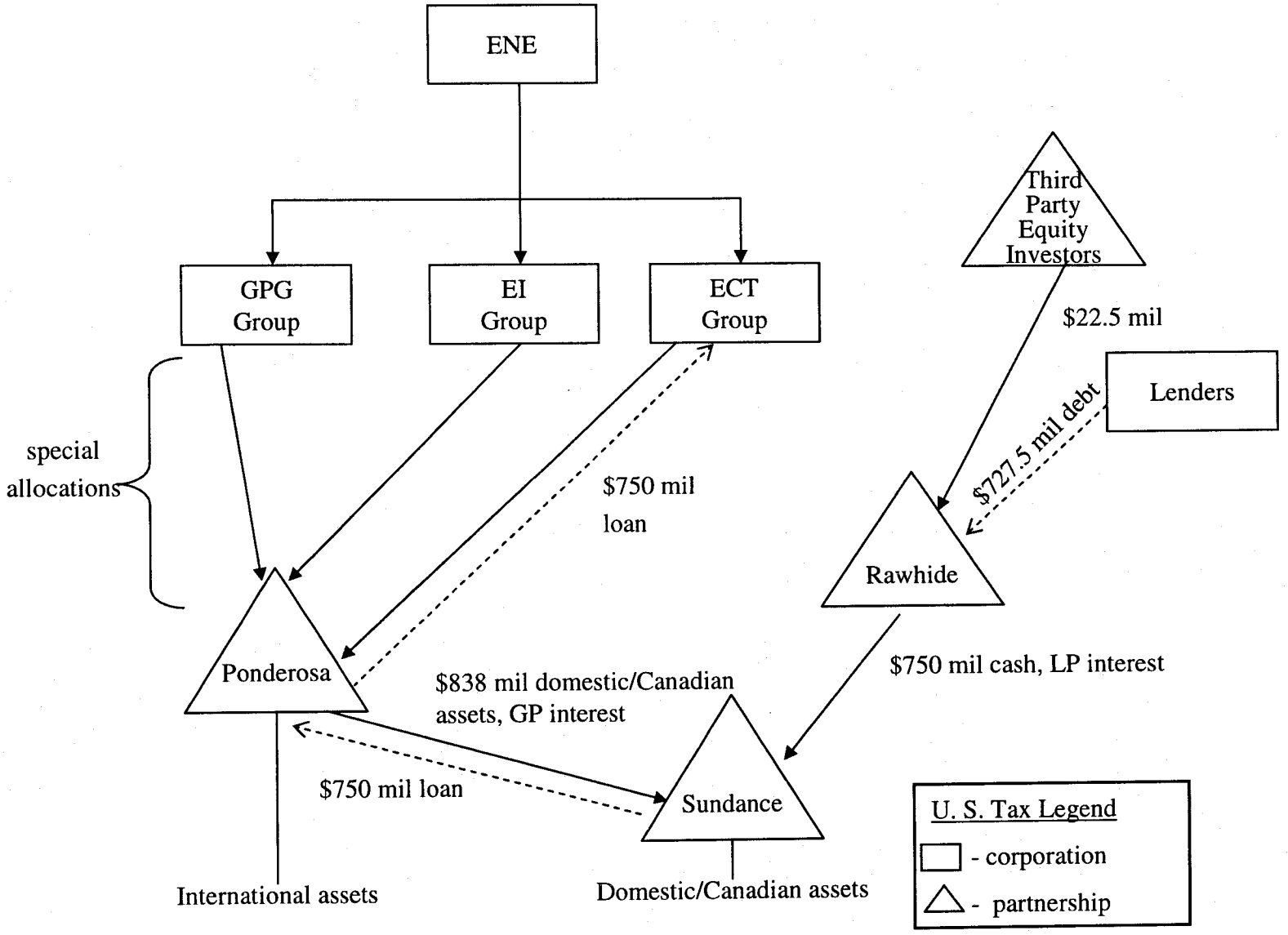
U. S. Tax Legend

- corporation

- partnership

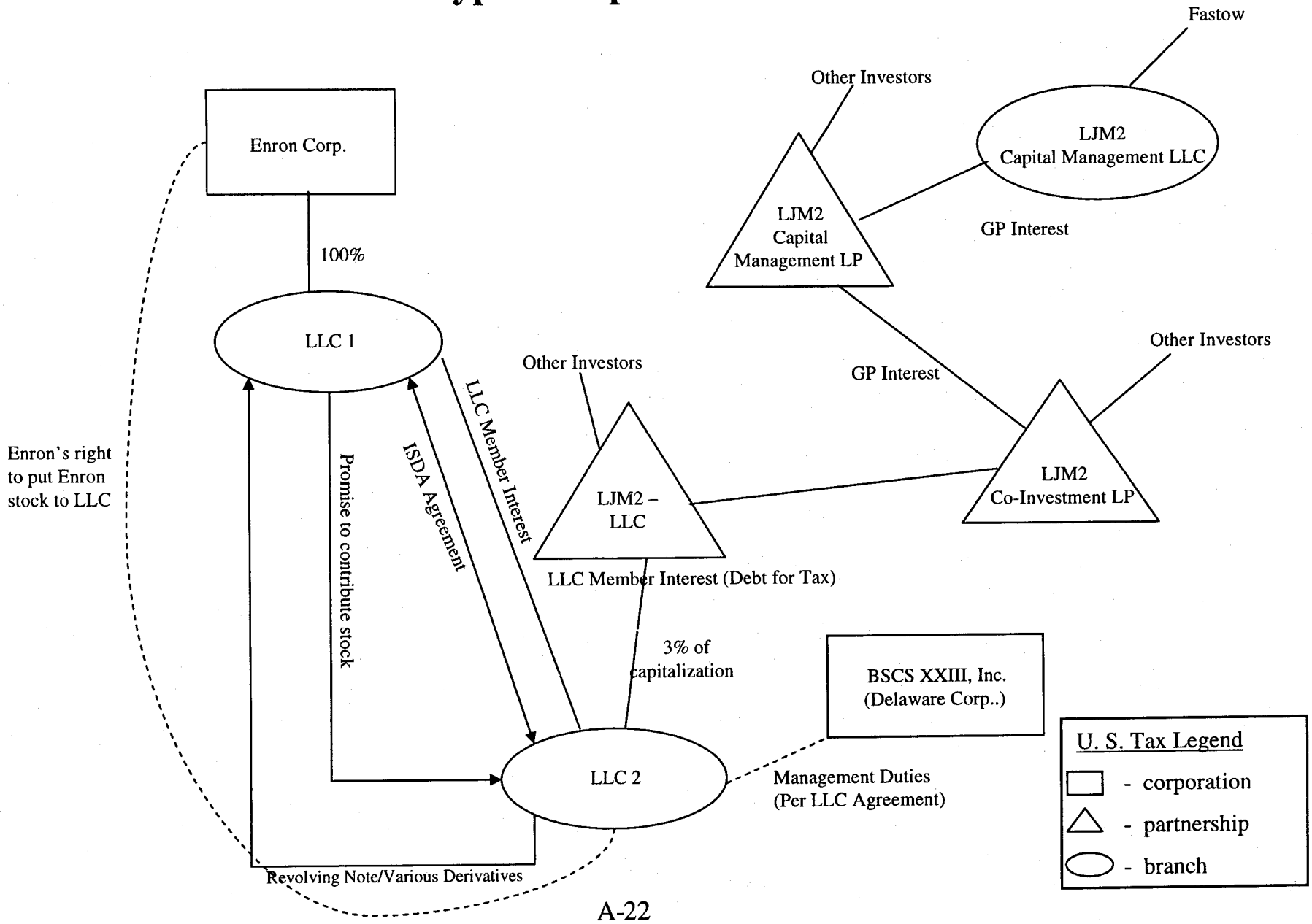
Project Rawhide Financing – December 1998

Confidential

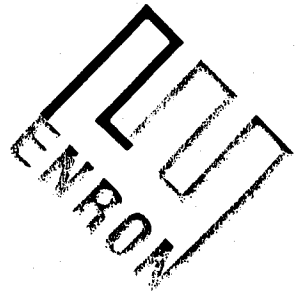


Typical Raptor Structure

Confidential



STRUCTURED TRANSACTIONS GROUP, SUMMARIES OF PROJECT EARNINGS AND CASH FLOWS, NOVEMBER 2001



Structured Transactions Group

Summaries of
Project Earnings &
Cash Flows

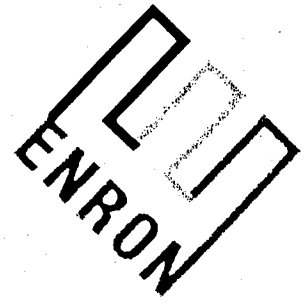
November 2001

Estimated Net Income by Project and Year Recognized (Thousands)

Project	*Tanya*	*Teresa*	*Steele*	*Renegade*	*Tomas*	*Cochise*	*Apache*	*Condor*	*Valhalla*	*Tammy I*	*Tammy II*	***Total***
1995	46,500	-	-	-	-	-	-	-	-	-	-	46,500
1996	-	-	-	-	-	-	-	-	-	-	-	-
1997	-	52,100	3,860	-	-	-	-	-	-	-	-	55,960
1998	-	26,000	14,800	800	55,993	-	-	-	-	-	-	97,593
1999	19,300	21,200	16,300	-	9,846	34,300	11,300	20,000	-	-	-	132,246
2000	-	120,100	15,700	-	51,290	53,000	20,600	37,100	7,381	(8,726)	-	296,445
2001	-	10,000	15,600	-	(4,049)	22,300	18,800	31,700	12,797	198,305	(926)	304,527
Subtotal	**65,800**	**229,400**	**66,260**	**800**	**113,080**	**109,600**	**50,700**	**88,800**	**20,178**	**189,579**	**(926)**	**933,271**
2002	-	-	11,207	-	(7,644)	17,600	20,000	26,367	12,797	100,889	74	181,290
2003	-	27,700	794	-	(3,020)	12,002	21,300	22,767	12,797	100,889	184,993	380,222
2004	-	-	712	-	(1,216)	3,998	22,700	20,666	12,797	14,930	184,994	259,581
2005	-	-	638	-	1,705	-	24,100	19,666	5,414	191	74	51,788
2006	-	-	571	-	2,997	-	28,200	18,071	-	-	-	49,839
2007	-	-	507	-	162	-	-	17,500	-	-	-	18,169
2008	-	-	459	-	167	-	-	17,500	-	-	-	18,126
2009	-	-	335	-	171	-	-	17,500	-	-	-	18,006
2010	-	-	294	-	6,441	-	-	17,500	-	-	-	24,235
2011	-	-	247	-	-	-	-	17,500	-	-	-	17,747
2012	-	-	211	-	-	-	-	17,500	-	-	-	17,711
2013	-	-	189	-	-	-	-	17,500	-	-	-	17,689
2014	-	-	169	-	-	-	-	8,700	-	-	-	8,869
2015	-	-	150	-	-	-	-	-	-	-	-	150
2016	-	-	133	-	-	-	-	-	-	-	-	133
2017	-	-	118	-	-	-	-	-	-	-	-	118
2018	-	-	104	-	-	-	-	-	-	-	-	104
2019	-	-	91	-	-	-	-	-	-	-	-	91
2020	-	-	79	-	-	-	-	-	-	-	-	79
2021	-	-	68	-	-	-	-	-	-	-	-	68
2022	-	-	54	-	-	-	-	-	-	-	-	54
2023	-	-	31	-	-	-	-	-	-	-	-	31
2024+	-	-	2	-	-	-	-	-	-	-	-	2
Subtotal	**-**	**27,700**	**17,163**	**-**	**(237)**	**33,600**	**116,300**	**238,737**	**43,805**	**216,899**	**370,135**	**1,064,102**
Total	**65,800**	**257,100**	**83,423**	**800**	**112,843**	**143,200**	**167,000**	**327,537**	**63,983**	**406,477**	**369,209**	**1,997,372**

Estimated Current Tax Benefit Detail by Project and Year (Thousands)

Project	*Tanya*	*Teresa*	*Steele*	*Renegade*	*Tomas*	*Cochise*	*Apache*	*Condor*	*Valhalla*	*Tammy I*	*Tammy II*	**Total**
1995	65,800	-	-	-	-	-	-	-	-	-	-	65,800
1996	-	-	-	-	-	-	-	-	-	-	-	-
1997	-	(14,469)	1,284	-		-	-	-	-	-	-	(13,186)
1998	-	(10,544)	6,552	-	64,156	-	-	-	-	-	-	60,163
1999	-	(9,535)	15,209	-	-	-	11,331	-	-	-	-	17,005
2000	-	(37,766)	4,049	-	44,922	-	20,591	-	-	-	-	31,795
2001	-	(3,210)	4,299	-	-	-	18,800	-	-	-	-	19,889
Subtotal	**65,800**	**(75,525)**	**31,392**	**-**	**109,078**	**-**	**50,722**	**-**	**-**	**-**	**-**	**181,467**
2002	-	(9,369)	5,248	-	-	-	20,000	-	-	-	-	15,878
2003	-	8,663	5,131	-	-	-	21,300	-	-	-	-	35,093
2004	-	8,663	4,870	-	-	-	22,700	-	-	-	-	36,232
2005	-	8,663	4,854	-	-	(764)	24,100	-	-	-	-	36,852
2006	-	8,663	4,560	-	-	7,351	28,200	-	-	-	-	48,774
2007	-	8,663	4,257	-	-	15,425	-	-	-	10,190	9,102	47,635
2008	-	8,663	4,264	-	-	13,459	-	-	-	10,616	9,483	46,484
2009	-	8,663	3,897	-	-	13,899	-	-	-	10,616	9,483	46,558
2010	-	8,663	3,108	-	-	14,616	-	-	-	10,616	9,483	46,486
2011	-	8,663	2,133	-	-	13,685	-	-	-	10,616	9,483	44,579
2012	-	8,663	1,467	-	-	12,392	-	-	-	10,616	9,483	42,620
2013	-	8,663	1,056	-	-	10,843	-	-	-	10,616	9,483	40,660
2014	-	8,663	261	-	-	9,367	-	-	-	10,616	9,483	38,389
2015	-	8,663	80	-	-	8,530	-	20,051	-	10,616	9,483	57,422
2016	-	8,663	53	-	-	7,489	-	37,119	-	10,616	9,483	73,423
2017	-	8,663	41	-	-	4,468	-	31,736	-	10,616	9,483	65,006
2018	-	8,663	21	-	-	3,215	-	27,383	-	10,616	9,483	59,381
2019	-	8,663	14	-	-	2,293	-	23,796	-	10,616	9,483	54,865
2020	-	8,663	5	-	-	1,781	-	21,720	-	10,616	9,483	52,267
2021	-	8,663	(3)	-	-	1,529	-	20,747	-	10,616	9,483	51,034
2022	-	8,663	(1,516)	-	-	979	-	19,105	-	10,616	9,483	47,330
2023	-	8,663	(6)	-	-	402	-	17,497	-	10,616	9,483	46,654
2024+	-	164,588	2,586	-	-	(411)	-	113,627	-	233,996	209,014	723,399
Subtotal	**-**	**337,131**	**46,380**	**-**	**-**	**140,548**	**116,300**	**332,781**	**-**	**414,042**	**369,839**	**1,757,020**
Total	**65,800**	**261,606**	**77,772**	**-**	**109,078**	**140,548**	**167,022**	**332,781**	**-**	**414,042**	**369,839**	**1,938,487**



Structured Transactions Group
Business Review

October 2001

Structured Transactions Group

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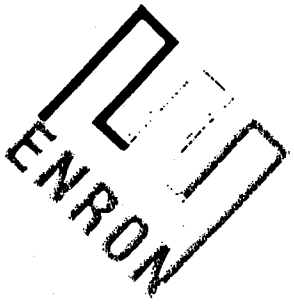


Structured Transactions Group
Overview

Introduction

- Boutique Group. The Structured Transactions Group is patterned after similar groups established by various financial institutions and a select group of corporations (e.g., Citibank, BOA, Chase, Deutsche Bank, GE, AIG, Microsoft and Merck).

- Focus. The group originates transactions utilizing the tax attributes of Enron Corp. and its counterparties and operates the resulting structures.

- Capabilities. The group synthesizes tax, finance, legal and accounting principles to enhance returns in the context of Enron's commercial transactions. Successful implementation of transactions depends upon sound technical analysis and effective communication across business units. We successfully plan, implement and operate our structures by creating sophisticated models and utilizing Enron's diverse I.T., accounting and tax systems.

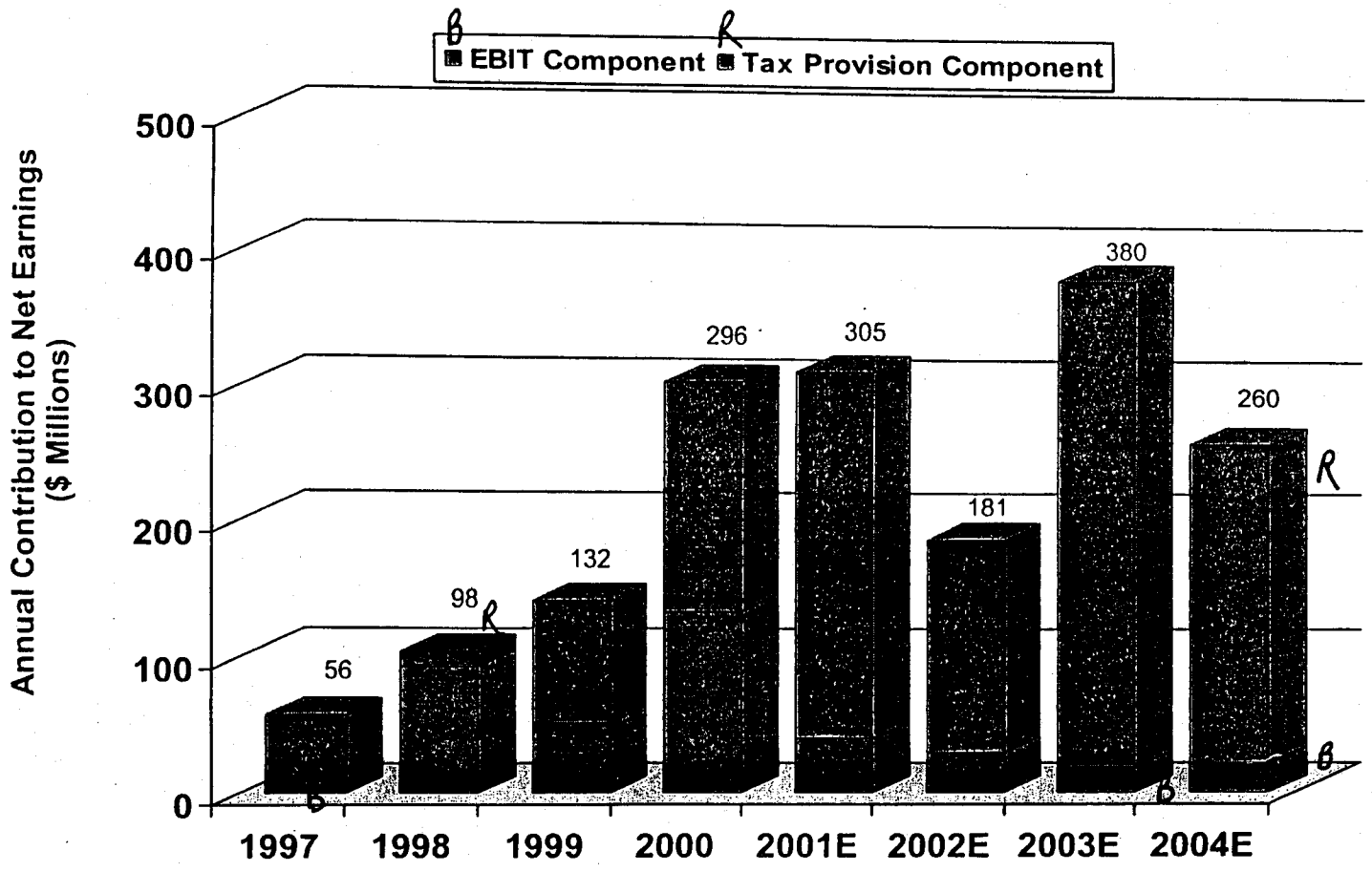
- Risk Management. The group manages risk through diligence and care in:

    - Selecting transactions to pursue
    - Engaging appropriate professional staff
    - Diversifying the portfolio of structures
    - Sizing transactions reasonably
    - Avoiding widely-marketed structures
    - Refraining from replicating existing structures
    - Managing and controlling information strictly
    - Maintaining the ability to act (and react) quickly

- Personnel. The group consists of fourteen individuals responsible for the front and back office aspects of each deal. Seven group members are CPAs, four are attorneys, four are MBAs and four have masters degrees in finance, accounting or tax.

- Recent Activities. In the first half of 2001, the group initiated three new projects, significantly modified one structure and operated nine existing structures.

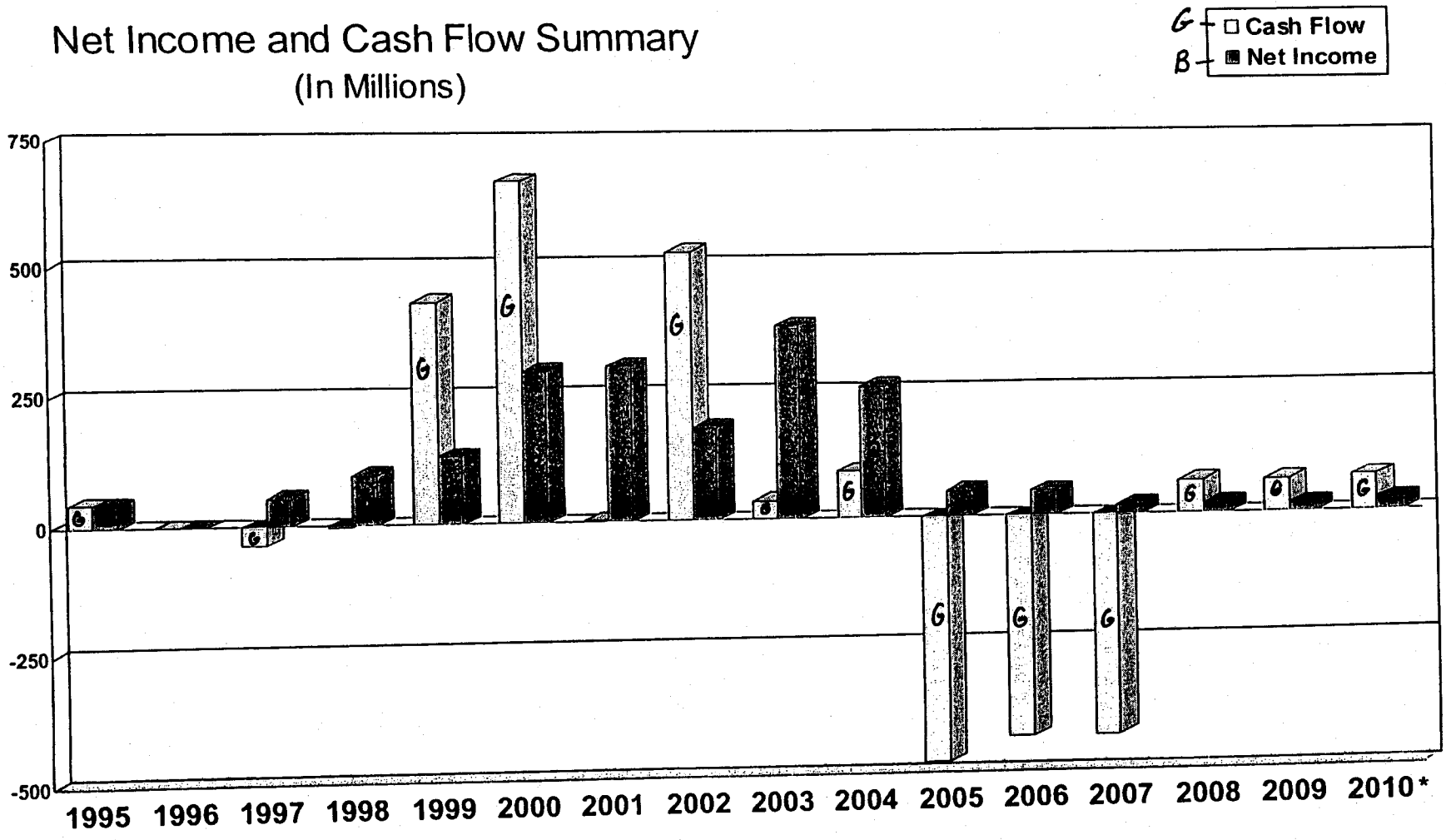
Contribution to Enron's Annual Net Income (millions)



NOTE: The tax provision component reflects tax benefits generated by structured transactions, less tax expenses generated by the EBIT component of structured transactions.

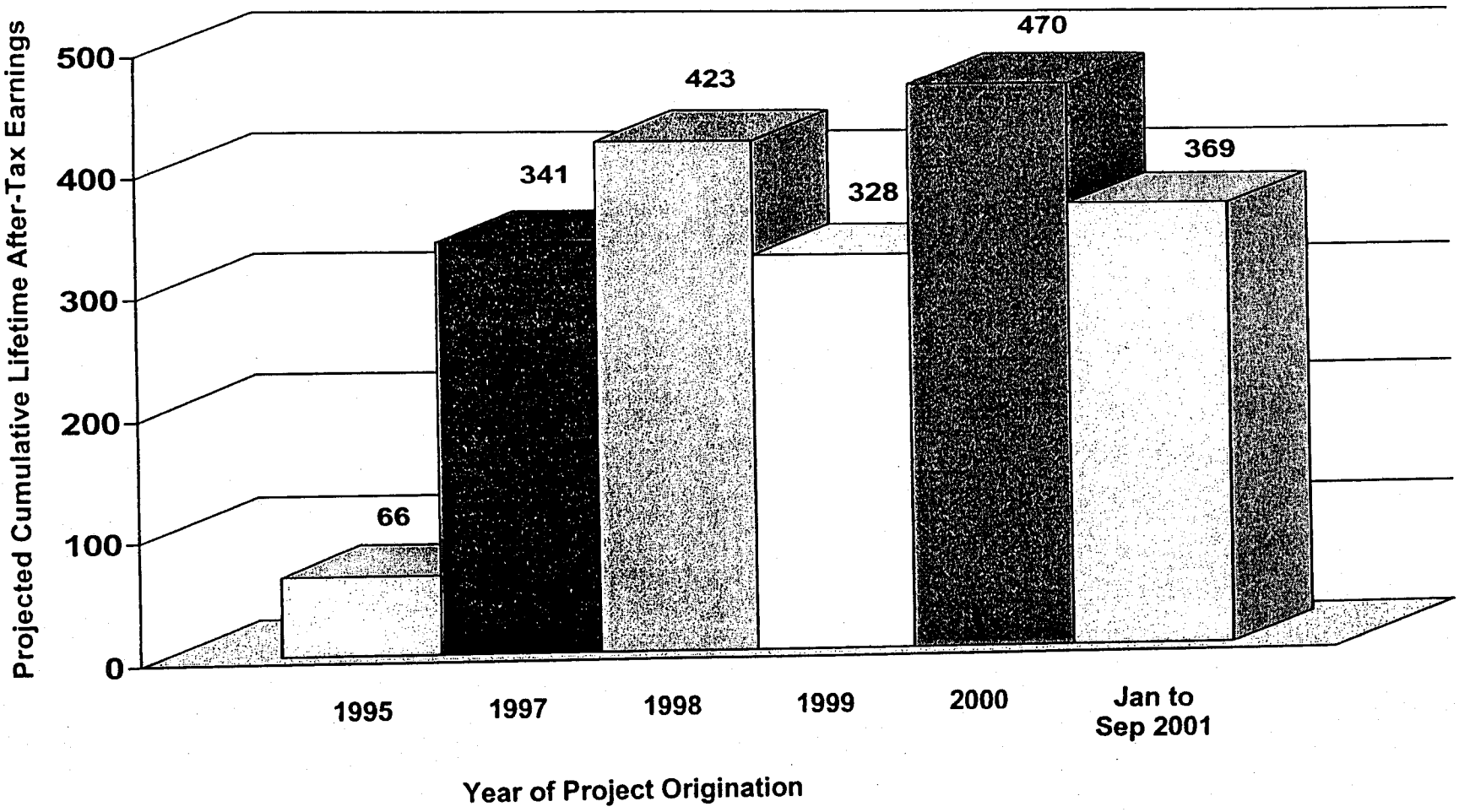
Structure Overview - Aggregate

Net Income and Cash Flow Summary
(In Millions)

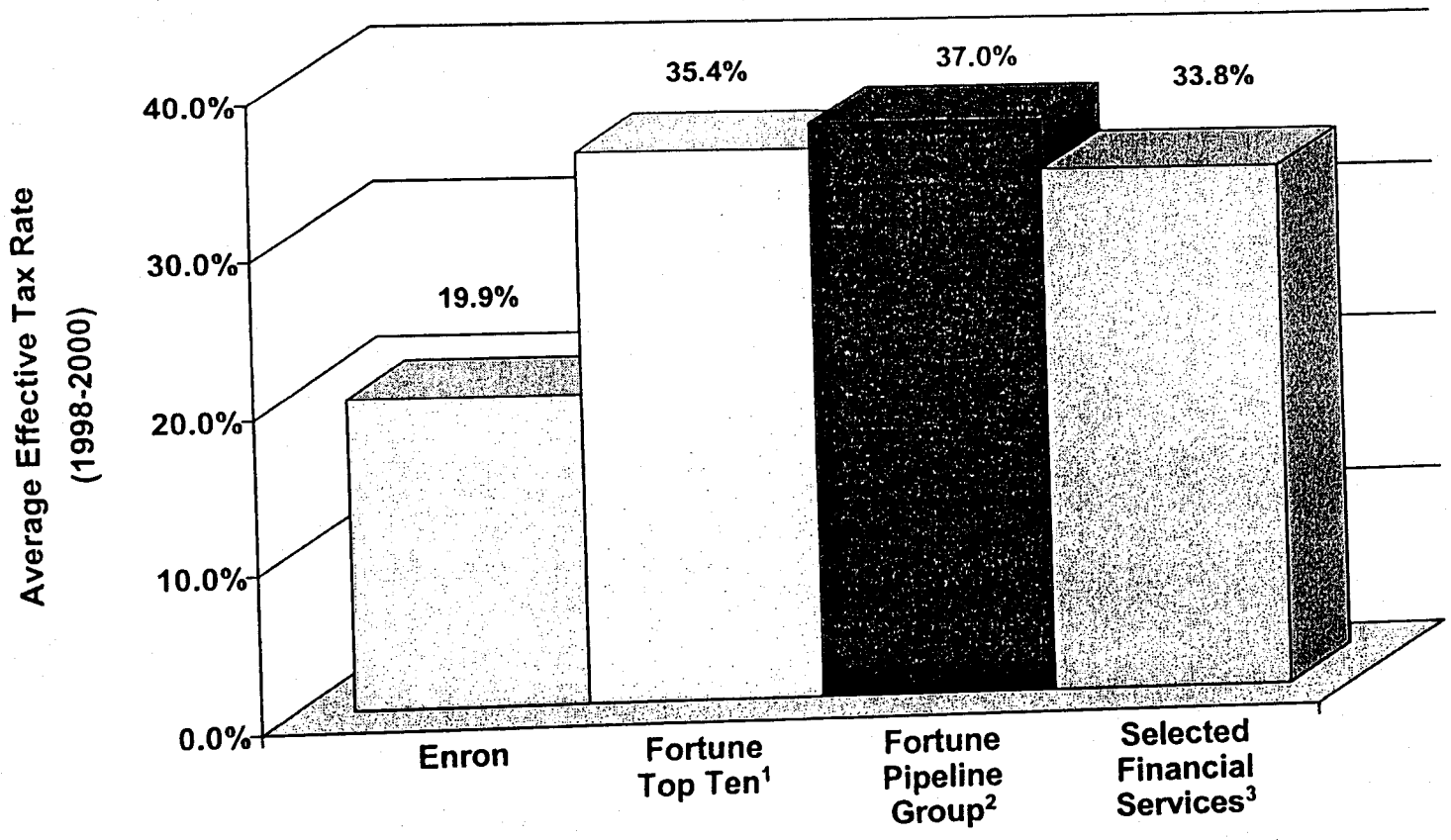


*There is additional net income of $62.85 million and positive cash flow of $1,381.71 million from 2011 through the year 2046 resulting from the various projects.

Projected Cumulative Earnings by Year Originated (millions)



Comparison of Effective Tax Rates (Average for Years 1998 – 2000)



[1] Includes Exxon Mobil (33%), Wal-Mart (37.7%), General Motors (34.6%), Ford Motor (33.7%), General Electric (31.1%), Citigroup (35.9%), IBM (31.4%), AT&T (42.2%) and Verizon (39.1%).

[2] Includes Dynegy (33.3%), El Paso (31.3%), Williams (43.9%), Transmontaigne (37%), Kinder Morgan (40%) and Western Gas (36.5%).

[3] Includes CitiGroup (35.9%), DeutscheBank (40.3%), JP Morgan/Chase (35.2%), AIG (30.2%), Merrill Lynch (33.4%) and Barclays (27.8%).

Key Project Metrics

Project (year closed)	Projected Cumulative Earnings ($1000's)	Net Present Value at 7% ($1000's)	Internal Rate of Return
Tanya (1995)	65,800	65,800	N/A
Teresa (1997)	257,100	(2,100)	6.8%
Steele (1997)*	83,423	28,500	23.5%
Renegade (1998)*	800	800	N/A
Tomas (1998)*	112,843	53,700	301.2%
Cochise (1998)*	143,200	50,300	17.4%
Apache (1998)	167,000	116,800	3565.8%
Condor (1999)	327,537	66,700	20.9%
Valhalla (2000)*	63,983	50,700	1747.6%
Tammy I (2000)	406,477	85,500	27.8%
Tammy II (2001)	369,209	86,600	72.1%
Totals	**1,997,372**	**603,300**	

* These projects contribute to EBIT.

Enron Balance Sheet Perspective

Enron Corp. and Subsidiaries
December 31, 2000
(in millions)

	Enron Corp. Consolidated	Structured Transactions	% of Enron Assets
ASSETS			
Current Assets			
Trade Receivables	$10,396	$2,013	19.4%
Assets From Price Risk Management Activities	12,018	279	2.3%
Other	7,968	1,652	20.7%
Total Current Assets	$30,381	$3,944	13.0%
Investments and Other Assets	$23,379	$3,959	16.9%
Property, Plant and Equipment, at Cost	$15,459	$7,972	51.6%
Less Accumulated Deprec, Depletion and Amortization	(3,716)	(3,108)	83.7%
Property, Plant and Equipment, Net	$11,743	$4,863	41.4%
TOTAL ASSETS	$65,503	$12,766 *	19.5%
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities	$28,406	$1,338	4.7%
Long-Term Debt	8,551	3,715	43.4%
Deferred Credits and Other Liabilities	13,759	1,387	10.1%
Minority Interests	2,414	1,018	42.2%
Company-Obligated Preferred Securities of Subsidiaries	904	162	18.0%
Shareholders' Equity	11,470	4,717	41.1%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$65,503	$12,336 *	18.8%

* Not all structures utilize equal amounts of assets and liabilities.

Action Plan for 2001

Ajax	Develop and implement project to generate EBIT via acquisition of high basis, low value financial assets in a large carry-over basis transaction.
Apache	Structure new common equity for Dutch partnership, thereby increasing investment capacity of a vehicle currently holding over $1.5 billion of Enron assets. This structural modification could significantly accelerate the $167 million net income benefit from this transaction.
Hitchcock	Research and develop project that will generate depreciation deductions, lowering Enron's effective tax rate, using foreign lease transaction.
Tammy I	Use proceeds of asset sales to finance purchase of preferred stock. Expected earnings benefit in 2001 of approximately $200 million.
Tammy II Done	Develop and implement a minority interest financing structure using $2 billion of non-core Enron assets. Global Finance to do
Tomas Done	Conclude negotiations resolving fee dispute with former manager of PGH's portfolio of leveraged assets. Monetize additional assets.
Valhalla	Valkyrie partnership will be liquidated so as to simplify overall structure.

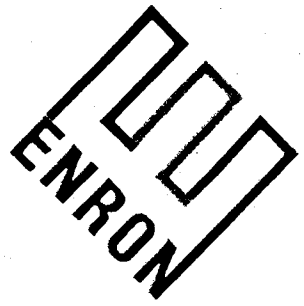
Appendices

Net Income Detail by Project and Year Recognized (Thousands)

Project	Tanya	Teresa	Steele	Renegade	Tomas	Cochise	Apache	Condor	Valhalla	Tammy I	Tammy II	Total
1995	46,500	-	-	-	-	-	-	-	-	-	-	46,500
1996	-	-	-	-	-	-	-	-	-	-	-	-
1997	-	52,100	3,860	-	-	-	-	-	-	-	-	55,960
1998	-	26,000	14,800	800	55,993	-	-	-	-	-	-	97,593
1999	19,300	21,200	16,300	-	9,846	34,300	11,300	20,000	-	-	-	132,246
2000	-	120,100	15,700	-	51,290	53,000	20,600	37,100	7,381	(8,726)	-	296,445
2001	-	10,000	15,600	-	(4,049)	22,300	18,800	31,700	12,797	198,305	(926)	304,527
2002	-	-	11,207	-	(7,644)	17,600	20,000	26,367	12,797	100,889	74	181,290
2003	-	27,700	794	-	(3,020)	12,002	21,300	22,767	12,797	100,889	184,993	380,222
2004	-	-	712	-	(1,216)	3,998	22,700	20,666	12,797	14,930	184,994	259,581
2005	-	-	638	-	1,705	-	24,100	19,666	5,414	191	74	51,788
2006	-	-	571	-	2,997	-	28,200	18,071	-	-	-	49,839
2007	-	-	507	-	162	-	-	17,500	-	-	-	18,169
2008	-	-	459	-	167	-	-	17,500	-	-	-	18,126
2009	-	-	335	-	171	-	-	17,500	-	-	-	18,006
2010	-	-	294	-	6,441	-	-	17,500	-	-	-	24,235
2011	-	-	247	-	-	-	-	17,500	-	-	-	17,747
2012	-	-	211	-	-	-	-	17,500	-	-	-	17,711
2013	-	-	189	-	-	-	-	17,500	-	-	-	17,689
2014	-	-	169	-	-	-	-	8,700	-	-	-	8,869
2015	-	-	150	-	-	-	-	-	-	-	-	150
2016	-	-	133	-	-	-	-	-	-	-	-	133
2017	-	-	118	-	-	-	-	-	-	-	-	118
2018	-	-	104	-	-	-	-	-	-	-	-	104
2019	-	-	91	-	-	-	-	-	-	-	-	91
2020	-	-	79	-	-	-	-	-	-	-	-	79
2021	-	-	68	-	-	-	-	-	-	-	-	68
2022	-	-	54	-	-	-	-	-	-	-	-	54
2023	-	-	31	-	-	-	-	-	-	-	-	31
2024+	-	-	2	-	-	-	-	-	-	-	-	2
Total	65,800	257,100	83,423	800	112,843	143,200	167,000	327,537	63,983	406,477	369,209	1,997,372

Cash Flow Detail by Project and Year Incurred (Thousands)

Project	Tanya	Teresa	Steele	Renegade	Tomas	Cochise	Apache	Condor	Valhalla	Tammy I	Tammy II	Total
1995	46,500	-	-	-	-	-	-	-	-	-	-	46,500
1996	-	-	-	-	-	-	-	-	-	-	-	-
1997	-	8,535	(44,924)			-	-	-	-	-	-	(36,389)
1998	-	(17,669)	8,216	8,768	(3,268)	-	-	-	-	-	-	(3,953)
1999	19,300	(25,861)	17,380	(1,927)	(6,701)	(62,739)	500,594	(7,709)	-	-	-	432,337
2000	-	(33,272)	6,116	(2,004)	86,354	42,903	18,792	616	56,566	491,274	-	667,347
2001	-	(62,574)	29,928	(2,124)	6,449	393	20,316	616	13,000	(1,695)	(926)	3,383
2002	-	(29,690)	6,958	(1,914)	11,169	1,313	22,544	616	13,000	889	500,074	524,959
2003	-	(17,502)	6,968	0	2,921	3,698	25,432	616	13,000	889	74	36,096
2004	-	25,596	6,626	0	2,715	17,083	27,326	-	13,000	889	74	93,310
2005	-	25,596	6,538	0	2,476	(764)	29,360	-	(44,583)	(499,809)	74	(481,112)
2006	-	25,596	6,178	0	3,786	7,351	(477,366)	-	-	-	-	(434,454)
2007	-	25,596	5,812	0	162	15,425	-	-	-	10,190	(490,898)	(433,713)
2008	-	25,596	5,773	0	167	13,459	-	-	-	10,616	9,483	65,094
2009	-	25,596	5,285	0	171	13,899	-	-	-	10,616	9,483	65,050
2010	-	25,596	4,455	0	6,441	14,616	-	-	-	10,616	9,483	71,207
2011	-	25,596	3,434	0	-	13,685	-	-	-	10,616	9,483	62,814
2012	-	25,596	(11,059)	0	-	12,392	-	-	-	10,616	9,483	47,028
2013	-	25,596	2,573	0	-	10,843	-	-	-	10,616	9,483	59,110
2014	-	25,596	1,758	0	-	9,367	-	-	-	10,616	9,483	56,819
2015	-	25,596	1,559	0	-	8,530	-	20,051	-	10,616	9,483	75,835
2016	-	25,596	1,516	0	-	7,489	-	37,119	-	10,616	9,483	91,819
2017	-	25,596	1,488	0	-	4,468	-	31,736	-	10,616	9,483	83,387
2018	-	25,596	1,455	0	-	3,216	-	27,383	-	10,616	9,483	77,749
2019	-	25,596	1,436	0	-	2,293	-	23,796	-	10,616	9,483	73,220
2020	-	25,596	1,414	0	-	1,781	-	21,720	-	10,616	9,483	70,610
2021	-	-	1,395	0	-	1,529	-	20,747	-	10,616	9,483	43,770
2022	-	-	(130)	0	-	979	-	19,105	-	10,616	9,483	40,053
2023	-	-	1,356	(3)	-	402	-	17,497	-	10,616	9,483	39,351
2024+	-	-	3,919	-	-	(411)	-	113,627	-	233,996	209,014	560,145
Total	65,800	257,100	83,424	800	112,843	143,200	167,000	327,537	63,983	406,477	369,209	1,997,373



Project Tanya

Business Review

Structure Overview

Assets/Risk Management

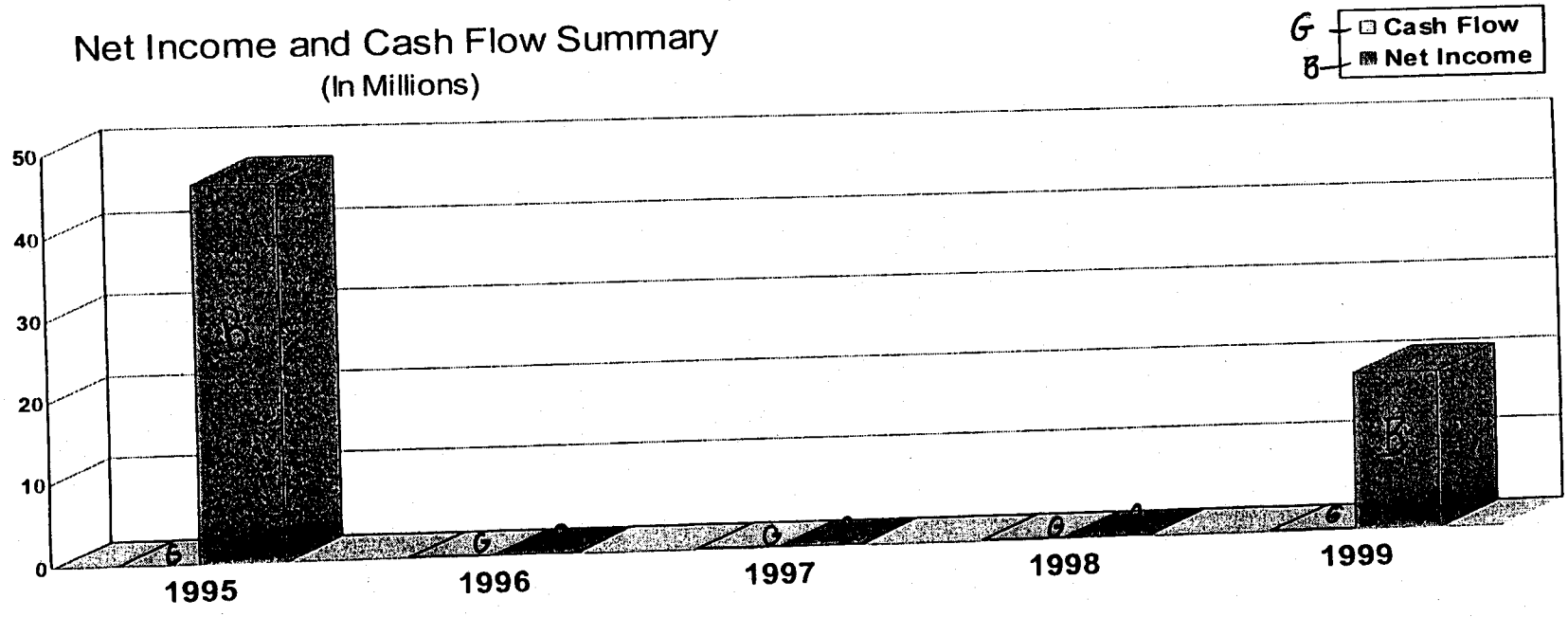
- The SFAS 106 liabilities assumed by EMI (valued at $187.1 million at date of transfer) continue to be managed by the Human Resources Department.
- During 2001, Enron reacquired the outstanding preferred stock held by the management of EMI.
- It is anticipated that in 2002, EMI will be liquidated and the SFAS 106 liabilities distributed to Enron.

Transaction Description

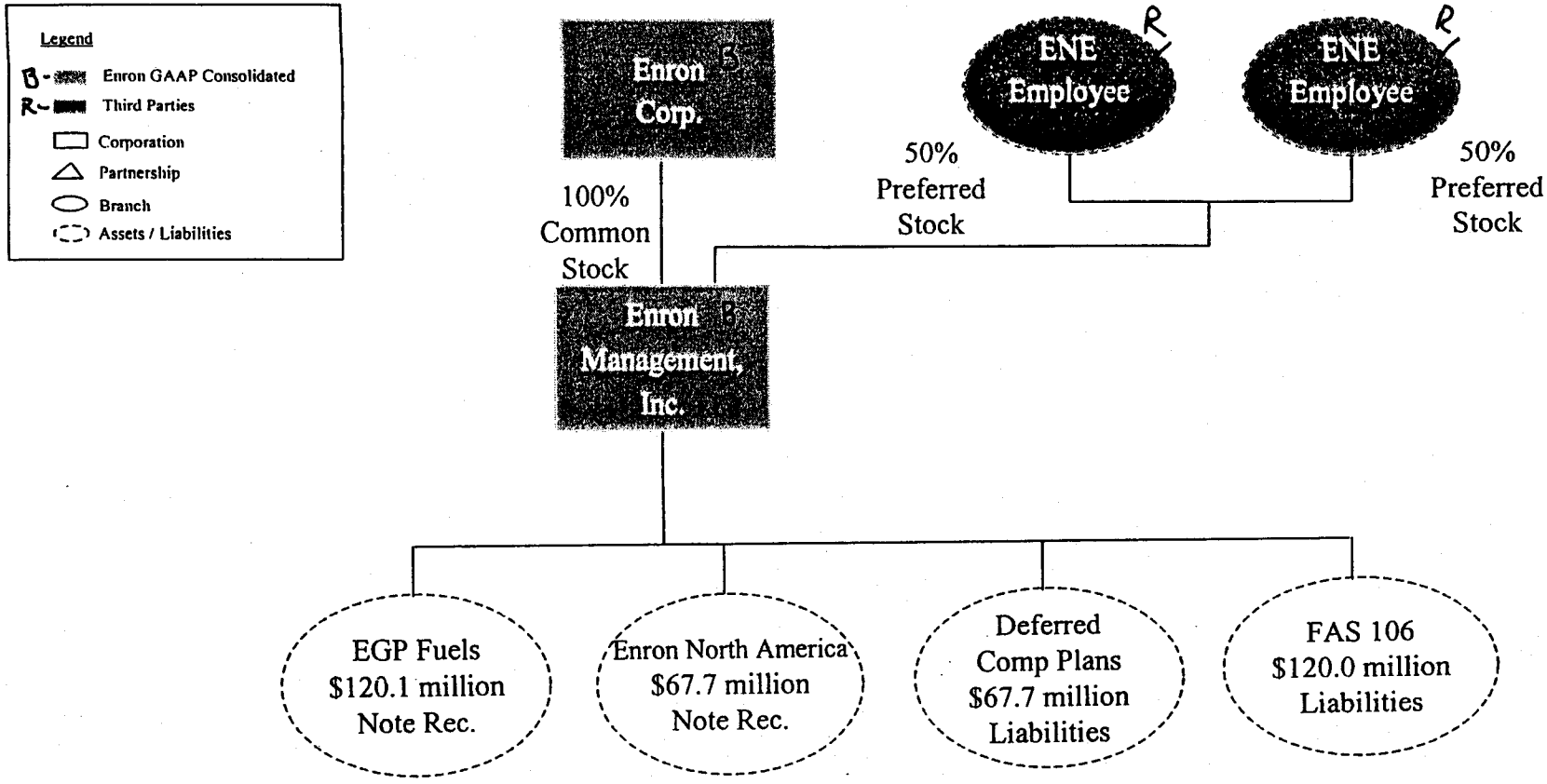
- The transaction involves the creation of an entity (Enron Management, Inc. "EMI") to assume and manage Enron's deferred compensation and post-retirement benefit obligations ("SFAS 106 liabilities").
- In 1995, the sale of preferred stock received by Enron during the formation of the structure generated a capital loss of $185.5 million which was used to offset capital gains from a secondary offering of EGO common stock.
- As a result of the audit group's successful defense of the structure, the IRS declined to challenge Enron's 1995 return position.

Net Income and Cash Flow Summary

(In Millions)



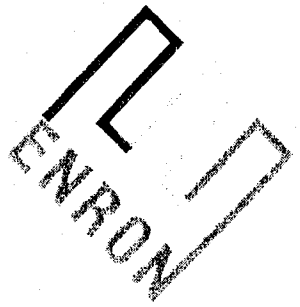
Transaction Structure



Time to execute	2 months
Closing date	December 1995
Total earnings	$66 million

Summary and Progress Report

December 1995	On December 1, 1995, Enron Corp. ("Enron") capitalized Enron Management, Inc. ("EMI") with Notes Receivable from operating subsidiaries of $187.1 million, subject to a contractual assumption of Enron's deferred compensation and post retirement benefit obligations. In exchange for the transfer, Enron received all of a newly created class of voting participating preferred stock in EMI.
	On December 28, 1995, Enron sold the preferred stock in EMI to two officers responsible for the management of the compensation and benefits group to provide the officers with an incentive to control costs and share in the rewards of these cost containment efforts.
July 1998	One of the preferred stockholders resigned from Enron and contractually transferred her shares to the remaining officer. Pursuant to the applicable Stock Purchase & Sale Agreement ("Agreement"), the remaining shareholder acquired the stock of the departing manager.
1999	The $185.5 million capital loss generated by this transaction was reviewed by the IRS during the audit of Enron's 1995 Federal tax return. As a result of the audit group's successful defense of the structure, the Service declined to challenge the 1995 return position.
April 2001	Pursuant to the terms of the Agreement, the remaining preferred shareholder put her shares back to Enron Corp.



Project Teresa

Business Review

Structure Overview

Asset/Risk Management

Assets Held:
- Enron Building North — $300 million subject to a long-term lease may not be transferred out of structure
- Pipeline Companies
- Hawker N5734 — $10 million
- Hawker N5732 — $12 million

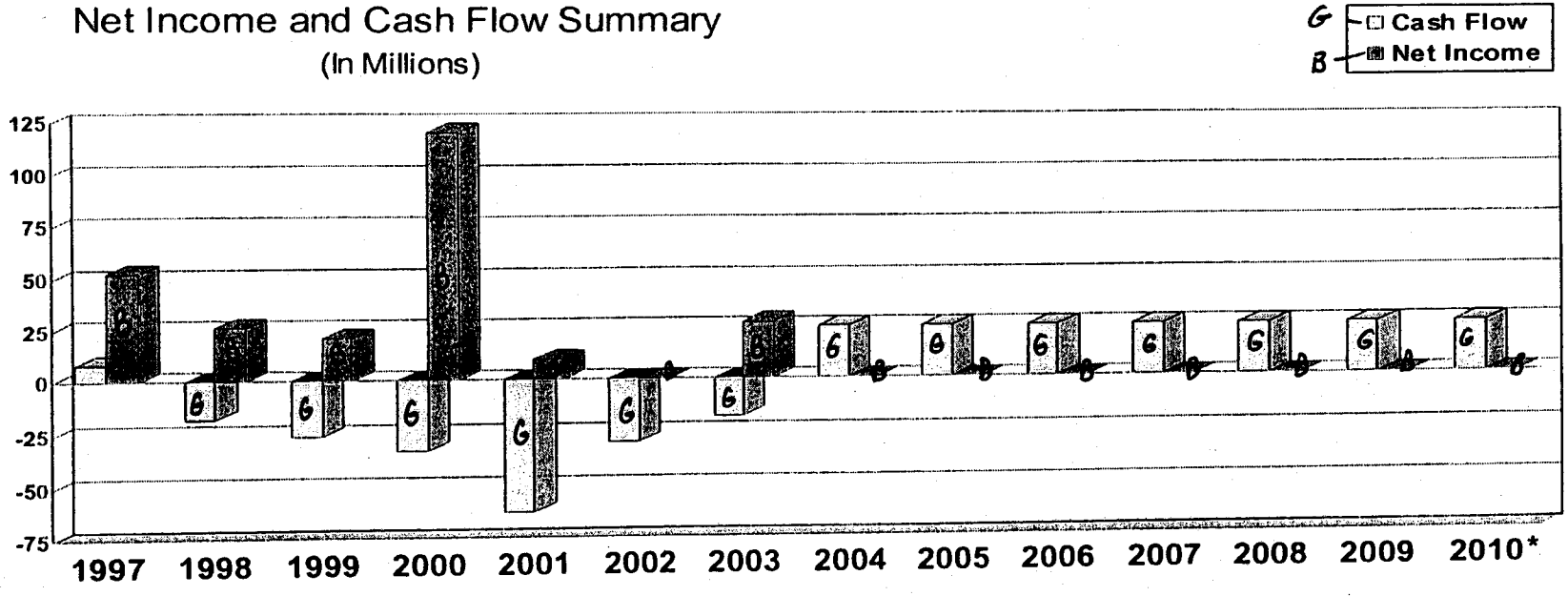
Other Issues:
- In 2003, minority interests valued at $33 million will be redeemed out of the structure.
- Assets held in the structure will be distributed back up to Enron Corp. affiliate at that time.

Transaction Description

- This transaction creates tax deductions in the form of enhanced depreciation deductions on the Enron Center North.
- The tax basis of the building is effectively written up through a series of stock transactions that flow through a partnership with minority interest equity.
- The stock transactions are economically supported by earnings and profits generated in the ordinary course of business by the pipeline companies.

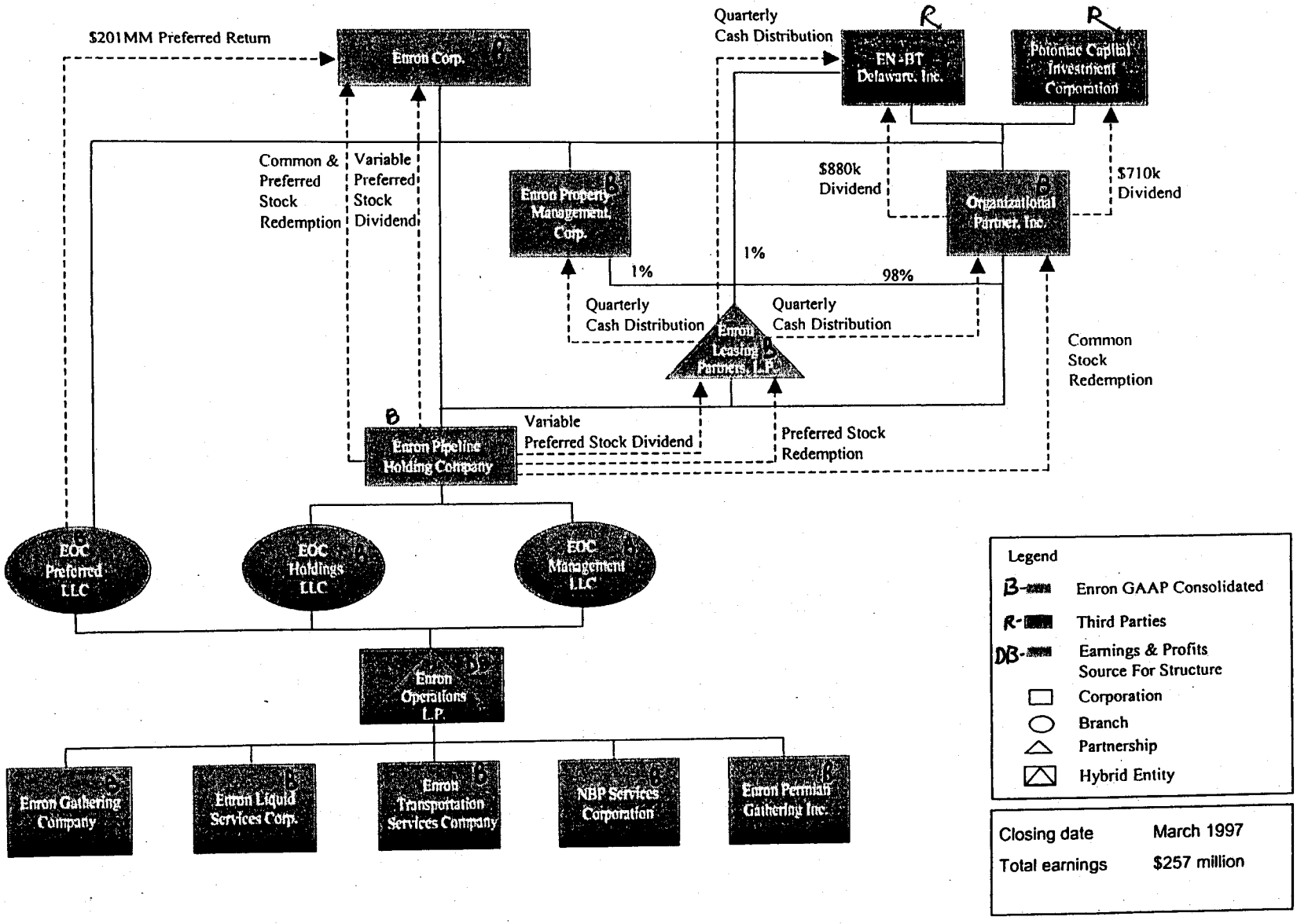
Net Income and Cash Flow Summary

(In Millions)



*There is additional positive cash flow of $255.96 million from 2011 through the year 2020 resulting primarily from tax depreciation on an increased basis in Enron Center North.

Transaction Structure

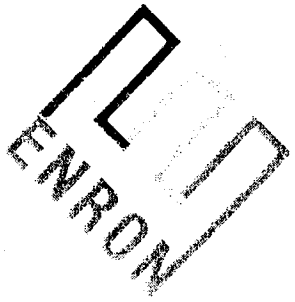


Summary and Progress Report

March 1997	Enron Corp. and Bankers Trust Company (now Deutsche Bank) formed Enron Leasing Partners, L.P. (the "Partnership"). Enron Corp.'s interest in the Partnership was primarily held by a tax deconsolidated entity, Organizational Partner, Inc. ("OPI"). The Partnership's investments include tax ownership of the Enron Building and preferred stock issued by Enron Pipeline Holding Company ("EPHC"). Potomac Capital and Deutsche Bank hold interests in OPI.
Quarterly March 1998 - present	Periodically, EPHC redeems its preferred stock held by the Partnership in a transaction which is treated as dividend income by EPHC to the Partnership for tax purposes but is not treated as income for GAAP purposes. The partners' outside tax basis in the Partnership is increased ratably with each distribution.
November 1999	A restructuring was implemented to increase the earnings and profits of EPHC by transferring ownership of the pipeline companies held by Enron Operations Corp. into EPHC. Certain partnership conversions and other formalities were necessary to prevent an increase in Texas franchise tax exposure as a result of the restructuring. This restructuring created a large, intercompany preferred class of stock in Enron Operations, L.P.
Second Quarter 2000	A $1 billion note payable by HPL to EPHC was transferred as a payable to Enron Corp. in connection with the sale of HPL. This had no material effect on the structure.
2001-2002	Additional earnings and profits must be generated through a tax restructuring to support the dividend payments out of the structure.
2002	The preferred stock of EPHC will be completely redeemed out of the structure leaving the Partnership with a high tax basis, low fair market value preferred stock of EPHC. This stock will be an asset of Enron which may be used in other structures.

Operational Issues and Action Items

Operational Issues	Action Items
It is probable that the structure will run out of earnings and profits before all of the preferred stock can be redeemed in 2002. Approximately $28MM in benefits may become stranded in the structure.	We have looked at various strategies to increase the available earnings and profits in the pipeline companies but regulatory restraints currently make this impractical. We are researching other planning opportunities.
Quarterly dividend payments must be structured, authorized and executed appropriately.	Legal Department pays careful attention to the details of notice, approval and execution. Delays in reporting of the transaction by the corporate secretary's office often prevent accurate reflection of the transactions in databases and other internal documentation.
The dividend payments require sufficient earnings and profits to satisfy certain tax tests and sufficient earned surplus to count as dividends under Delaware law.	Earnings and profits from the pipeline companies are carefully monitored in coordination with Greek Rice and Rod Hayslett's groups to determine whether they are sufficient to support the dividend. Separate tests are conducted to meet the Delaware legal requirements.
The Partnership Agreement requires quarterly cash distributions to its Partners.	Calculate, review and pay distributions.
Sufficient earnings and profits must also be available to support Enron Operations, L.P.'s preferred stock dividends.	Cash, earnings, and profits are all carefully monitored at the EPHC and EOLP levels.
Closing and monthly journal entries required for more than 10 separate entities each month. Review general ledgers of each entity to verify appropriate booking of entries.	Coordination with accounting and tax departments to appropriately reflect activity.



Project Steele

Business Review

Structure Overview

Asset/Risk Management

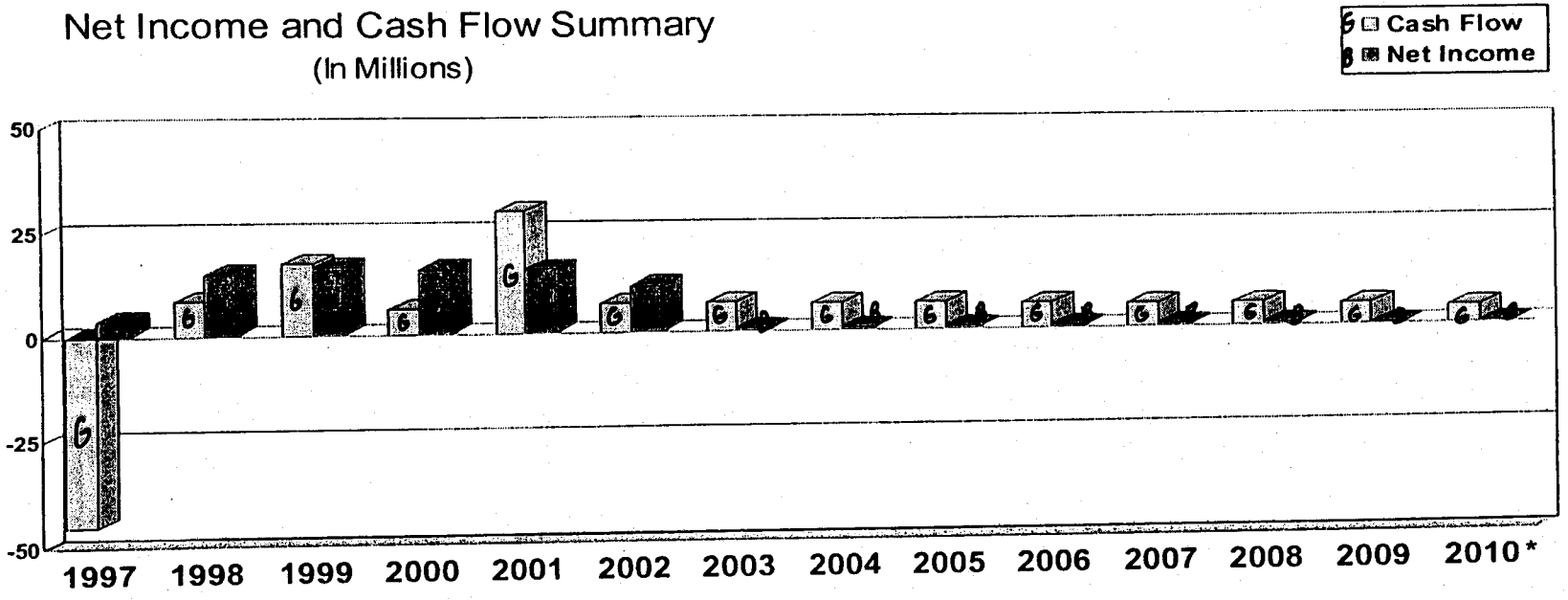
Assets Acquired:	
- REMIC Residual Interests	$ 7.5 million
- Corporate Bond Portfolio (rated AA or better)	$50.0 million
Current Status of Assets:	
- Outstanding principal on bonds (the portfolio will be fully amortized by the end of 2003)	$34.0 million
- REMIC Residuals – 20% average annual cash yield during 1998-2000	$ 1.5 million

Transaction Description

- In October 1997, Enron acquired a portfolio of financial assets (corporate bonds and REMIC residual interests) from Bankers Trust Company. The portfolio augments a company-operated hedge fund.
- Because of the attributes of the REMICs (i.e., high tax basis and low fair market value), financial accounting rules allowed Enron to recognize operating income resulting from the amortization of a deferred credit over the five-year life of the bond portfolio.

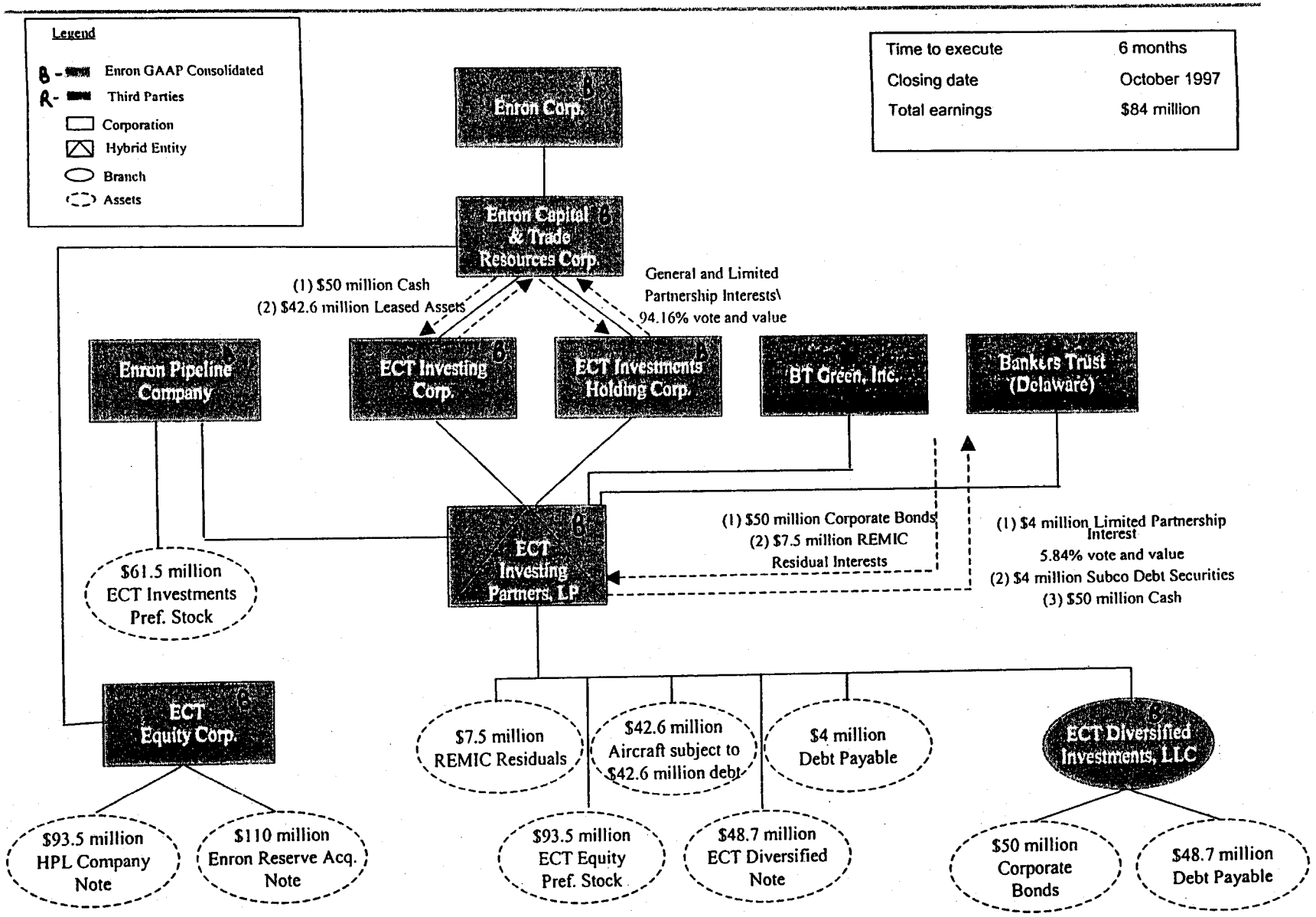
Net Income and Cash Flow Summary

(In Millions)



*There is additional net income of $1.65 million and positive cash flow of $12.11 million from 2011 through the year 2025 resulting primarily from tax losses from REMIC residual interests.

Transaction Structure

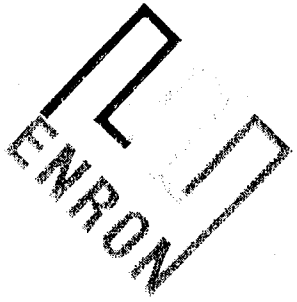


Summary and Progress Report

October 1997	Enron Corp. and Bankers Trust (now Deutsche Bank) formed ECT Investing Partners, L.P. (the "Partnership"). Enron and various subsidiaries contributed cash and leased assets (corporate aircraft) to the Partnership while BT transferred various investment securities (corporate bonds and REMIC residual interests). The Partnership's acquisition of a high tax basis / low book basis REMIC portfolio resulted in the creation of deferred tax assets. The Partnership amortizes an offsetting deferred credit into pre-tax income over a relatively short time frame.
February 2000	Falcon 50 aircraft sold to Raytheon resulting in taxable income of $14 million.
March 2001	Falcon 900 aircraft sold to Enron Corp. and refinanced.
Quarterly	Quarterly dividend and fee payments to be made to BT. Over 200 quarterly statements (REMIC Schedule Q's) of taxable income / loss are received and recorded.
Monthly	Monitor monthly bond portfolio brokerage statements and reconcile the accrued interest to brokerage receipts.
October 2002	Mandatory cash distribution to Deutsche Bank based upon excess retained earnings.
2002 and Beyond	Next year is the final year of accelerated pre-tax income. In 2002, the projected pre-tax earnings are $18 million but are expected to decline to about $1 million annually through 2011.
After October 2002	Deutsche Bank may elect to recapitalize its preferred interest into debt instruments ("Recapitalization Notes").
After October 2004	Deutsche Bank receives an unassignable right to put its Recapitalization Notes back to Enron.
After April 2009	Deutsche Bank receives an assignable right to put its Recapitalization Notes back to Enron.

Operational Issues and Action Items

Operational Issues	Action Items
Maintain custody of REMICs and monitor quarterly taxable income/loss and basis calculations.	REMIC certificates are stored in Enron vault on 48th floor. Structured Transactions group tracks taxable income/loss by REMIC and maintains tax basis for each.
Ensure proper custody and management of cash generated by the structure.	ST group works with Treasury and accounting to monitor cash activity in checking and brokerage accounts and makes arrangements to transfer cash to Enron Corp. as needed.
Must monitor acquisitions and dispositions of assets in structure; e.g. aircraft and U.S. Treasury securities.	ST group works closely with Enron Legal, Enron commercial groups and outside counsel to safeguard against adverse effects of asset acquisitions and dispositions on structure and ensures adherence to reps and warranties.
Closing and monthly journal entries required for nine separate entities each month. Review general ledgers of each entity to verify appropriate booking of entries.	Coordination with accounting and tax departments in various business units to appropriately reflect activity.



Project Renegade

Business Review

Structure Overview

Asset/Risk Management

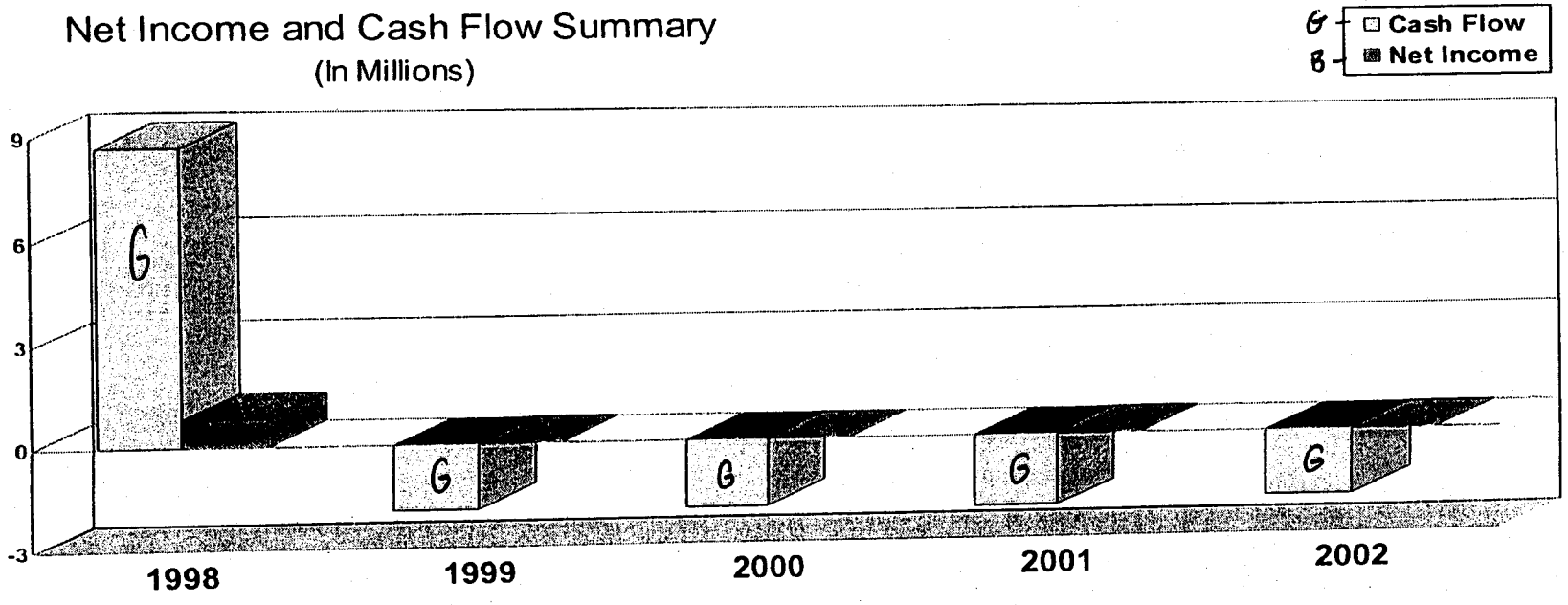
- Deutsche Bank acquired $8 million of preferred securities from the FASIT.
- The principal balance of these securities will be fully amortized in December 2002.

Transaction Description

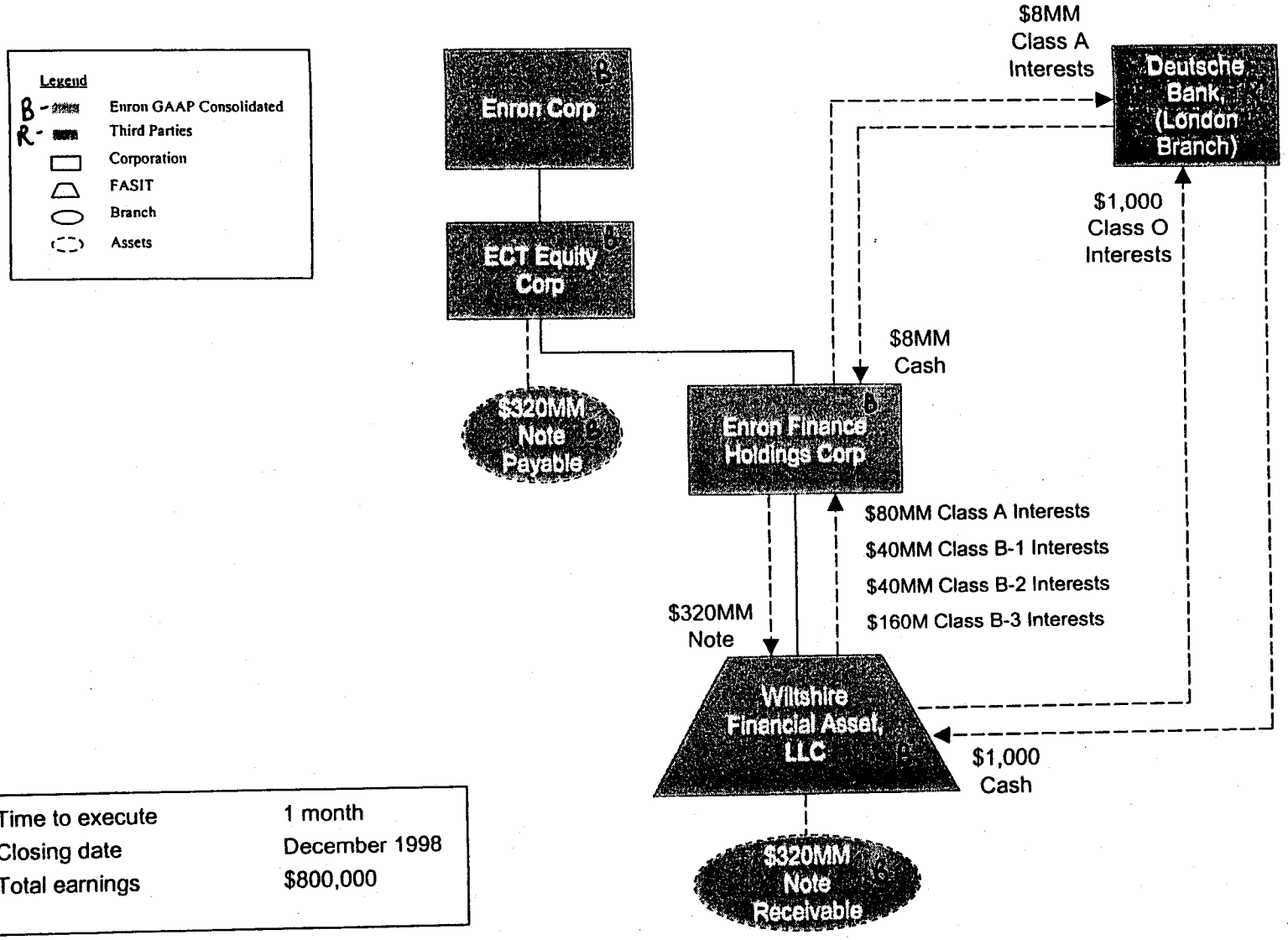
- In December 1998, Enron created a structure to facilitate the issuance of securities at below market interest rates.
- The transaction also had collateral year-end tax planning benefits for Deutsche Bank. In consideration for its counterparty role in structuring the transaction, Enron received a $1.3 million fee.

Net Income and Cash Flow Summary

(In Millions)



Transaction Structure



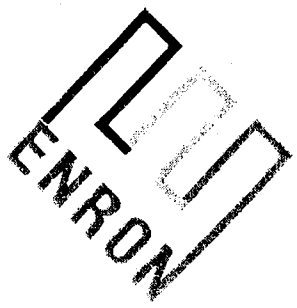
Time to execute	1 month
Closing date	December 1998
Total earnings	$800,000

Summary and Progress Report

December 1998	ECT Equity Corp created a $320MM intercompany note with Enron Finance Holdings Corp. Enron Finance Holdings Corp. created Wiltshire Financial Asset, LLC, a special purpose limited liability company that elected to be treated as a financial asset securitization investment trust (FASIT) for U.S. federal income tax purposes. Enron Finance Holdings Corp. contributed the $320MM intercompany note to Wiltshire Financial Asset, LLC in exchange for 100% of the Preferred Interests in Wiltshire. Enron Finance Holdings Corp. sold $8MM of the Class A interests to Deutsche Bank. Enron Corp. recorded pre-tax fee income of $1.3MM from Deutsche Bank.
June 1999 – December 2002	Wiltshire Financial Asset, LLC makes semi-annual principal and interest payments on the Class A interests to Enron Finance Holdings Corp. and Deutsche Bank.
December 2002	Class A interests will be fully amortized.
Monthly	Prepare accounting entries for all entities to accrue interest income and expense.
Semi-annually	Pay accrued interest and principal on Class A Interests.

Operational Issues and Action Items

Operational Issues	Action Items
Class A interests require semi-annual payment of principal and interests to Deutsche Bank.	Coordinate cash flows with Accounting and Treasury.
Marketing of remaining Class A interests held by Enron Finance Holdings Corp.	Work with Deutsche Bank to sell remaining Class A interests.



Project Tomas

Business Review

Structure Overview

Asset/Risk Management

Assets Held:
- Aircraft leased to United (747) $13.6 million book value
- Aircraft leased to Continental (DC-9) $11.6 million book value

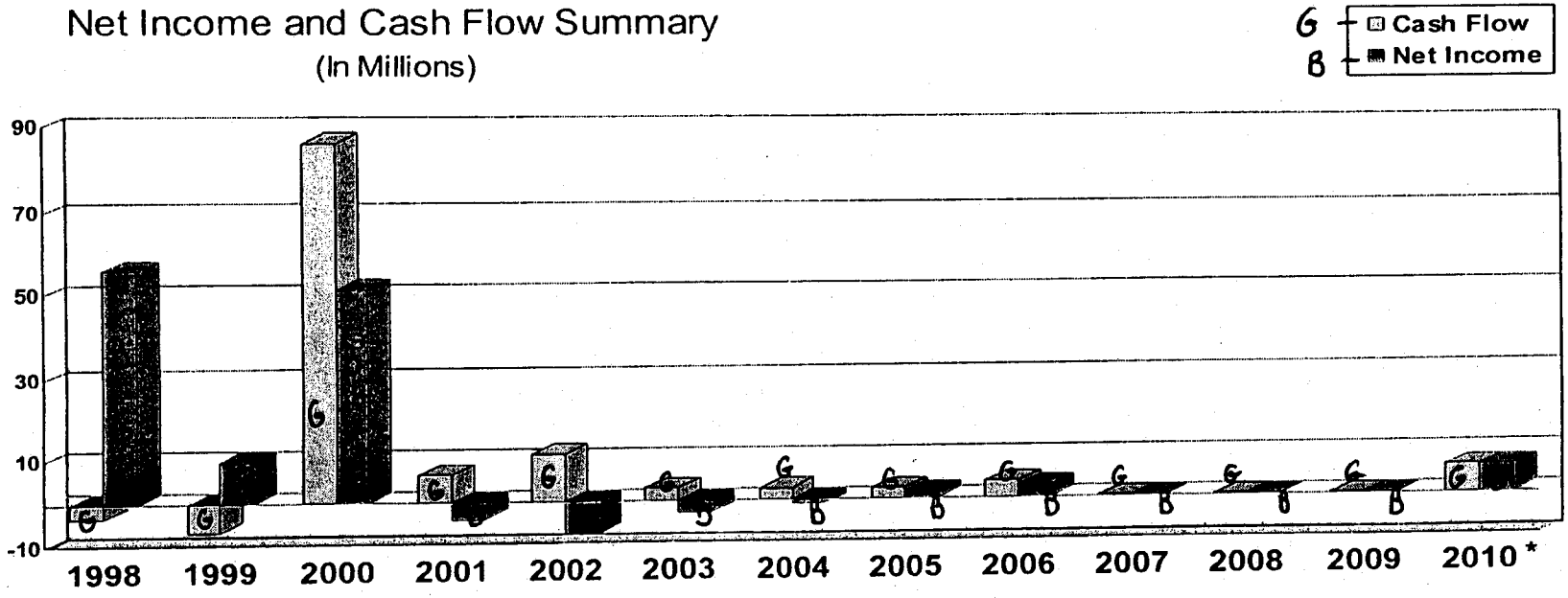
Risks:
- Extremely poor aircraft resale market
- Credit risk for lessee has increased due to airline industry distress

Transaction Description

This structure generated tax basis in a portfolio of "burnt out" leveraged lease assets, which Portland General originally acquired and provided a mechanism for liquidating the portfolio at a substantial gain.

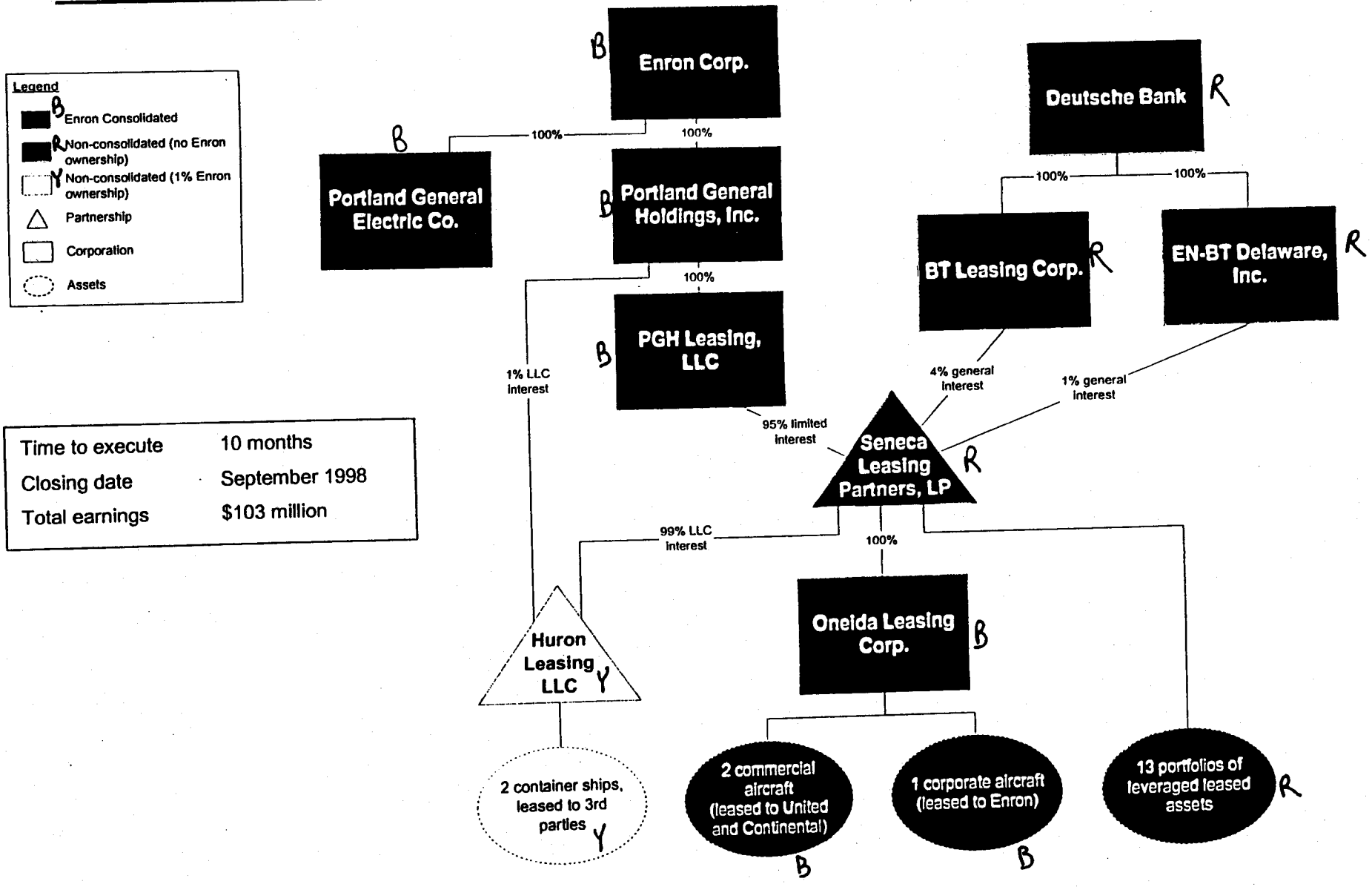
Net Income and Cash Flow Summary

(In Millions)



*This project ceased to produce income or cash flow after 2010.

Transaction Structure



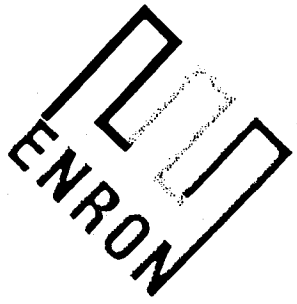
Time to execute	10 months
Closing date	September 1998
Total earnings	$103 million

Summary and Progress Report

September 1998	Portland General and two Bankers Trust subsidiaries formed Seneca Leasing Partners, LP, to hold Portland General's 17 portfolios of leveraged lease assets, among other things.
April 1999	Two leased assets were sold to lessees and a third lease was renegotiated and renewed.
July 1999	The two containership assets were transferred to Huron Leasing LLC, which is owned 99% by Seneca and 1% by PGH Holdings, LLC, to address maritime citizenship concerns caused by Deutsche Bank's acquisition of Bankers Trust.
June 2000	PGH Leasing gave notice of its intent to withdraw from Seneca, triggering a public bid valuation process to determine the retirement price due to PGH Leasing.
July 2000	Oneida Leasing, a subsidiary of Seneca, purchased two commercial aircraft that Deutsche Bank had acquired earlier in the year from an Enron subsidiary, ECT Investments Holding Corp.
October 2000	Enron retired from the Seneca partnership, receiving the stock of Oneida Leasing (which held a large receivable from Deutsche Bank, the two commercial aircraft, and an Enron corporate aircraft).
December 2000	Oneida collected on the large Deutsche Bank receivable.
January 2001	Began negotiations with United Airlines regarding return conditions of aircraft.
June 2001	PGH Leasing settled a management fee dispute with GATX, related to GATX's original contract with Portland General.

Operational Issues and Action Items

Operational Issues	Action Items
Aircraft residual value. Oneida Leasing holds two commercial aircraft which have suffered significant unexpected declines in residual value. The 747 comes off lease in April 2002.	Have been exploring options regarding disposition of aircraft.
Lease specifics. One of the commercial aircraft, a 747, has been taken out of service by the lessee (United). The United lease ends in April 2002. Interpretation of lease provisions regarding return conditions in the lease agreement with United are in dispute.	Have been negotiating with United to resolve the disputed issues, in consultation with the Aircraft Group, a consulting firm.
Windup of Huron Leasing. The two ships held by Huron Leasing have been sold to third parties, leaving Huron holding minimal remaining assets. Seneca has guaranteed all contractual obligations of Huron to third parties.	Now confirming with outside advisors that liquidation will not adversely affect their previous opinions or advice. Following confirmation, will proceed to liquidate Huron Leasing, which should have no material impact on Enron.
Portland General Holdings. The remaining Tomas assets (Oneida and PGH Leasing) are accounted for through Portland General Holdings, creating certain systems issues.	The group communicates regularly with Portland General accounting to insure correct record keeping. If Portland General Electric is sold, will need to have a plan for moving the accounting for Portland General Holdings to Houston.
Portland General Holdings board members. Many of the board members of Portland General Holdings are unfamiliar with Tomas and its remaining assets.	Recent efforts to move management of the Tomas entities to Houston should help eliminate some of these difficulties.



Project Cochise

Business Review

Structure Overview

Asset/Risk Management

Assets Held:
- REMIC Regular Interests $26 million
- REMIC Residual Interests $0 book value

Current Status:
- All of the assets are held in a REIT which is subject to complex tax compliance rules.
- In 2004, the minority interest valued at $2 million will be redeemed. After that time, Enron will be allowed to unwind the REIT and dispose of the REMIC portfolio in due course.
- The REMIC Regular Interests are rated AA. There is a liquid market for these securities.
- The REMIC Residual Interests have a high tax basis which facilitates the recognition of tax deductions over their 20-year term.

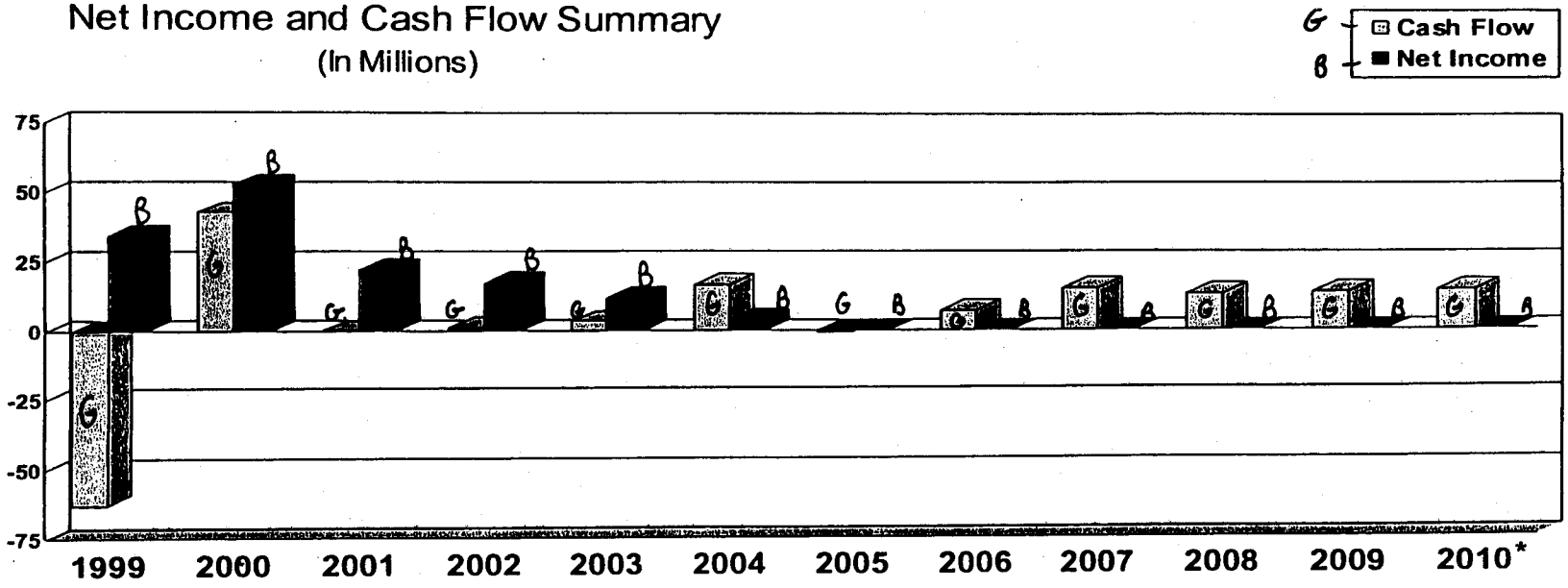
Transaction Description

- In 1998, Enron acquired a diversified portfolio of financial instruments consisting of REMIC interests and equipment leases (commercial aircraft). Acquisition of the portfolio was consistent with Enron's wide-ranging strategy of searching for opportunistic financial investments.

- Certain financial accounting rules allowed Enron to write-down the tax basis in the leased aircraft by the amount of built-in loss in the REMIC Residual Interests thereby eliminating depreciation charges above the line on the leased aircraft.

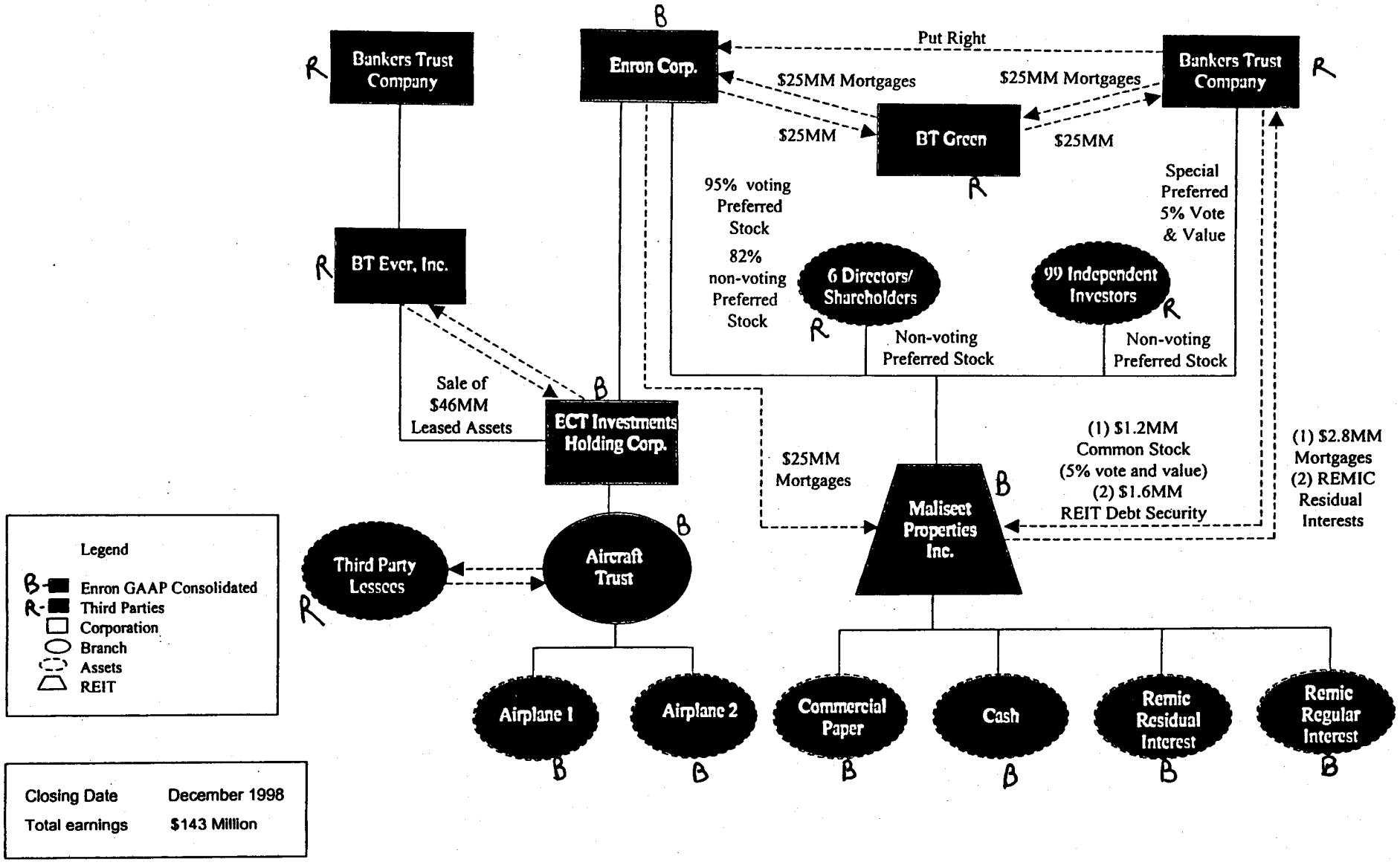
Net Income and Cash Flow Summary

(In Millions)



*There is additional positive cash flow of $76.56 million from 2011 through the year 2025 resulting primarily from tax losses from REMIC residual interests.

Transaction Structure



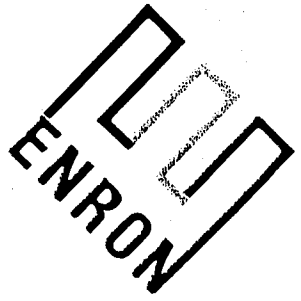
Summary and Progress Report

January 1999	Enron Corp. recapitalized and renamed Enron Interstate Pipeline Company into Maliseet Properties, Inc. and elected to treat Maliseet as a REIT for federal income tax purposes. Enron Corp., a Bankers Trust Subsidiary, and 99 independent investors and 6 Enron officers capitalized Maliseet with REMIC Residual Interests, mortgages, and cash.
January 1999	In an integrated transaction, ECT Investments Holding Corp. acquired ownership of two commercial aircraft leased to third parties.
June 2000	ECT Investments Holding Corp. sold its aircraft for approximately $36MM.
Quarterly	Over 200 quarterly statements (REMIC Schedule Q's) of taxable income/loss are received and recorded.

Annual Tests	75% Gross Income must be derived from real estate transactions.	95% of Gross Income must be derived from real estate transactions plus dividends and interest	Limited to 5% of total asset value invested in securities of a single issuer.
Quarterly Tests	75% of the value of total assets must consist of real estate, cash or government securities.	No more than 25% of the REIT's assets may be held in securities.	Limited to 5% of total asset value invested in securities of a single issuer.

Operational Issues and Action Items

Operational Issues	Action Items
Cash dividend payments must be made quarterly.	Legal, accounting, and tax procedures are in place to appropriately declare and pay dividends. We have contracted with a management company to pay the private investors and handle tax reporting requirements.
Annual consent dividends of income are required to maintain REIT status and achieve financial accounting benefits.	Work with Arthur Andersen and Deutsche Bank to obtain Deutsche Bank's agreement.
Must show ownership by at least 100 shareholders each year.	Receive documentation from management company supporting ownership by 100+ individual shareholders annually. Approval is required prior to ownership.
Must maintain a qualifying portfolio of real estate assets generating real estate income to maintain REIT status.	Cash management is coordinated with Mary Perkins' group. Plan to purchase additional REMIC interests in September. Arthur Andersen reviews portfolio and reports regularly.
Maintain compliance with quarterly REIT tests.	Manage assets and income monthly to ensure that quarterly tests are met.
Prepare REIT tax return.	Work with Arthur Andersen and Deutsche Bank to fairly report income.



Project Apache

Business Review

Structure Overview

Asset/Risk Management

Assets Used:
- Third-party receivables regenerated monthly in EWS Operations, valued at $1,300 million.

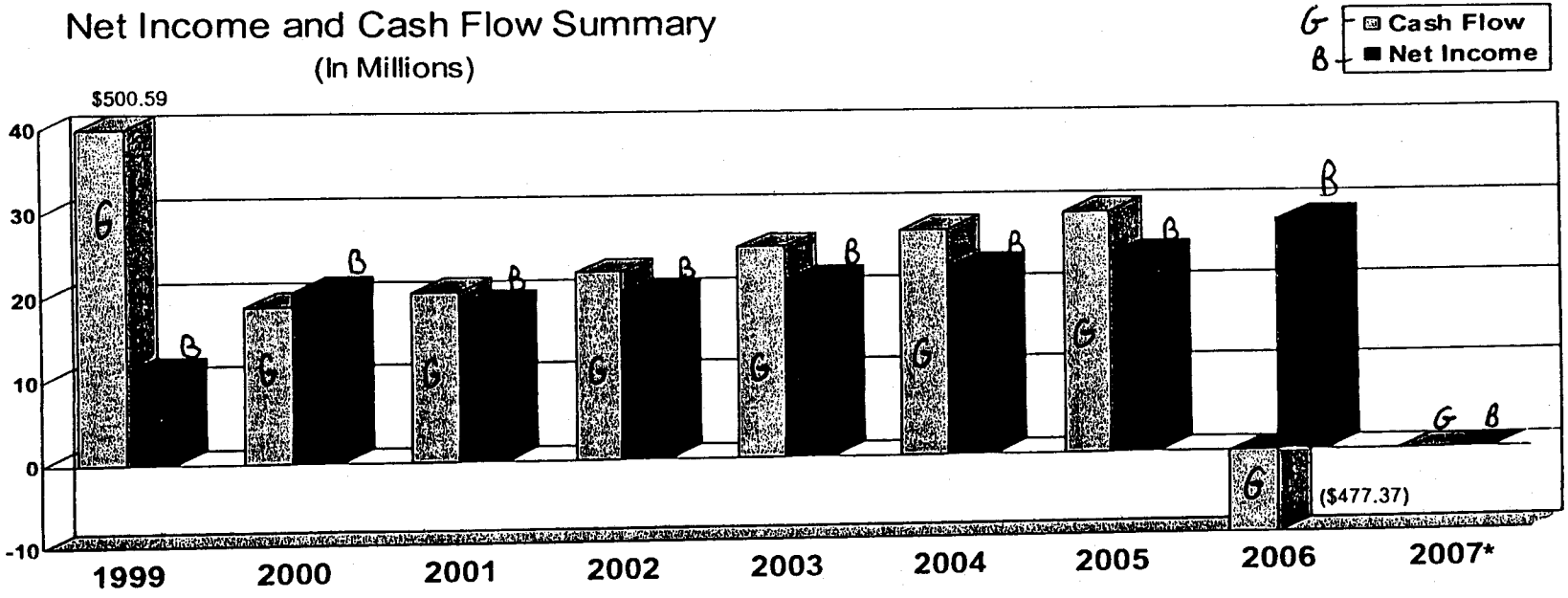
Liabilities:
- Minority interest financing of $500 million; project ends in 2006.

Transaction Description

This structure provides minority-interest financing and generates tax benefits related to factoring 3rd party receivables generated by Enron North America.

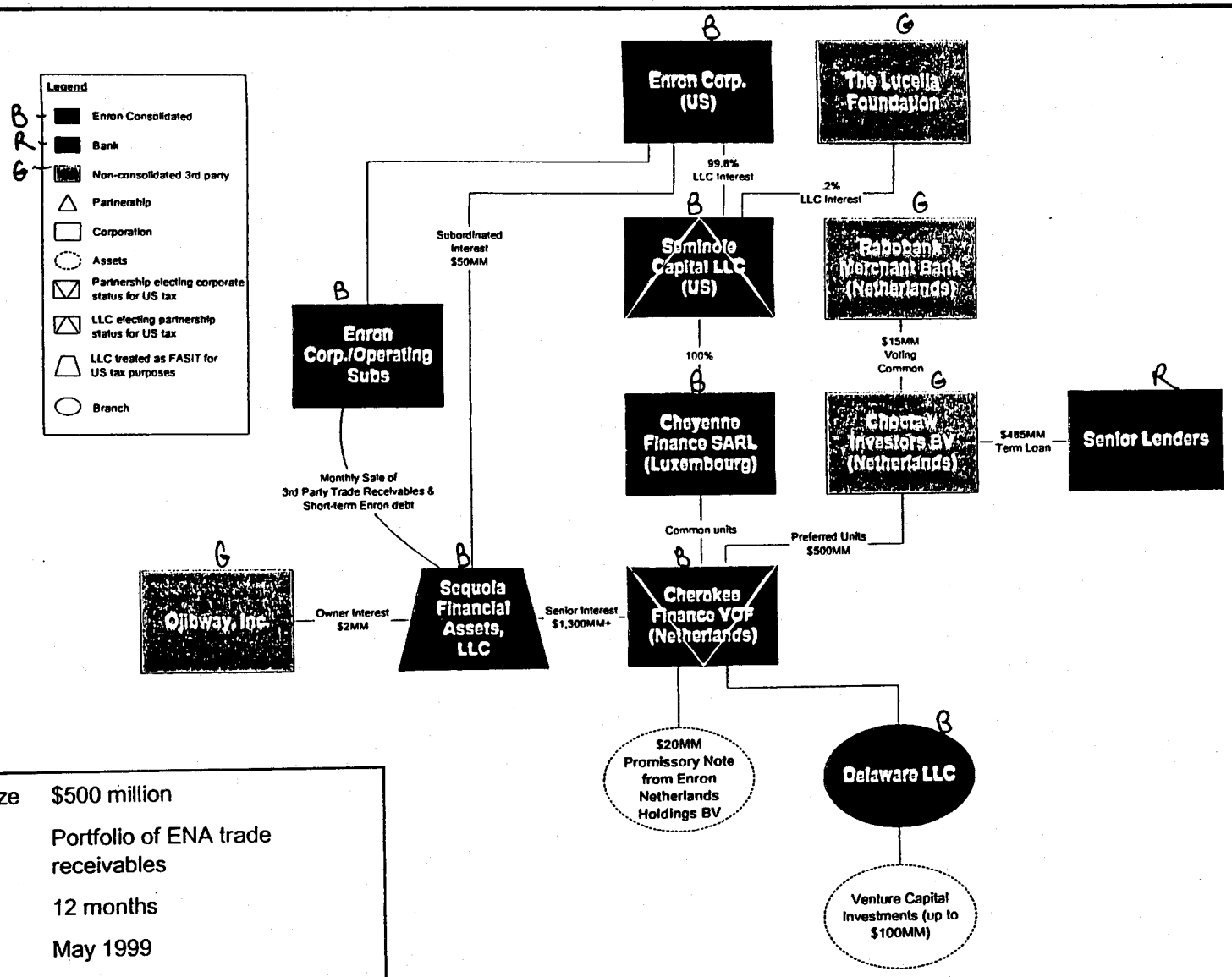
Net Income and Cash Flow Summary

(In Millions)



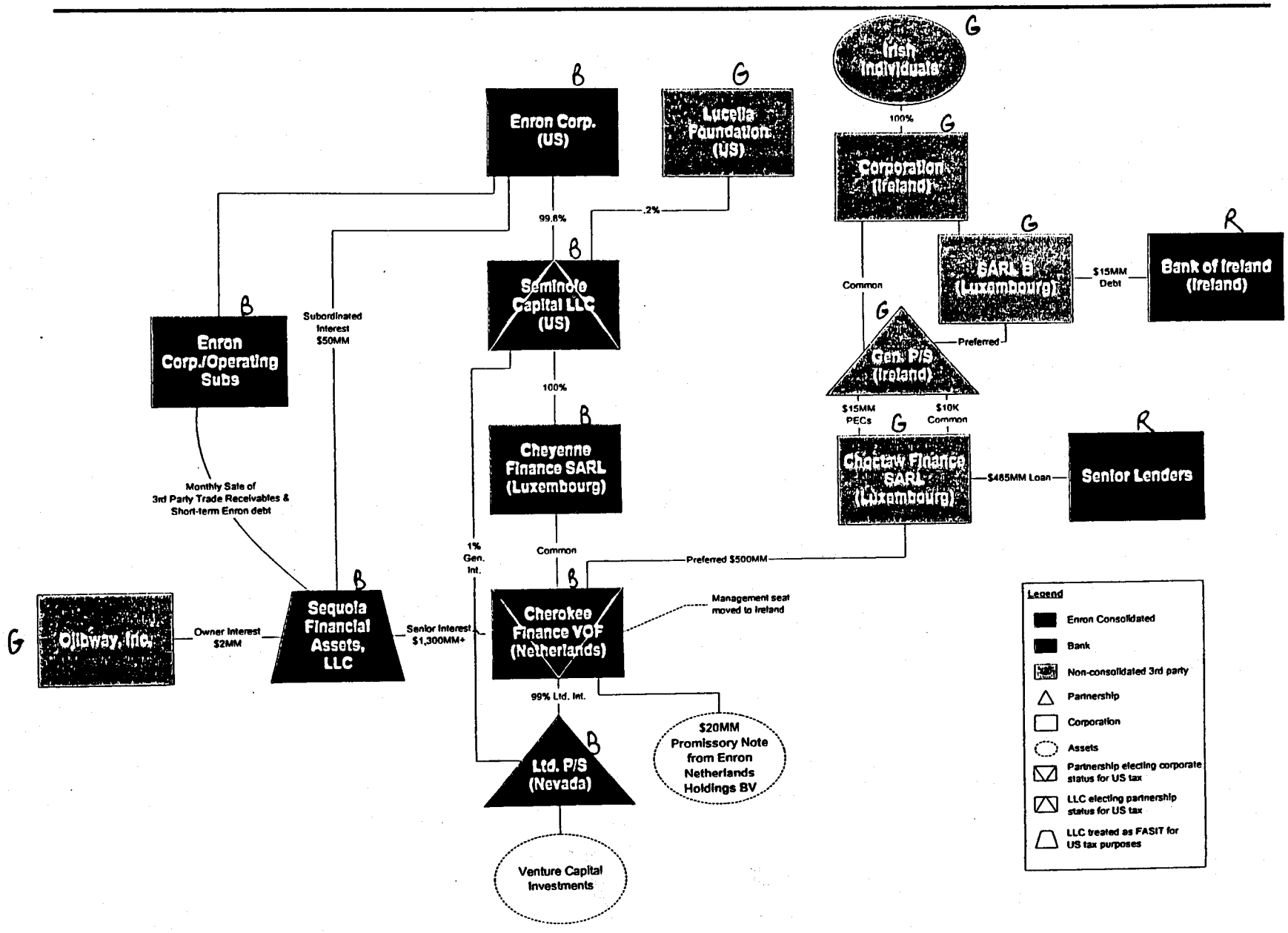
*This project will cease to produce income or cash flow after 2007.

Current Structure



Transaction size	$500 million
Assets used	Portfolio of ENA trade receivables
Time to close	12 months
Closing date	May 1999
Total earnings	$167 million

Anticipated Restructuring

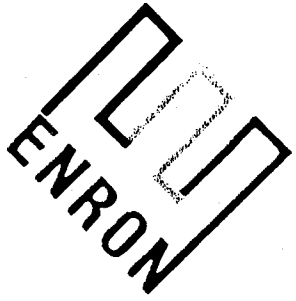


Summary and Progress Report

May 1999	Cherokee Finance VOF and Sequoia Financial Assets, LLC were formed. Cherokee began investing monthly in Sequoia senior notes; the funds of the investment are used by Sequoia to purchase 3rd party receivables generated by Enron in its trading business.
December 2000	Amendments allowed Enron Finance Partners (part of Project Tammy) to invest in Sequoia senior notes alongside Cherokee. Amendment also expanded permitted investments in Cherokee to include equity investments (such as venture capital) to some extent.
January 2001	Three venture capital investments of Enron Broadband were placed in the Cherokee structure.
4th Quarter 2001 (anticipated)	The equity of Choctaw will be restructured to bring in new ownership. - The change will allow Cherokee to increase the value of equity investments held in the structure. - Until completion of the restructuring, such investments are capped due to limitations placed by the current Choctaw equity holder.
Monthly Activities	Analysis and identification of receivables Generation of 300+ accounting entries Preparation and distribution of monthly receivables reports Preparation of Form 8811 for Ojibway Distribution to Ojibway
Quarterly Activities	Distributions to Sequoia noteholders Financial statement preparation Certification of compliance with ratios

Operational Issues and Action Items

Operational Issues	Action Items
Restrictions on the amount of equity investments which can be included in the structure.	Currently in the process of replacing Dutch equity with non-institutional holders who will be more amenable to the structure holding additional equity investments in the structure.
Potential Luxembourg taxation upon distribution of proceeds of an equity sale by Cherokee.	Restructuring to convert current LLC's to a more efficient vehicle, probably a Nevada limited partnership.
Pressure from other Enron groups to use 3rd party receivables in other structures – exacerbates difficulties of monthly tracking of receivables, which is a crucial element in maintaining minority interest financing status.	Exploring using "gross" receivables amount rather than "net" positions currently used.
Separate Cherokee audit produced two issues: (1) identification of receivables; and (2) calculation of return on interim notes	Refining procedure for identifying receivables on 1st of the month. Correcting the calculation of interim debt going forward.
Offshore management issues for Cherokee and Seminole.	Significant decisions are made only after board meetings held in the Caymans.



Project Condor

Business Review

Structure Overview

Asset/Risk Management

Assets Used:

- Bammel Assets $930 million

Status of Assets:

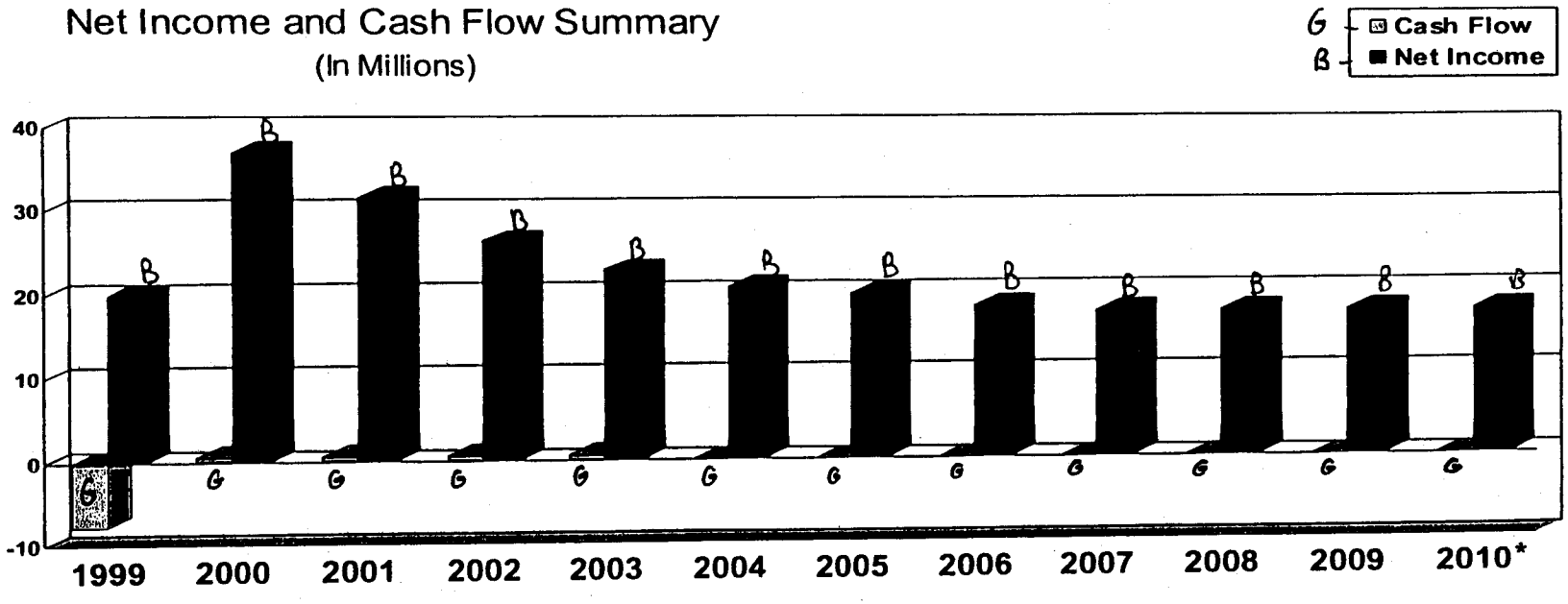
- HPL was sold to AEP in 2001. Legal ownership of the Bammel assets were retained by Enron and subleased from the Condor structure to AEP.

Transaction Description

- In November 1999, Houston Pipe Line Company ("HPL") contributed its interest in the Bammel storage field and the Houston distribution loop ("Bammel Assets") to Whitewing Associates, L.P. The collateral provided by this transaction facilitated the $1.0B Osprey Trust financing.
- A collateral benefit of the transaction is the accretion of additional tax basis for the Bammel Assets upon unwind of the structure.

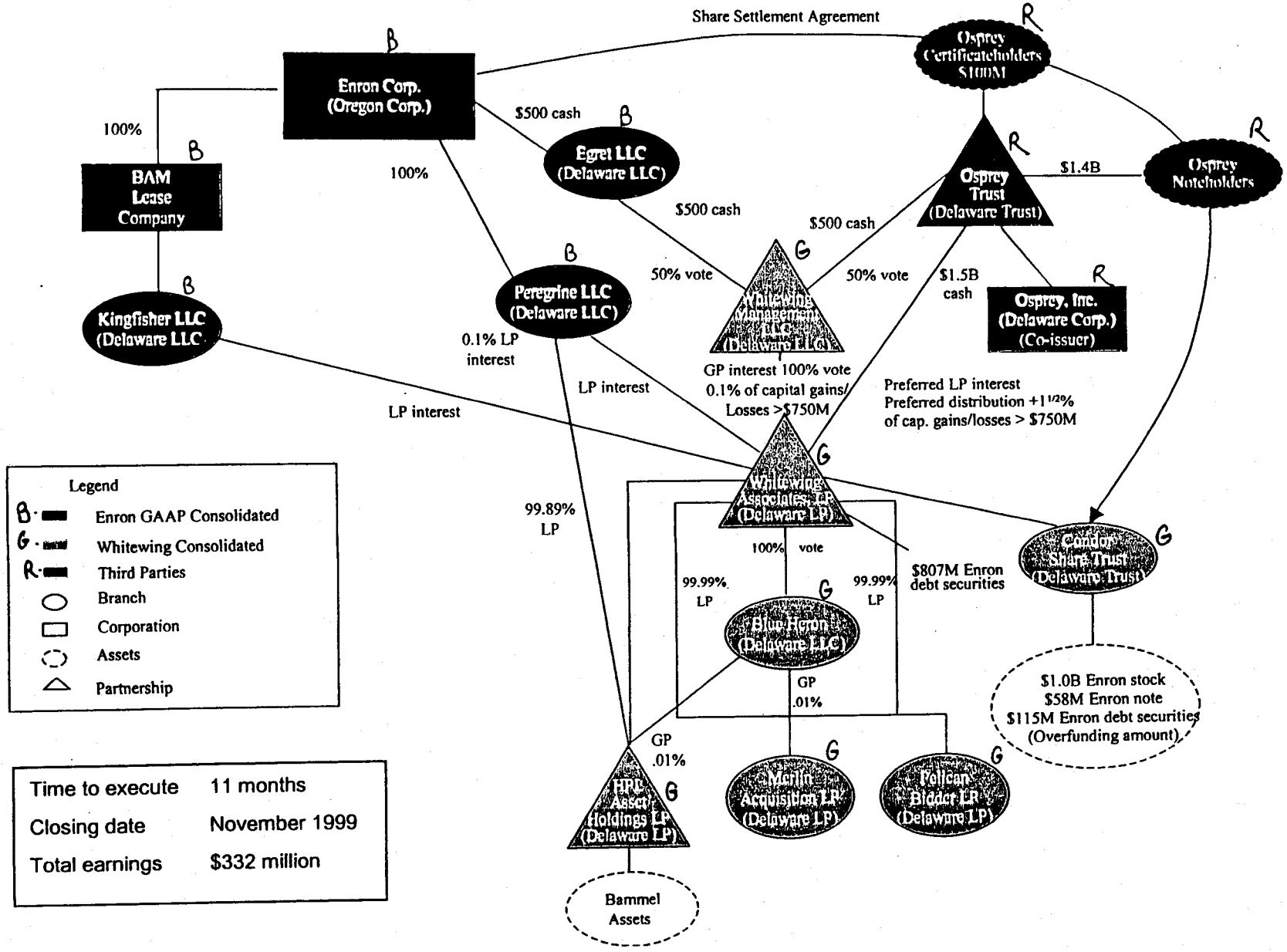
Net Income and Cash Flow Summary

(In Millions)



*There is additional net income of $61.2 million and positive cash flow of $332.78 million from 2011 through the year 2030 resulting primarily from tax depreciation on a pipeline asset.

Transaction Structure



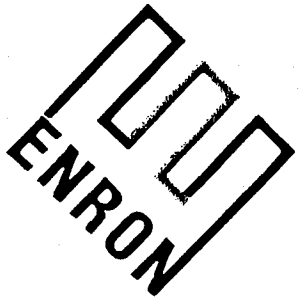
Time to execute	11 months
Closing date	November 1999
Total earnings	$332 million

Summary and Progress Report

September 1999	Whitewing Associates, L.P. ("Whitewing") received a $1.5 billion partnership contribution from Osprey Trust in exchange for a preferred LP interest.
November 1999	Houston Pipe Line Company ("HPL") contributed its interest in the Bammel assets to a Delaware limited partnership called HPL Asset Holdings LP ("Asset Holdings") for an LP and GP interest. HPL contributed its LP interest and its indirect GP interest in Asset Holdings to Whitewing in exchange for a preferred LP interest. Asset Holdings leased the Bammel assets to HPL on a 18-year, triple-net lease.
November 1999	The yield payable by Whitewing on the preferred LP interest held by Osprey Trust was reduced as a result of the enhanced collateral provided by the cashflow from the lease of the Bammel assets.
September 2000	Osprey Trust contributed assets valued at approximately $1 billion to Whitewing in exchange for an increased LP interest.
June 2001	Enron sold the stock of HPL subject to a Section 338(h)(10) election. In connection with the sale, HPL transferred its Whitewing interests, its leasehold interest in the Bammel assets, and selected other assets to BAM Lease Company (BAM). The original lease running between Asset Holdings and BAM was extended an additional 31 years to accommodate a 31-year sublease by BAM of the Bammel assets to the new owner of HPL. Also, Asset Holdings' name was changed to ENA Asset Holdings LP.
Quarterly	HPL and BAM (as HPL's successor) make lease payments to Asset Holdings. Whitewing makes preferred partnership distributions to BAM pursuant to the terms of its LP interest.
Annually	Whitewing's partnership tax return reflects certain allocations of income and deduction to BAM and Enron Corp. These allocations result from differences between FMV and the tax basis of the Bammel assets that existed at the time of their contributions to Whitewing.

Operational Issues and Action Items

Operational Issues	Action Items
Whitewing's Global Finance activities must be continually monitored to analyze their impact on the Condor structure.	Planning & Reporting personnel must interact regularly with Global Finance.
Enron Corp. must loan BAM sufficient funds to allow BAM to make lease payments to Asset Holdings on a quarterly basis.	Treasury, accounting, and tax personnel are aware of this quarterly requirement and have put procedures into place to ensure it is done.
Whitewing must make preferred partnership distributions to BAM on a semiannual basis.	Treasury, accounting, and tax personnel monitor the distribution status and maintain related systems.
Proper computation and recording of the special Partnership allocations required by the Condor structure.	Tax personnel prepare the annual Whitewing tax return and make the appropriate allocations to the Whitewing partners.
Enron Corp's partnership interest in Whitewing must not be reduced below zero or Enron Corp. will recognize taxable income.	Tax Department personnel monitor Enron Corp.'s tax basis in its Whitewing interest including the effects of distributions on the required special allocations. At some time, modifications of the structure will be needed to increase the outside of tax basis of Enron Corp. in Whitewing Associates by $500MM.
Upon unwind of the structure, Whitewing Associates must distribute at least $1 billion of the portfolio preferred stock to Enron Corp. in redemption of its partnership interest.	Monitor structure to ensure that sufficient preferred shares remain in Whitewing to facilitate unwind.



Project Valhalla

Business Review

Structure Overview

Asset/Risk Management

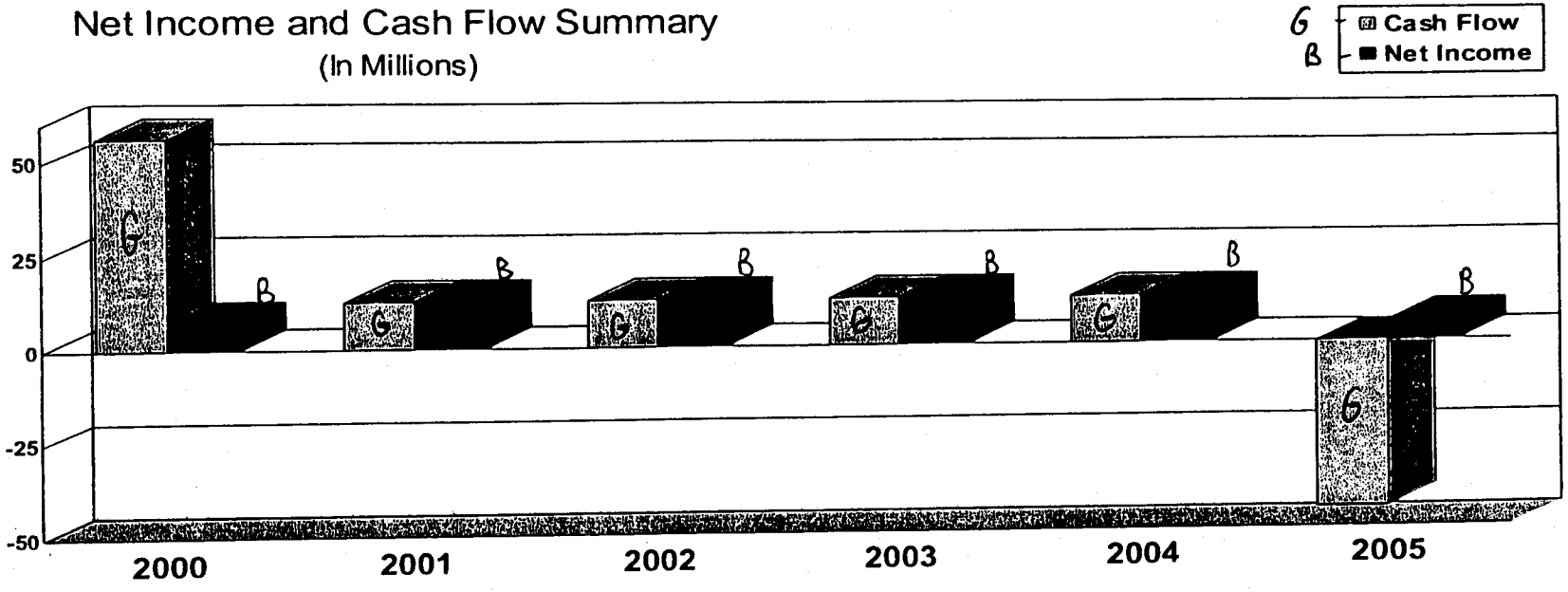
- Enron's credit exposure on $1.95B of funds deposited with DB's London affiliate is mitigated by legal set-off against the $2.0B security held by DB.
- The 5-year structure is subject to annual renewal. Changes to DB's German tax position could cause them to unwind the structure early.

Transaction Description

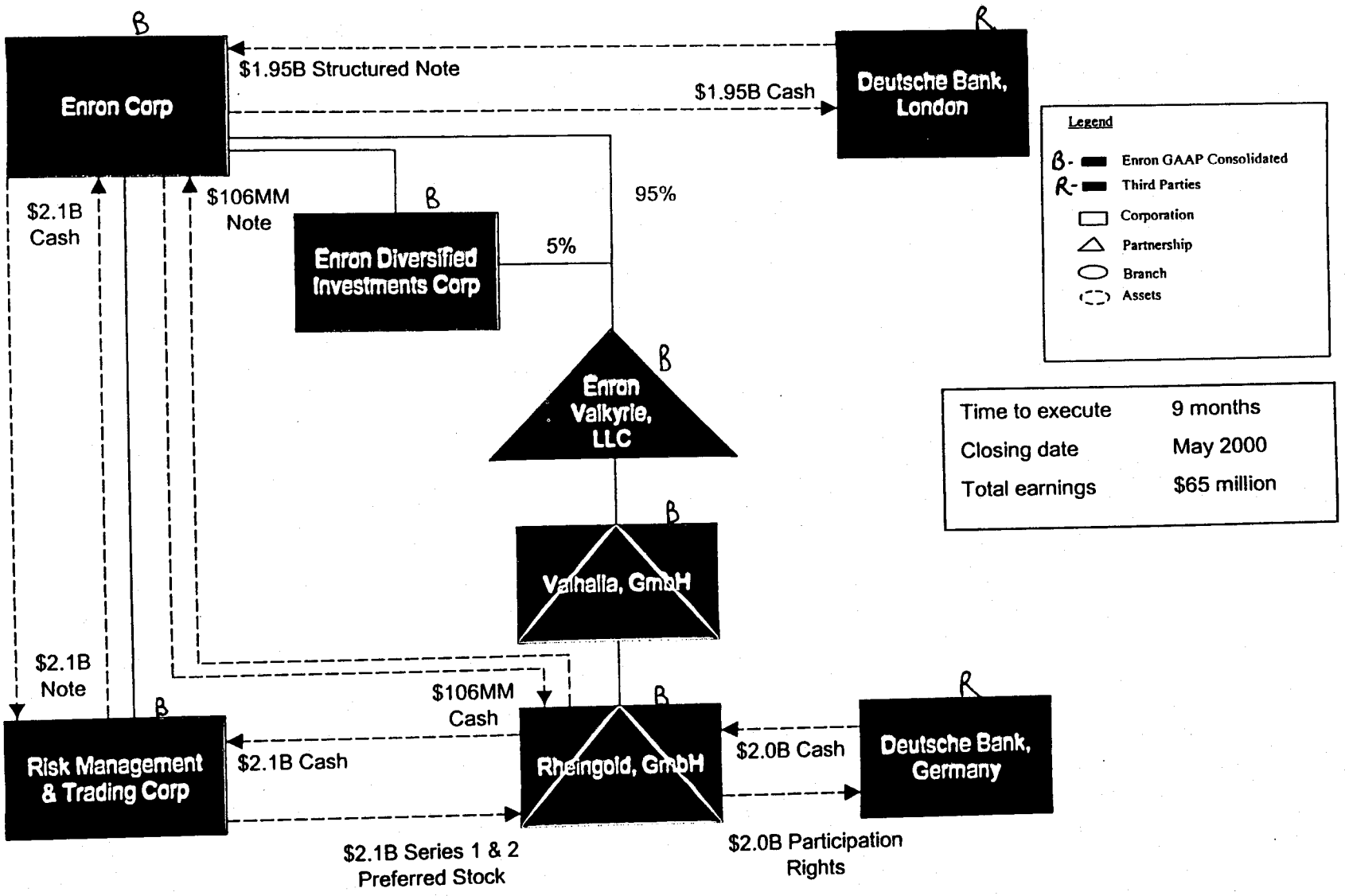
- In 2000, an Enron affiliate issued a $2.0B fixed-rate, 5-year preferred security to Deutsche Bank ("DB") in Germany. Simultaneously, Enron deposited $1.95B with DB in London with a yield based upon a package of Treasury and commodity indexes. This transaction creates commodity and interest positions that are integrated into and augment Enron's trading books.
- The Note and the Debt are offset in the Enron Corp. consolidated financial statements.
- The rate differential on the Debt and the Note generates $20MM in interest income (before tax) per year for the next 5 years.

Net Income and Cash Flow Summary

(In Millions)



Transaction Structure

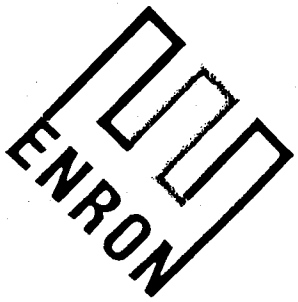


Summary and Progress Report

December 1999 – May 2000	Enron Corp. and Enron Diversified Investments Corp., a wholly owned subsidiary, formed Enron Valkyrie, LLC. Valkyrie formed two wholly owned German subsidiaries, Valhalla Gmbh and Rheingold GmbH. Rheingold issued $2.0B in 'Participation Rights' to Deutsche Bank (DB), and purchased $2.1B in preferred stock from Risk Management & Trading Corp (RMT). RMT invested the $2.1B received from the preferred stock sale with Enron Corp., who purchased a $1.95B Structured Note Receivable from DB. The Note is offset against the Rheingold 'Participation Rights' in the Enron Corp. consolidated financial statements. In addition, Enron Corp. and DB entered into a $50MM interest rate swap.
December 2000	The Structured Note was transferred from Deutsche Bank – New York to Deutsche Bank – London.
Monthly	Enron Corp. accrues interest income on the $1.95B Structured Note Receivable at 8.74%. Rheingold accrues interest expense on the $2.0B 'Participation Rights' at 7.7%. Intercompany interest income and expense is accrued on all intercompany notes.
Quarterly	Enron Corp. makes variable payments to DB on the $50MM interest rate swap.
Annually	Rheingold receives dividend income from RMT, which is used to pay the accrued interest expense on the 'Participation Rights' to DB. Enron Corp. receives payment from DB for the accrued interest income on the Structured Note Receivable. Enron Corp. receives fixed payment from DB on the $50MM interest rate swap. Intercompany accrued interest is paid.

Operational Issues and Action Items

Operational Issues	Action Items
Valhalla, GmbH and Rheingold, GmbH must be recognized as residents in Germany under German law.	The primary books and records for these entities are prepared in Germany, and office space is maintained in Eschborn. Quarterly office visits are made to these offices, and various management activities are performed while there.
Rheingold must have dividend income from RMT (as opposed to a return of capital) in order to maintain the proper German tax characterization.	The intercompany note receivable of $2.1B generally provides sufficient income for the desired dividend treatment. Other RMT losses, however, could erode RMT's dividend paying ability. Tax personnel must, therefore, monitor RMT's other activities.
The $1.95B Structured Note Receivable from Deutsche Bank must continue to be offset against the $2.0B 'Participation Rights' owed to Deutsche Bank in Enron's financial statements.	Legal and accounting opinions regarding the offset were received and the related assumptions are monitored for their continued applicability.
A material downgrade in Deutsche Bank's credit rating would force the structure to be unwound.	Tax department personnel monitor the credit rating of Deutsche Bank to verify that it has not been downgraded.
We must properly coordinate the required cash distributions, related declarations of dividends, and preparation of US and German books and records.	Systems have been established for these activities and tax personnel interact with Legal, Treasury, and Accounting to coordinate the cash flows and related events.
The use of the Valkyrie partnership creates a theoretical US tax issue associated with the use of preferred intercompany dividends.	Elect to treat EDIC as a branch of Enron Corp., thereby dissolving the Valkyrie partnership and removing the related US tax exposure.



Project Tammy I

Business Review

Structure Overview

Assets/Risk Management

Assets Held:
- Ecoelectrica
- EOG India Limited
- Enron Renewable Energy Corp.
- Proceeds from the sale of East Coast Power
- Minority Interest financing invested in Sequoia Notes
- Intercompany Harris Indenture Debt
- Other Intercompany Receivables

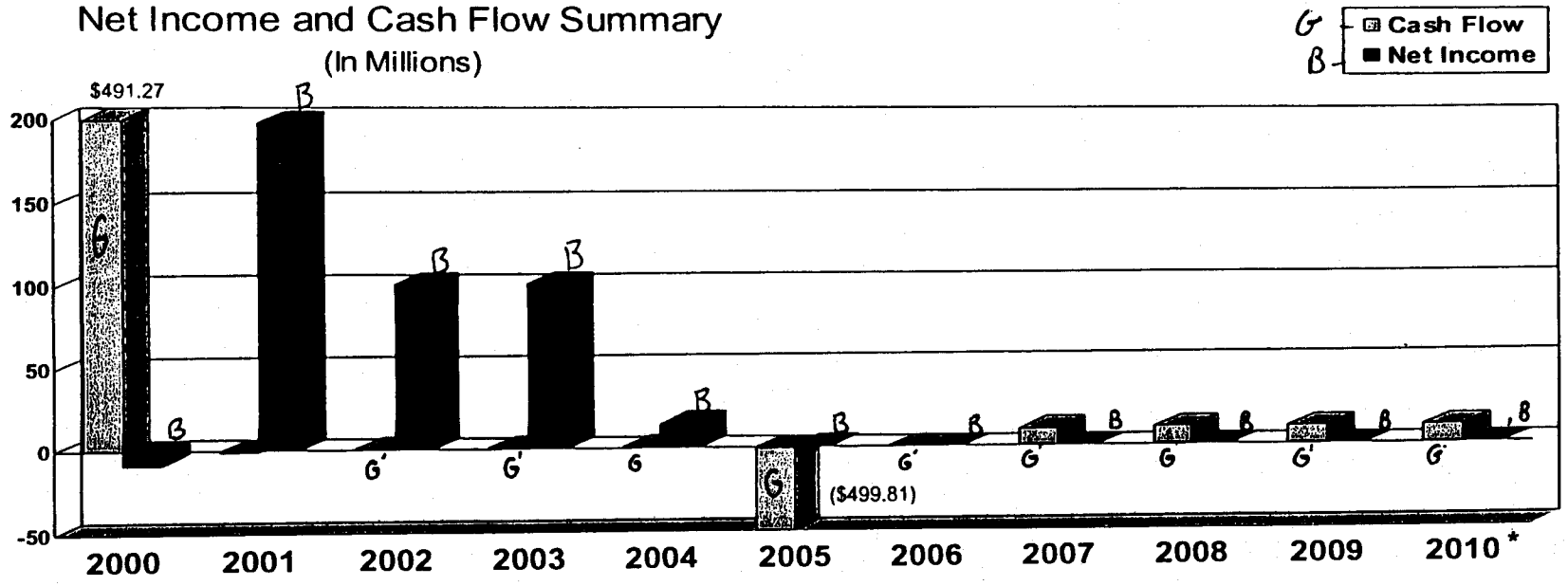
Current Status:
- Any sales or restructurings of finance or ownership of these assets requires coordination with the Structured Transactions Group to preserve the benefits.
- Minority interest financing of $500MM will be repaid in 2005.
- Periodically, invested proceeds from the sale of assets are used to purchase Enron Corp. preferred stock. Additional proceeds will eventually be used to purchase Enron Center South.

Transaction Description

- This is a minority interest financing transaction raising $500 million and supported by a contributed portfolio of low basis, high fair market value equity investments.
- The transaction creates tax deductions in the form of enhanced depreciation deductions on the Enron Center South. The deductions are created through a shift in tax allocation of certain tax gains imbedded in the contributed assets.
- The enhanced depreciation deductions in the building are taken over the depreciable life of the building but the benefits are included in the tax provision in earlier years as preferred stock is purchased.

Net Income and Cash Flow Summary

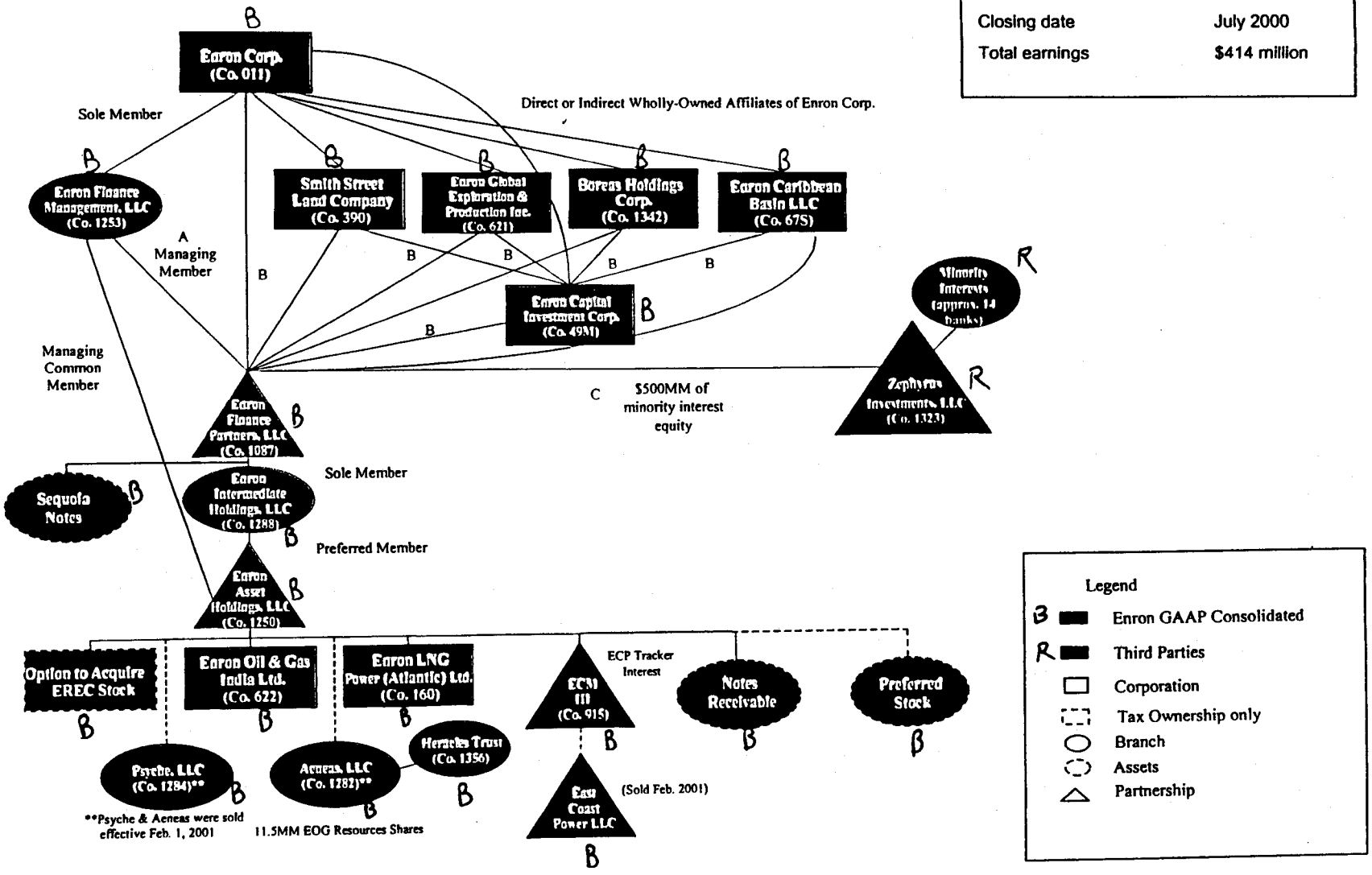
(In Millions)



*There is additional positive cash flow of $372 million from 2011 through the year 2046 resulting primarily from tax depreciation on Enron Center South.

Transaction Structure

Time to execute	18 months
Closing date	July 2000
Total earnings	$414 million



Summary and Progress Report

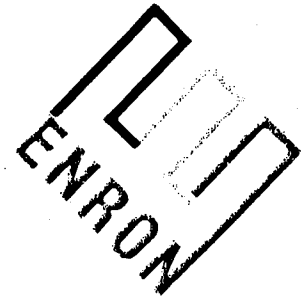
July-December 2000	Enron Finance Partners, LLC ("EFP") was formed and funded in the third and fourth quarters of last year. Minority interest financing in the amount of $500MM was sold to a consortium of banks led by Chase in the fourth quarter.
January 2001	Enron restructured its financing of EOG Resources shares in a transaction yielding $477MM in tax gain in the Tammy I structure.
February 2001	Enron, through Jedi II, sold its shares of East Coast Power yielding $252MM in tax gain to the structure.
May 2001	Board authorized issuance of $1 billion of blank-check Preferred Stock.
September 2001	Enron Asset Holdings, LLC will purchase approximately $630MM of Preferred Stock from Enron Corp. using $520MM in proceeds from the monetization of EOG Resources stock and the ECP Tracker interest valued at $110MM representing the proceeds from the sale of East Coast Power.
2001	The sale of Enron Renewable Energy Corp. ("EREC") is in negotiation with a sale planned in 2001. If this sale is not completed, it is possible that the EREC stock will be held as an investment asset with a plan to initiate a public offering of a portion of the shares in the future. An IPO of the EREC shares would yield the same benefits with respect to the shares sold as would a sale to a third party. However, the total benefit from the sale of EREC shares may not be realized until there is a disposition of all of the shares.
2001	Enron LNG (Atlantic) Ltd. II is currently on the market. We have been actively involved in discussions with the business teams regarding any necessary pre-sale structuring to meet the needs of buyers while preserving the estimated benefits through the structure.
2001-2002	The sale of Enron Oil & Gas India, Ltd. is currently in negotiation. We have been in contact with the business team and should know the outcome of the negotiations within a month. If the sale is not completed, this asset will be held in inventory for a sale in the future.
Quarterly	Preferred dividend payments to minority interest investors.

Operational Issues and Action Items

Operational Issues	Action Items
Issuance of Preferred Stock	September 2001 – Approximately $630MM preferred stock issued resulting in the recognition of approximately $200MM of project earnings in 2001. Possible additional issuances later in 2001 and 2002.
We must create cash flows within the structure to insure that there is no default on debt instruments or on the minority interest financing facility.	From time to time, it may be necessary for Enron to lend additional funds into the structure to facilitate liquidity. As projects sell and cash is received, the cash flow issues should reverse themselves in the ordinary course of business.
Deconsolidation of EREC creates potential for cash tax cost if EREC becomes a U.S. federal taxpayer prior to sale.	We are currently working with Tax Planning to develop a pre-sale structure that would preserve Tammy I gain and allow EREC to continue to sell development projects. In the alternative, we are considering selling this asset intra-company.
Potential purchasers of the EREC stock have requested consideration of a 338(h)(10) election as a part of the sale.	Pre-sale structuring and purchase price adjustments will accomplish the same end goal without impairing the structure; so the denial of the 338(h)(10) election is not a serious impediment to sale.
The sales price of various assets is different from the fair market value of such assets on contribution.	Some depreciation in value between the contribution date and the sales date is hedged through a preferred return mechanism built into the structure.
The EOG India Ltd. Asset has declined in value since it was contributed.	The preferred return structure combined with a pre-sale appreciation in the value of certain other assets will cover the current decline in value without an impact to the benefits from the structure.

Operational Issues and Action Items

Operational Issues	Action Items
The Ecoelectrica asset was significantly undervalued by the business teams at the time of contribution.	It will be necessary to restate the fair market value from inception on this asset, but there will be no corresponding increase in benefit as a result.
Enron provides services under a Management Agreement for Zephyrus Investments, LLC.	Preparation of separate, unaudited financials, tax returns and regular reporting to Zephyrus minority interest investors.



Project Tammy II

Business Review

Structure Overview

Assets/Risk Management

Assets Held:
- Tax Ownership of Portland General Electric
- Proceeds from the sale of EOTT common units
- Proceeds from the sale of Hanover Compressor shares
- Intercompany Harris Indenture and similar long-term debt
- Other Intercompany Receivables

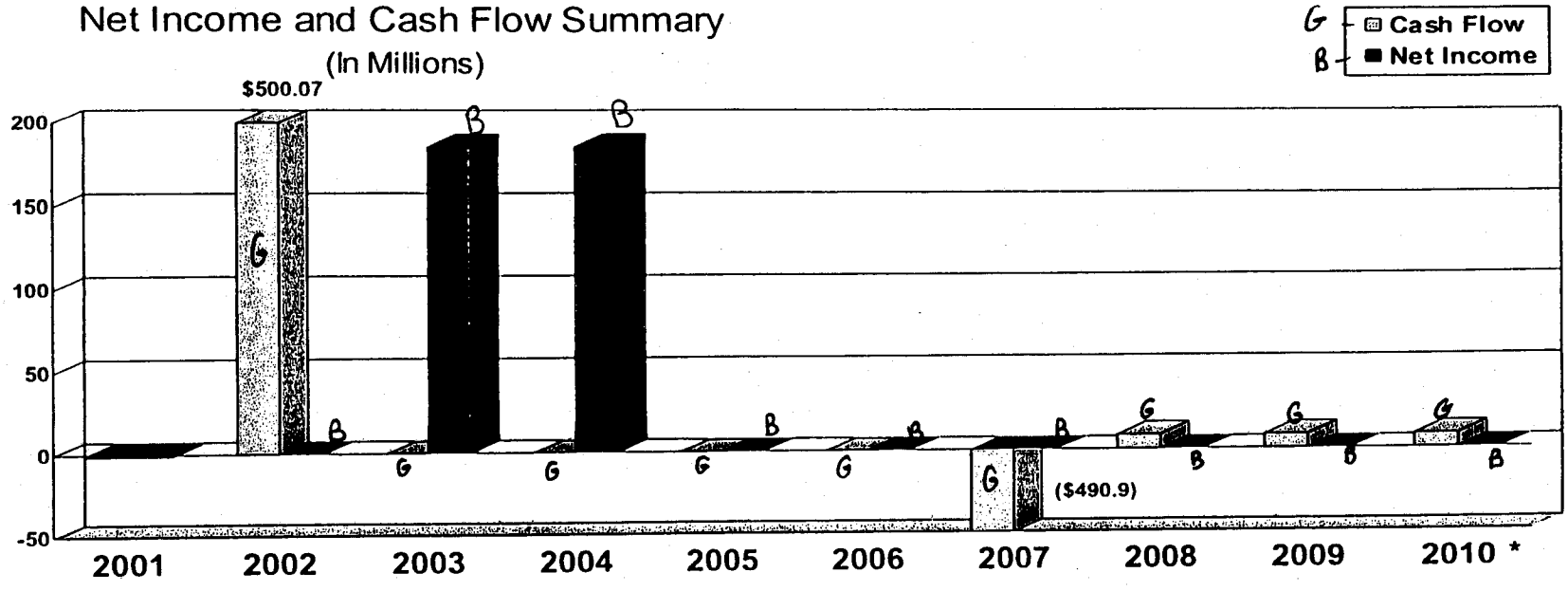
Current Status:
- The contribution of PGE into the structure deconsolidated PGE for federal income tax purposes.
- Issuance of $500 million of minority interest financing has been delayed pending further developments in the disposition of PGE.

Transaction Description

- This is a minority interest financing transaction raising $500 million and supported by a contributed portfolio of low basis, high fair market value equity investments.
- The transaction creates tax deductions in the form of enhanced depreciation deductions on a long-lived depreciable asset. The deductions are created through a shift in tax allocation of certain tax gains imbedded in the contributed assets.
- The enhanced depreciation deductions in the building are taken over the depreciable life of the asset but the benefits are included in the tax provision in earlier years as preferred stock is purchased.

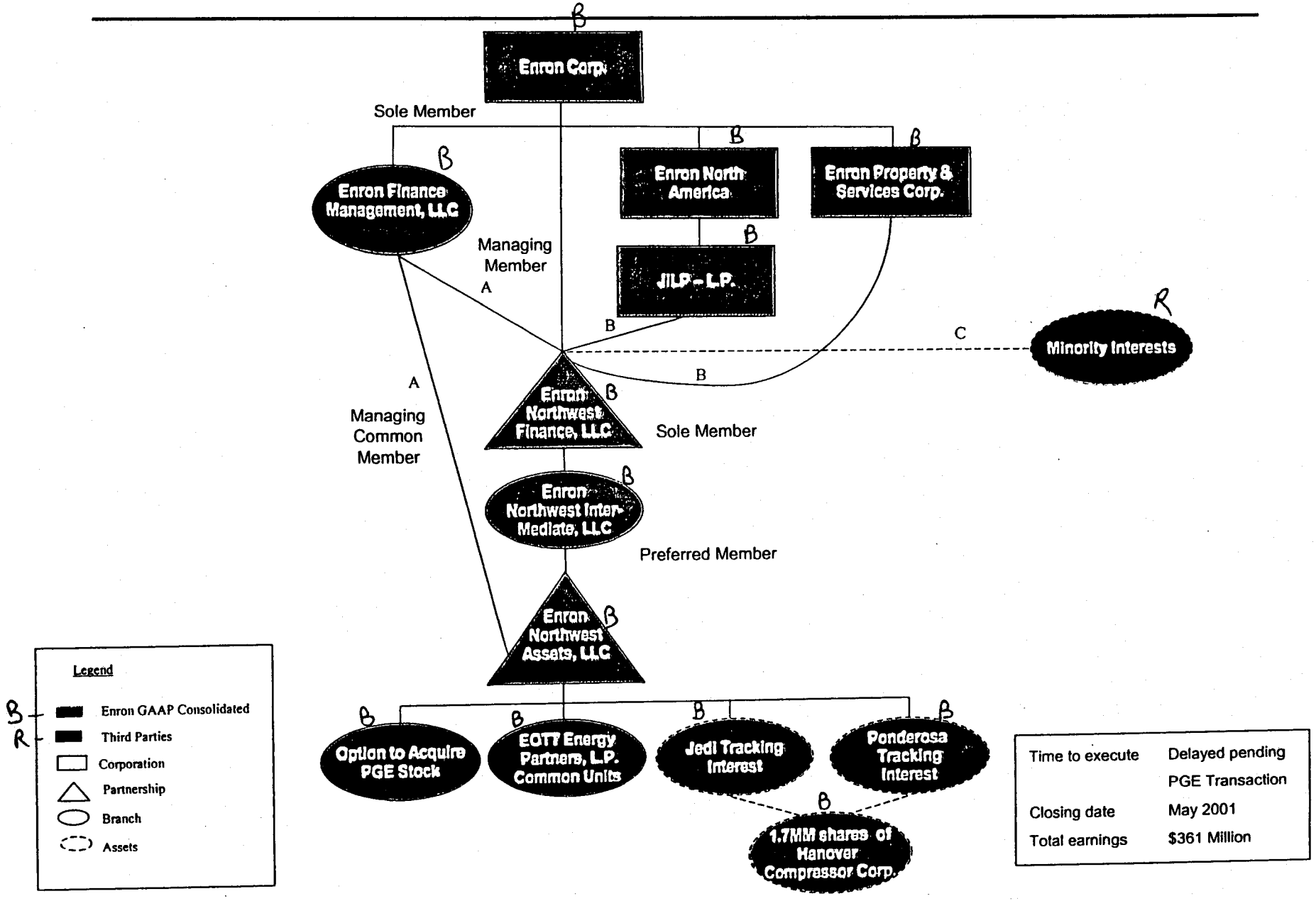
Net Income and Cash Flow Summary

(In Millions)



*There is additional positive cash flow of $332.29 million from 2011 through the year 2046 resulting primarily from tax depreciation on a long-lived asset.

Transaction Structure



Summary and Progress Report

May 2001	On May 7, 2001, Enron Corp. ("Enron") created a purchase option (the "Option") on the common shares of Portland General Electric Company ("PGE") and contributed that Option together with certain other assets into Enron Northwest Finance, LLC ("Finance") in exchange for a membership interest in Finance. Finance contributed its debt and assets to two additional companies: Enron Northwest Intermediate, LLC (debt) and Enron Northwest Assets, LLC (assets). Certain other companies contributed cash and demand notes into the structure to provide substance and liquidity. Enron received Board approval for this and related transactions on May 1, 2001.
June 2001	Enron Corp. contributed the common units of EOTT Energy Partners, L.P. into the structure together with debt as an additional contribution to capital.
August 2001	Tracking interests were created out of Joint Energy Development Investments Limited Partnership ("JEDI") and out of Ponderosa Assets, L.P. ("Ponderosa") reflecting economic ownership of 1.7mm shares of Hanover Compressor Corp. stock. Enron contributed the JEDI tracking interest; and JILP-L.P. contributed the Ponderosa tracking interest into the structure as contributions to capital. These parties also contributed additional debt to the structure. Subsequently, Enron and JILP contributed a fraction of their respective interests in Finance to Enron Property and Services Corp. in exchange for additional stock in that entity.
2001-2002	The contribution of the assets was the first of several integrated steps intended to result in the issuance of minority interest equity out of Finance. Certain additional tax benefits may be realized out of the minority interest financing structure following a sale of the PGE common shares and other contributed assets.
2001-2002	This contribution of the Option deconsolidated PGE from Enron for federal income tax purposes. It did not deconsolidate PGE from Enron for financial accounting purposes. If necessary, this project can be unwound at its current stage of development in a manner that would permit PGE to reconsolidate with Enron.

Operational Issues and Action Items

Operational Issues	Action Items
Continue to monitor progress of PGE sale to determine whether an unwind may be appropriate.	Meet regularly with Mark Metts. Discuss options regularly with Rick Causey.
Actively monitor the sale of shares in Hanover Compressor Corp. and manage the resulting cash flows and income to insure proper routing to the project.	Promptly analyze any transactions that occur; ensure the consistent book and tax treatment for all parties involved. Coordinate cash flows with the tracker interests.
Actively monitor the restructuring of EOTT to insure that any tax sale is appropriately accounted for and to insure that the structure does not incur any additional liabilities.	Meet regularly with ETS management for updates on restructuring. Assess and reflect the impact on the Tammy II structure.
Perform preliminary analysis on minority interest financing.	Work closely with Global Finance on developing a structure for minority interest financing.
Legal & Tax compliance concerns.	Draft amended limited liability company agreements for operational entities.
Accurate and timely identification of cash, tax, and financial accounting issues.	Continue to develop model to accurately anticipate tax, cash flow, and financial accounting impact of various activities.

II. PROJECT TANYA

ARTHUR ANDERSEN
Arthur Andersen & Co.

To: Robert J. Hermann, Enron Corp.

From: Robert P. Palmquist, Houston

Date: October 27, 1995

Subject: Enron Capital Loss

1. Attached are preliminary steps to implement.

2. We are doing preliminary feasibility study of reviewing particular items:

	(in millions)
Deferred Compensation	$60
SERP	20
FAS 106	120
Targeted Loss	$200

3. Items considered but on hold:

Pension plans
Stock options

4. Biggest issue to be resolved -- business purpose for Newco's managing these items.

5. AA fees

Feasibility review	$75,000 - $100,000
Implementation	$100,000 - $200,000

MLP\[illegible]

EC2 000037798

Office of Chief Counsel
Internal Revenue Service

memorandum

CC:MSR:HOU:TL-N-TL-N-3895-98
JRBalboni

date: AUG 16 1999

to: Chief, Quality Measurement Staff, Houston District

from: District Counsel, Houston District, Houston

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subject: **Review of Proposed Notice of Deficiency**
Taxpayer: Enron Corporation and Subsidiaries
EIN: 47-0255140
Years: 1995

We have reviewed the above-stated notice of deficiency and agree to the issuance of the notice with the following changes. We have previously returned to your office the proposed explanation paragraphs with certain changes. The recommended changes need to be made in accordance with the corrections we made on the explanation paragraph pages before the notice is sent to the taxpayer.

We cannot approve the adjustment titled "Sale of Enron Management, Inc. Stock" (adjustment h. under Enron Corporation). That proposed adjustment is a determination that Enron should not be allowed a long term capital loss on the sale of Enron Management, Inc. preferred stock in the amount of $188,515,109. The primary posisition for making the adjustment is that there was no economic substance to the transaction. However, after discussing the issue with the Corporate Division of Chief Counsel, we determined that our case was covered by the recently issued Field Service Advice 199905008, which advised against applying the lack of economic substance argument. Accordingly, the National Office will not support our proposed primary position. We also discussed our alternative position, lack of business purpose, with the Corporate Division. The Division reviewed our alternative position, which we prepared after we were informed that the primary position was not approved. They will not support our alternative position either. They determined we do not have sufficient facts to support a disallowance of the deduction based on the the economic substance arguement. Therefore, we approve the issuance of the notice only if the Enron Management, Inc. adjustment in the amount of

5

$188,515,109, is not included.

If you have any questions, please contact Janet R. Balboni at 281-721-7307.

BERNARD B. NELSON
District Counsel

By: Janet R. Balboni
JANET R. BALBONI
Attorney

Enron Corporation
Project Tanya
To Do List
November 9, 1995

Action Step	Responsibility	Target Date
1. Prepare list of available subsidiaries • Equity of $500,000 to $5,000,000 • Preferably 1st tier subs • AA LLP to address issues involving the potential use of a 2nd tier subsidiary and or a subsidiary with minimal existing equity (i.e. $1,000)	Enron Tax AA	Mon. 11/13
2. Draft documents/discuss project with attorney • Select Enron corporate attorney to assist with project • Amend Newco's Articles of Incorporation for name change and to provide for two classes of stock (a sample document has been provided). • Newco Board of Directors resolution providing for the issuance of stock in consideration for (1) the contribution of the note(s) receivable and (2) assumption of certain liabilities (a sample document has been provided). • Enron Board of Directors resolution providing for the acquisition of stock in consideration for (1) the contribution of note(s) receivable and (2) assumption of certain liabilities (a sample document has been provided). • Agreement for the assumption of liabilities. • Agreement(s) to convert intercompany receivables to notes receivable. • Tax sharing agreement (if necessary) • Consulting agreement/stock purchase agreement. • AA LLP to obtain sample additional sample documents (if available).	Enron Legal	Wed. 11/15 Fri. 11/10
3. Select existing liabilities to be transferred to Newco • Meet Monday afternoon (1:30) to discuss with HR and Towns Perrin. • Determine if assets related to the liabilities (i.e. COLI & VEBA) must reside in the same subsidiary as the liabilities. Review for possible delay in transferring the assets since they will not provide any tax benefit. • Deferred Compensation (pre 1994, excludes rabbi	Enron/AA	Tues. 11/14 Mon. 11/13

EC2 000037845

Action Step	Responsibility	Due Date
trust/COLI). • FAS 106 Post Retirement Benefits. • Active Medical Obligation (?). • Determine the fair market value of the liabilities to be assumed by Newco. • Consider provisions to "cap" Newco's exposure where the costs of satisfying the liabilities could increase substantially. • Any regulatory issues on the transfer of liabilities/VEBA funding?	Enron	
4. Identify existing intercompany accounts receivable to be converted to intercompany notes receivable. • Bob Butts will provide a list. • Accounts receivable must have tax basis. • Determine the required interest rate for the notes. • Determine the required face amount of the notes to yield the desired value of the second class of stock.	Enron	Tues. 11/14
5. Determine the potential buyer of Newco stock • Drives the type of stock to be issued. • Employee – voting participating preferred • Consultant – nonvoting class B common • Determine the terms of Newco's new class of stock.	Enron	Tues. 11/14
6. Develop a cashflow/accounting model for Newco • Supports the value placed on the second class of stock • Payment of liabilities • Receipt of interest income • Payment of dividends (only if preferred stock is used) • Payment of administrative costs • Payment for (and assumption of) additional future obligations (if any) • Use of intercompany advances to meet cashflow needs • Future redemption of second class of stock • Book Basis Balance Sheet/Income Statement • Tax Basis Balance Sheet/Income Statement • Deferred Tax Treatment • AA LLP to obtain sample model (if available)	TBD	11/16
7. Draft Tax Opinion • Draft Opinion (based on generic factual assumptions) • Develop business purpose • Finalize Tax Opinion (based on Newco's specific facts)	AA Enron/AA	 11/14 11/14

EC2 000037846

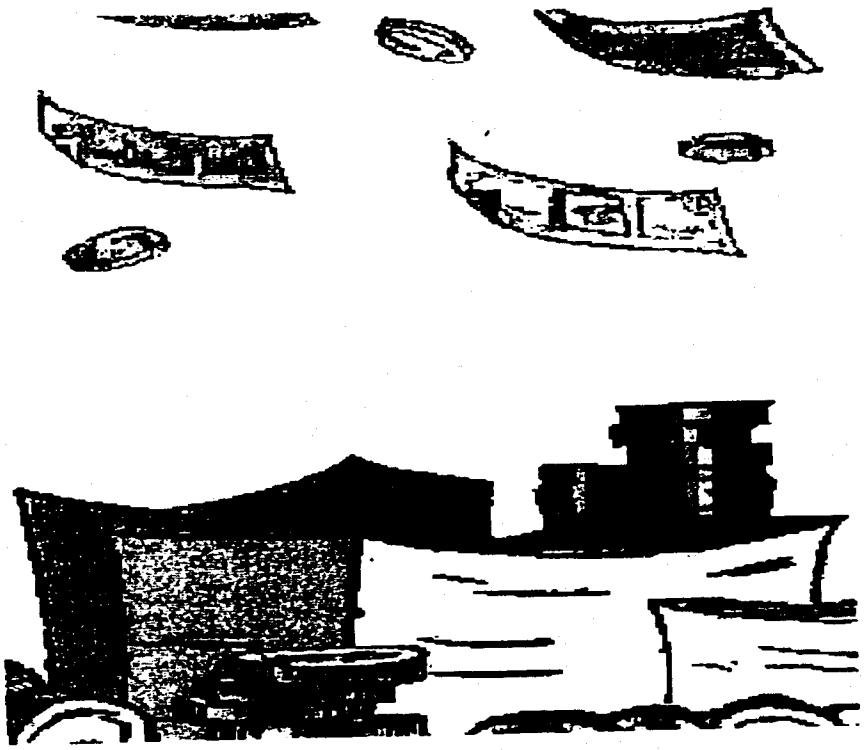
Action Step	Responsibility	Due Date
8. Resolve financial accounting treatment • Send preliminary cashflow/accounting model to Dave Duncan and Bob Butts	AA Audit	11/17
9. After Newco has been formed and the second class of stock has been issued, begin negotiations with potential buyer(s). • Negotiate consulting agreement/stock purchase agreement with buyer. • Preferably agreement will not require audited financial statements for Newco. Instead, Newco's FMV can be supported with actuarial determinations of the value of the liabilities.	Enron	December

III. PROJECT STEELE

Show Me the Money!

Project Steele Earnings Benefits

(in millions)



1997	6.1
1998	23.4
1999	23.3
2000	24.7
2001	24.5
2002	18.6
2003-2024	12.2

Pre-Tax Operating Earnings ***132.8***

ENRON

EC2 000038546

Bankers Trust
Bankers Trust New York Corporation
and its affiliated Companies

Thomas Finley
Managing Director
Bankers Trust Company

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One Bankers Trust Plaza
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August 11, 1997

Mr. R. Davis Maxey
Enron Corp.
Senior Director
1400 Smith Street
Houston, TX 77002-7361

Dear Dave:

As we discussed, attached is a schedule detailing the possible cost to Bankers Trust Company ("Bankers Trust") of entering into the proposed transaction with Enron Corp. As you know, absent the proposed transaction, Bankers Trust would continue to hold the REMIC residuals until they stop producing "phantom income" and would be able to recognize the tax loss built into the REMIC residuals through disposition of the interests at that time. As the schedule indicates, the phantom income is expected to cease on the REMIC residuals as of the beginning of 1999. However, as a result of the proposed transaction, Bankers Trust would not be able to recognize its built-in tax loss until it disposes of the Enron debt to be received in the future recapitalization. We anticipate that such a sale could occur no earlier than the end of the year 2002. Accordingly, as a result of the proposed transaction, Bankers Trust would be deferring the recognition of a tax loss by at least 3 years (from 1999 to 2002). The attached schedule provides details for these computations and illustrates the net present value cost to Bankers Trust of entering into the proposed transaction.

As the schedule indicates, the net present value cost to Bankers Trust is approximately $7.4 million. This amount is greater than the $6.5 million number we discussed earlier due to several factors. First, this initial estimate was generated assuming the proposed transaction were to occur at the end of the second quarter of 1997. The proposed transaction is now expected to occur as of the end of the third quarter of 1997. As a result of this change in assumed timing, Bankers Trust has recognized additional phantom income from the REMIC residuals, which has increased its tax basis. In addition, more complete information has been received (e.g., missing quarterly statements for certain REMIC residuals were received) since the initial computation was made which caused an increase in the amount of phantom income recognized in prior

periods. An additional cost to Bankers Trust therefore exists due to the deferral of the tax loss related to the additional tax basis.

If you have any questions, please give me a call.

Very truly yours,

Thomas Finley

Bankers Trust
Bankers Trust New York Corporation
and its affiliated Companies

Thomas Finley
Managing Director
Bankers Trust Company

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November 7, 1997

Mr. R. Davis Maxey
Enron Corp.
Senior Director
1400 Smith Street
Houston, TX 77002-7361

Dear Dave:

Enclosed, for your files, is a copy of the memorandum regarding the financial accounting for the REMIC Subco transaction which you discussed with Brian McGuire in San Diego. As you will see, the memorandum is addressed to Bill McKee and was drafted in order to provide Bill with an overview of the financial accounting benefits of the transaction.

Very truly yours,

Thomas Finley

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EC2 000037573

Bankers Trust
Bankers Trust New York Corporation
and its affiliated Companies

William B. Boyle
Vice President
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June 2, 1997

Mr. William McKee
King & Spalding
1730 Pennsylvania Avenue, N.W.
Suite 1200
Washington, DC 20006-4706

Dear Bill:

Enclosed is a memo we have prepared which supports "de-linking" the accounting benefits to be derived from entering into the joint venture transaction from the cash tax benefits arising from the carryover of the tax basis in the REMIC Residual Interests ("RRIs"). As the attached memo illustrates, the accounting benefits of the transaction are derived from treating the transaction as a "bargain purchase" of assets for accounting purposes, even though there is no bargain purchase from an economic perspective and the transfer of such assets is a carryover basis transaction under Section 351 for tax purposes. The carryover of tax basis does not directly create the accounting benefits. As discussed in more detail in the memo, the bargain purchase element of the transaction arises because: (1) the accounting rules require recording a Deferred Tax Asset attributable to the book-tax basis difference in the RRIs based upon the gross tax basis in the RRIs without taking into account when the benefit of such tax basis will be realized economically; and such amount will exceed (2) the consideration paid for the assets which is attributable to the benefit of the carryover tax basis. Because the amount determined under (2), above, is determined based upon the present value of the benefits expected to be derived from the tax basis in the RRIs, the amount paid for the benefit of the tax basis in the RRIs will always be less than the benefit of the tax basis recorded on the balance sheet as a Deferred Tax Asset. The accounting rules deem that a bargain purchase occurs in such situations. No income statement benefit is derived from the bargain purchase in a straight Section 351 transaction. As discussed below, it is only where other steps are introduced into the transaction that the bargain purchase provides a book income statement benefit.

The memo uses three scenarios to illustrate the impact of the bargain purchase upon the accounting benefits of the transaction. In the first scenario (the "Base Case"), the consideration for the RRIs is paid solely in stock. As a result, the benefit of the bargain purchase is recorded as an addition to stockholders' equity and no income statement benefit will be realized. In the second scenario, a recapitalization provision is added which will cause the equity interest issued

in exchange for the RRIs to be exchanged (in the future) for debt of the JIE. In the third scenario, assets in addition to the RRIs are contributed. It is this recapitalization provision (as illustrated in scenario two) and the contribution of the additional non-RRI assets (as illustrated in scenario three) which generate the income statement accounting benefits from the deemed bargain purchase. Significantly, the book income statement benefits do not arise from a carryover of the tax basis in a transfer of assets subject to Section 351.

The memo is separated into the three following parts: first, a basic discussion on financial accounting and its use in the business world; second, a summary of the cash flow tax benefits and accounting benefits under three scenarios; and third, an analysis of how the accounting benefits arise in each of the three scenarios.

Attached to this letter is the Section 2 - Summary of the Benefits under the three scenarios. As the summary attachment indicates, the transaction is a deal driven by the accounting benefits. If a client were interested in the tax benefit, other less expensive alternatives exist to generate equivalent tax benefits.

Sincerely,

Bill Boyle

Bill Boyle

cc: Tom Finley
Christine Levinson
Leon Kozak
Gregg Grauer
Brian McGuire

Section 2 - Summary of Benefits of Transactions

	Transaction #1 Base Case Basic Section 351 Transaction	Transaction #2 Section 351 with Recapitalization Provision	Transaction #3 Section 351 with Recapitalization Provision and Additional Asset Contributions by Co. B
Cash Tax Savings	$80 million when losses generated in Years 1-20 from REMICs are actually used	$80 million when losses generated in Years 1-20 from REMICs are actually used	$80 million when losses generated in Years 1-20 from REMICs are actually used
Pre-Tax Accounting Income (Above-the-Line)	None	$133 million income over Years 1-20 when losses from REMICs are generated	$133 million income over Years 1-5 *or sooner* if Leased Assets are sold
Accounting Tax Expense (Below-the-Line)	None	$53 million expense over Years 1-20 when losses from REMICs are generated	$53 million expense over Years 1-5 *or sooner* if Leased Assets are sold
Net Accounting Income	None	$80 million income over Years 1-20 when losses from REMICs are generated	$80 million income over Years 1-5 *or sooner* if Leased Assets are sold
Present Value of Pre-Tax Accounting Income	None	$65 million (assuming pre-tax income generated equally in Years 1-20) (*)	$106 million (assuming pre-tax income generated equally in Years 1-5) (*)

It is our professional opinion that a business entity would be willing to pay (1) little, if any, fee for Transaction #1, (2) a moderate fee for Transaction #2 and (3) a substantial fee for Transaction #3.

(*) Discounted at a target investment yield of 8%

EC2 000037576

Overview of Financial Accounting for Joint Venture Transaction

Section 1 - Background

Financial accounting is often called the language of business as it is the primary method of communicating a business entity's activities. Most often, financial accounting information is provided to decision makers in the form of financial statements. In preparing these financial statements for a business entity, preparers must identify, quantify, analyze, interpret, and classify the numerous events that have occurred during the relevant period and their financial effects on the business entity.

Various parties use financial statements to assess an entity's financial performance. New and existing investors are the principal end users of a business entity's financial statements. The information provided in the financial statements help these investors to evaluate the performance of the entity in generating profits and to predict the ability of the entity to generate future profits. Thus, the financial statements allow investors to make informed decisions about whether to initially invest in a particular entity and whether to continue, decrease or increase an existing investment in a particular entity.

The executive officers of business entities also have significant interest in the financial statements of the entity which they manage. The compensation of such managing executives is usually dependent on the business entity's profitability. Most entities pay bonuses to their managing executives based directly on financial results reported in the entity's financial statements. Thus, the financial statements provide an objective benchmark for determining how successful executives have been in meeting their performance goals. Accordingly, operating, strategic and financial decisions of executives are largely based on predictions of the impact such decisions will have on an entity's financial statements.

Numerous other parties also rely on the information contained in a business entity's financial statements. Potential acquirers of a particular business entity will place great importance on information contained in the financial statements in making their acquisition decision and in determining an appropriate price for the entity. Lenders rely on financial statements in order to determine whether to grant loans to an entity and to determine the appropriate lending terms. Regulatory agencies, such as the Securities and Exchange Commission (SEC), review a listed business entity's financial statements to determine whether an entity conforms with regulatory requirements.

Financial accounting relies on and integrates raw data from diverse economic and legal disciplines. However, a distinction is made between reporting for financial accounting purposes and reporting for these other disciplines. For example, financial statement reporting to shareholders of a corporation must abide by Generally Accepted Accounting Principles (GAAP) while reports to income tax authorities must be made in accordance

with the law set forth in the Internal Revenue Code and the various regulations and administrative pronouncements issued by the U.S. Treasury and the Internal Revenue Service (IRS). While the income tax rules are often consistent with GAAP, they are in many instances distinctive and inconsistent with GAAP. Though there is nothing inconsistent or inappropriate about having two sets of rules, often the different approaches can lead to somewhat anomalous results.

Financial statements are required to be prepared in accordance with a common set of measurement principles and practices. GAAP provides the applicable rules and is composed of all the conventions, rules and procedures that comprise accepted accounting practice at a given point in time. Accounting principles become "generally accepted" through agreement by practitioners. Such agreement is not solely dependent on a static set of rules. These principles and practices continuously evolve to represent current GAAP. In addition, experience, custom, industry factors and practical necessity contribute to determining which accounting principles become generally accepted. Accordingly, these principles are not necessarily the product of airtight logic.

The United States Congress has granted the SEC the ultimate responsibility for authorizing the generally accepted accounting principles for companies with publicly-held stock. However, the SEC has delegated such power to the Financial Accounting Standards Board (FASB) and its predecessor, the Accounting Principles Board (APB). The FASB is a private-sector organization which is financed by various professional accounting associations. While the SEC retains the authority to overrule the FASB, Congress can overrule both the SEC and the FASB. Congress and the SEC rarely exercise their authority to overrule a particular accounting principal. Nonetheless, the evolution of GAAP is largely dependent upon, and balanced by, the regulatory interests of Congress, the SEC and the FASB, in addition to the practical interests of investors, lenders and public corporations. Thus, the determination of GAAP can be a complex process and the resulting accounting principles can be somewhat arbitrary due to the number of parties involved and their varied and often conflicting interests.

One of the significant financial statements is the balance sheet, which illustrates the financial status of an entity at a particular point in time. The balance sheet has two sections: one section lists assets, which represent the resources of the entity that are expected to provide future benefits to the entity; the other section lists liabilities and stockholders' equity, which collectively represent the entity's third party and ownership claims against the entity's resources. Another major financial statement is the income statement which measures an entity's performance for a particular time span. Specifically, the income statement presents the revenue and expense transactions recorded by the entity during a particular period of time.

In the following discussion, a number of important financial accounting principles and concepts will be used. These are defined below:

- **"Purchase Accounting"** - This is a method of accounting for a business acquisition. Under Purchase Accounting, the acquiring corporation records the net assets acquired at their fair market values. Any excess of the purchase price over the fair market value of the net identifiable assets is recorded as goodwill, while negative goodwill is recorded if the purchase price is less than the fair market value of the acquired identifiable assets (e.g., where a "Bargain Purchase" occurs).

- **"Deferred Credit"** - An item recorded in the liability section of a balance sheet which represents an amount of deferred revenue for financial statement purposes. Over time, as the deferred revenue is actually recognized in the income statement, the Deferred Credit disappears. A Deferred Credit can be created as a result of certain business acquisitions where a bargain purchase is made (i.e., a Deferred Credit may be the equivalent of negative goodwill discussed above).

- **"Above-the-Line/Below-the-Line"** - An income statement presents an entity's revenues less its expenses. The presentation of such amounts on the income statement is *Revenues* first and *Expenses (other than income taxes)* second. The subtotal of these two items is "Pre-Tax Income". Anything which is included in this Pre-tax total is considered **"Above-the-Line"** in accounting lingo.

  The "Tax Expense" is then deducted from the Pre-Tax Income line, leaving "Net Income" as the last entry on the Income Statement. Amounts in the Tax Expense are commonly referred to as **"Below-the-Line"**. Thus, there is an imaginary "Line" between Pre-Tax Income and Tax Expense on the Income Statement.

  The distinction between Above-the-Line and Below-the-Line is critically important in a number of respects. Most significantly, stock analysts and valuation specialists utilize this concept when analyzing a particular corporate business entity and determining the appropriate value and stock price for the corporation. Commonly, such analysis relies heavily on Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (rather than a multiple based on Net Income). For example, a company with 1996 EBITDA of $100 might be valued at $800 million based on a multiple of 8 times EBITDA. Thus, stock analysts and valuation specialists generally ignore the tax expense line of an income statement (along with other items such as interest and depreciation) in determining a corporation's true market or trading value. Accordingly, since the compensation of a business entity's executive officers is often tied to the market or trading value of the entity, such executives place much greater priority on increasing Pre-Tax Income and are generally less concerned about the entity's Net Income.

- "Gross-Up" - Generally, this term is used in situations where an item of income is included in the Net Income line of the income statement without a related tax cost being recorded in the Tax Expense line. For example, a tax-free municipal bond providing $60 of Net Income is said to be "Grossed-Up" to $100 (assuming a 40% effective tax rate). In other words, a "Gross-Up" provides the amount of Pre-Tax income that would have to exist to provide the same amount of Net Income if a tax cost were actually recorded on the item.

- "Temporary Differences" - Whenever revenue or expense items are recognized in one time period for tax purposes and in another time period for GAAP reporting purposes, "Temporary Differences" are created. Temporary Differences "originate" in one period and subsequently "reverse" in another. The differences result from the following four types of transactions: (1) revenue included in taxable income after being included in accounting income (e.g., installment sales); (2) expenses deducted from taxable income subsequent to accounting income (e.g., warranty expense deducted for book purposes in the year of sale but when paid for tax purposes); (3) income recognized for tax purposes prior to being included for accounting purposes (e.g., rental received in advance); and (4) expenses subtracted for taxable income before being deducted for accounting purposes (e.g., accelerated depreciation method utilized in determining taxable income while straight-line depreciation used for book purposes).

- "Interperiod Tax Accounting" - Where Temporary Differences exist, "Interperiod Tax Accounting" requires that accounting income be reported as if it were subject to the full current tax rate even though a different income recognition method was used for tax purposes.

- "Deferred Tax Assets and Liabilities" - As a result of Interperiod Tax Accounting, Deferred Tax Assets and Deferred Tax liabilities may be recorded. Where either income is deferred or expenses are accelerated for tax reporting purposes, a Deferred Tax Liability must be recorded in the financial statements. Where income is accelerated or expenses deferred for tax reporting purposes, a Deferred Tax Asset is recorded.

  Generally, GAAP requires that assets and liabilities be recorded in the financial statements at fair market values. Usually, such fair market values incorporate applicable present value concepts. Thus, the value of an asset or the amount of a liability is discounted under present value concepts based on the expected timing of the asset or liability being realized. However, Deferred Tax Assets and Deferred Tax Liabilities are recorded *based on their gross amounts and do not incorporate any present value concepts*. Accordingly, such Deferred Tax Assets and Deferred Tax Liabilities are originally recorded on the balance sheet at the same amount regardless of when they are expected to be realized.

Section 2 - Summary of Benefits of Transactions

	Transaction #1 Base Case Basic Section 351 Transaction	Transaction #2 Section 351 with Recapitalization Provision	Transaction #3 Section 351 with Recapitalization Provision and Additional Asset Contributions by Co. B
Cash Tax Savings	$80 million when losses generated in Years 1-20 from REMICs are actually used	$80 million when losses generated in Years 1-20 from REMICs are actually used	$80 million when losses generated in Years 1-20 from REMICs are actually used
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Net Accounting Income	None	$80 million income over Years 1-20 when losses from REMICs are generated	$80 million income over Years 1-5 *or sooner* if Leased Assets are sold
Present Value of Pre-Tax Accounting Income	None	$65 million (assuming pre-tax income generated equally in Years 1-20) (*)	$106 million (assuming pre-tax income generated equally in Years 1-5) (*)

It is our professional opinion that a business entity would be willing to pay (1) little, if any, fee for Transaction #1, (2) a moderate fee for Transaction #2 and (3) a substantial fee for Transaction #3.

(*) Discounted at a target investment yield of 8%

Section 3 - Analysis of the Transactions

The goals of the proposed joint investment transaction (the "Transaction") are two-fold. First, it will provide the joint investment entity (the "JIE") with a market rate return. Second, it will allow the JIE to record the benefits of the transaction in a manner which is unusually attractive from a financial accounting point of view. Specifically, the JIE, after identifying the benefits of the transaction, will: (i) ***gross-up*** the amount of the benefit to a pre-tax equivalent number; (ii) record the benefit ***above-the-tax-line***; and (iii) capture the above-described benefits on an ***accelerated*** basis.

Publicly-traded corporations are particularly attracted to making investments which provide, "grossed-up", "above-the-line" and "accelerated" accounting benefits. Generally, as discussed previously, corporate business entities and their executive officers are primarily concerned with maintaining or increasing their stock price. In determining stock price, analysts typically give more importance to pre-tax earnings than to after-tax earnings. Therefore, the creation of pre-tax earnings will generally control whether an investment will be made. Tax benefits, without a corresponding accounting benefit, will not pursuade most publicly-traded companies to make an investment. In fact, in many cases, any significant tax benefits above a particular threshold lose their value because many companies target a specific effective tax rate and effectively manage earnings to maintain that tax rate. Generally, decision makers at these companies are not incentivized to lower their effective tax rates below this threshold level. Accordingly, it is the accounting benefits, and not the tax benefits, which will typically drive an investment decision.

In the Transaction, the REMIC Residual Interests ("RRIs") (with a tax basis in excess of its fair market value) and certain other assets are contributed by Co. B to the JIE in a Section 351 transaction. The assets contributed carry with them a carryover tax basis under Section 362. Co. B, as one of the transferors, receives cash and a debt obligation (i.e., boot) plus stock. The RRIs will not generate substantial cash flow. However, they will generate ordinary losses for Federal income tax purposes. Because of the nature of the RRIs and because of SRLY limitations and other restrictions, these ordinary losses will not, in large measure, give rise to cash tax benefits until the out years of the Transaction (i.e., years 11-20).

Application of Purchase Accounting Rules - Although the Transaction is a carryover basis transaction for tax purposes, it is characterized differently for financial accounting purposes. Under purchase accounting rules, the JIE is treated as having purchased the assets contributed in the Section 351 transaction in exchange for stock and boot (i.e., debt and cash). The purchase price (i.e., the fair market value of the stock and debt and the

amount of cash distributed) is allocated the among the contributed assets to the extent of their relative fair market values. Any excess of purchase price over the fair market value of the contributed assets is treated as goodwill. Any excess of the fair market value of the assets over purchase price results in negative goodwill.

The instant Transaction provides substantial accounting benefits solely as a result of the application of these Purchase Accounting Rules and the creation of negative goodwill. The following examples illustrate this conclusion:

Example #1 - No Bargain Purchase Recorded:

Assume Co. B contributes to JIE, in a Section 351 exchange, mortgages with a fair market value and of tax basis of $135 and RRIs with a fair market value of $1 (not counting the potential tax benefits) and a tax basis of $201. The RRIs generate a $200 loss in the current year and the JIE could utilize the entire loss currently to shelter income. The JIE issues to Co. B $10 of stock, $5 of debt and $201 of cash, totaling $216 of fair market value consideration in the exchange, ($135 for the mortgages, $1 for the RRI and $80 for the tax benefits attributable to the RRI (i.e., the $200 tax loss benefited at 40%)).

One possible method that could be required under the applicable accounting rules would be for this JIE would make the following accounting entries to record the transaction:

Debit:		Credit:	
Mortgages	$135	Cash	$201
REMIC Residuals	$1	Debt	$5
Deferred Tax Asset	$80	Equity	$10

In this case, JIE allocates the $216 purchase price first to the mortgages and RRIs based upon their fair market values. The accounting rules also require the JIE to record a Deferred Tax Asset to the extent of the excess of tax basis over book basis. The Deferred Tax Asset of $80 represents the book-tax basis difference in the RRI (i.e., $201 tax basis less $1 book basis multiplied by the 40% tax rate). Essentially, no bargain purchase would arise because the JIE would be treated as paying $216 in exchange for assets with a value and book basis of $216.

Example #2 - Creation of Bargain Purchase:

However, application of the Purchase Accounting rules to this transaction require different accounting for the transaction. The acquisition entry required under the applicable accounting is as follows:

Debit:		Credit:	
Mortgages	$135	Cash	$201
REMIC Residuals	$81	Debt	$5
Deferred Tax Asset	$48	Equity	$10
		Negative Goodwill	$48

Since the JIE is paying $80 of consideration for tax benefits to be derived from the RRIs, purchase accounting principles require that this consideration be recorded as part of the book basis of the RRIs. Since the JIE would then have a book basis in the RRIs of only $81 and continues to have a tax basis of $201 in the RRIs, a difference continues to exist between the book and tax bases. The applicable accounting continues to require that a Deferred Tax Asset be recorded for this $120 basis difference ($201 tax basis less $81 book basis). Thus, with a 40% tax rate, a Deferred Tax Asset of $48 must be recorded.

As a result, the JIE is treated as acquiring $264 worth of assets ($135 Mortgages, $81 RRIs and a $48 Deferred Tax Asset), while still paying only $216 of consideration. Thus, the JIE pays the same consideration as Example #1 above, but records additional assets on its balance sheet as a result of the application of the accounting rules. Accordingly, the JIE is treated as having made a Bargain Purchase *solely for accounting purposes*. As a result, the JIE would record negative goodwill of $48.

In economic terms, there is no Bargain Purchase in Example #2 since JIE is paying consideration equal to the present fair market value of the acquired assets. It is significant to note that JIE pays a full $80 for the tax benefits associated with the RRIs in Example #2. Arguably, this is the highest purchase price possible for the RRIs as it assumes that the tax losses will be generated and used in Year 1. Therefore, it is clear that a Bargain Purchase will always be deemed to occur for financial accounting purposes in this transaction since the Deferred Tax Asset must be recorded based on the gross difference between the book and tax bases of the RRIs.

Accordingly, the Bargain Purchase and the resulting accounting benefit is solely a creation of the accounting rules and the lack of a present value concept in the recording of the Deferred Tax Asset. In other words, the Bargain Purchase arises, not because the tax basis in the RRI carries over, but because the portion of the purchase price consideration paid for the tax benefits reflects their expected fair market value benefit, while the accounting rules require recording the Deferred Tax Asset based upon the gross difference between the tax basis and the book basis.

In isolation, a bargain purchase will arise for accounting purposes any time that the consideration attributable to a tax benefit reflects a discount to the gross Deferred Tax Asset.

Transaction Scenarios:

Below are a series of scenarios which illustrate the financial accounting impact of the bargain purchase and the related effect, if any, upon the income statement. In all these transactions, Co. A and Co. B contribute assets to the JIE, which is referred to as "Subco", in a Section 351 transaction. The base case scenario ("Transaction #1") illustrates the impact of Co. B receiving solely stock in the Section 351 transaction in exchange solely for the RRI. In the base case scenario, the benefit of the bargain purchase from the tax basis in the RRI does not flow through the income statement, but rather results in a direct increase in stockholder's equity. Subco does not derive any income statement benefit from the tax basis in the RRIs.

In the second scenario ("Transaction #2"), Co. B receives stock and debt of Subco in exchange for the RRIs. In addition, any shareholder with a 4% voting interest may force a recapitalization of Co. B's stock and debt investment into solely a debt instrument of Subco. This provision enables the JIE to record a deferred credit as a result of a "bargain purchase" for accounting purposes (rather than booking the amount directly to equity). This deferred credit is grossed up and reverses into "other income" above the tax line on a grossed-up basis as the RRI losses are recorded. In other words, the recapitalization provides two accounting benefits: (1) the amortization of the deferred credit through pre-tax income and (2) the recording of a gross-up of the deferred credit.

The third scenario ("Transaction #3"), includes a contribution of "other assets" by Co. B in exchange for cash and debt as a part of the Section 351 transfer. The contribution of the "other assets" enables Subco to accelerate a substantial portion of the accounting benefits related to the reversal of the deferred credit over a significantly shorter period of time than in the second scenario.

I. ***Transaction #1 Base Case Scenario - Basic Section 351 Transaction***

Net Impact: ***No Income Statement Accounting Benefits***

Description of Transaction

- Unrelated companies, Co. A and Co. B, will enter into a venture for the purpose of making investments in various assets. The entity to be used for this venture is an existing wholly-owned subsidiary of Co. A ("Subco").

- Co. A will contribute $135 million of cash in exchange for common stock representing 95.1% of the vote and approximately 90% of the value of Subco.

  In exchange for all of the voting preferred stock of Subco representing 4.9% of the voting power and approximately 10% of the value of Subco, Co. B will contribute RRIs to Subco. The RRIs have been held by Co. B for 5 years and generated a total of $215 million of income in those years. As a result of this income recognition, the RRIs have a current tax basis of $215 million. The RRIs are expected to start generating losses in the year of contribution and are expected to continue to generate losses for the next 20 years. The total of such losses is expected to equal the current tax basis of $215 million. Assuming a 40% effective tax rate, the recognition of $215 million of tax losses will provide a cash tax benefit of approximately $86 million. However, the realization of these losses will be spread over the next 20 years and the actual use of some of these losses against taxable income will likely occur beyond 20 years into the future. Accordingly, the present value of the anticipated $80 million cash benefit is only $15 million. Thus, Co. B contributes RRIs with a fair market value and book basis of $15 million and a tax basis of $215 million.

- Subco will invest the $135 million of cash received from Co. A in income generating assets (i.e., mortgages, leased assets).

Financial Accounting Discussion

- Since Company A will hold stock with a majority of the voting power and value of Subco, Subco will continue to be consolidated with Co. A for financial accounting purposes.

- Certain "Purchase Accounting" rules apply to combinations of business enterprises. The RRIs acquired by Subco will likely not meet the definition of a business. Thus, as a technical matter these rules do not directly apply. However, the Purchase Accounting rules will still be looked to by analogy as they constitute the best guidance for the purchase of a pool of assets.

- Under these Purchase Accounting rules, Subco records the acquired assets at their respective fair market values. In addition, where differences exist between the book basis and the tax basis in the acquired assets, Deferred Tax Assets and/or Deferred Tax Liabilities must be recorded by Subco.

- As a result of applying these Purchase Accounting rules, Subco initially records an accounting entry for the acquisition of the RRIs as follows (assuming a 40% effective tax rate):

REMIC Residual	15	
Deferred Tax Asset (*)	80	
Minority Interest (Co. B Equity)		15
Stockholders' Equity		80

(*) $215 tax basis less $15 book basis times 40% effective tax rate

EC2 000037586

- In effect, due to the application of the accounting rules, Subco is treated as having made a ***Bargain Purchase***. In other words, for accounting purposes, the transaction is viewed as an acquisition of a pool of assets worth $95 (RRIs of $15 and a Deferred Tax Asset of $80) for only $15 of consideration. However, since Subco is treated as having issued *solely* stock as consideration in this acquisition, the Purchase Accounting rules require that the benefit of this $80 Bargain Purchase be recorded as a direct increase in stockholders' equity (i.e. it does not flow through the income statement) rather than creating a Deferred Credit which would reverse over time as earnings in the income statement.

Net Impact of Transaction

- The Deferred Tax Asset of $80 will reverse over time as the RRIs generate tax losses. The use of such tax losses will effectively provide cash flow to Subco. Accordingly, the Deferred Tax Asset will provide $80 of cash tax benefits to Subco in the future. However, due to the Purchase Accounting rules, there would be no income statement benefit to such cash tax benefits. As indicated above, the benefit of the cash flow is added to stockholders' equity at the date of contribution of the RRIs to Subco and is not included in the income statement. Accordingly, while Subco would receive a cash benefit from acquiring the RRIs, there would be no income statement accounting benefit to the acquisition.

- It is also significant to note that Subco is not securing a benefit from tax deductions that would otherwise be unusable by Co. B. In fact, Co. B would be able to use the losses to be generated by the RRIs and could accelerate the usable loss by simply selling the RRIs outright. This conclusion is also applicable to Transactions #2 and #3 below.

- The $80 Deferred Tax Asset is recorded based upon the book-tax basis differences in the RRIs. As discussed, the Deferred Tax Asset reverses as the losses from the RRIs are generated. The recording and reversal of the Deferred Tax Asset attributable to the book-tax differences, and the lack of an impact upon the income statement, is the same in all three transactions because the tax basis in the RRIs carries over in all three transactions. Therefore, the differences in the three transactions solely relates to: (1) the recording of the "Deferred Credit" in Transactions #2 and #3; (2) the grossing-up of the Deferred Credit; and (3) the timing of the reversal of the Deferred Credit into book earnings.

- It is our professional opinion that our corporate clients would either not enter into this Base Case Transaction or would pay very little for the cash benefits associated with this Base Case Transaction.

II. *Transaction #2 - Base Case With Addition of Recapitalization Provision*

Net Impact: Income Statement Benefits Created ("Above-the-Line" & "Grossed-up")

Description of Transaction

Same Facts as in the Base Case Transaction, except that:

- Co. A will contribute $135 million of cash to Subco in exchange for common stock representing 95.1% of the vote and approximately 94% of the value of Subco.
- Co. B will contribute RRIs to Subco with a fair market value and book basis (to Subco) of $15 million and tax basis of $215 million in exchange for all of the voting preferred stock of Subco representing 4.9% of the voting power and approximately 6% of the value of Subco and a $7 million Subco debt security (the "Original Debt").
- The corporate charter of Subco will contain a provision (the "Recapitalization Provision") which will allow any shareholder with a 4% voting interest to force a recapitalization of Co. B's preferred stock interest and original debt security into a new debt security any time after five years from the date of the formation of Subco.

Financial Accounting Discussion

Same as in the Base Case Transaction, except that:

- As a result this transaction, Subco's initial accounting entry for the acquisition of RRIs would instead be as follows:

REMIC Residual	15	
Deferred Tax Asset (*)	80	
Original Debt		7
Minority Interest (Co. B Equity)		8
Deferred Credit		80

(*) $215 tax basis less $15 book basis times 40% effective tax rate

- Subco still is treated as having made a Bargain Purchase since $95 of assets (RRIs of $15 and the $80 Deferred Tax Asset) are acquired for only $15 of consideration ($7 of debt and $8 of equity), creating an $80 Bargain Purchase. As in Transaction #1, the net worth of Subco is enhanced by the accounting value of the Bargain Purchase. However, in contrast to Transaction #1, special accounting rules applicable in Transaction #2 substantially alter how the Subco accounts for the Bargain Purchase element.
- The Recapitalization Provision allows any shareholder with a 4% or more voting interest to force a recapitalization of Co. B's preferred stock interest into a debt instrument. For financial accounting purposes, the likelihood of exercise of the Recapitalization Provision enables Subco to treat the contribution of the RRIs as a purchase by Subco for cash and debt

rather than stock. Under the Purchase Accounting rules, the benefit of the Bargain Purchase in an acquisition using either cash or debt should not go directly to Subco's equity (as in the Base Case Transaction); instead, an $80 Deferred Credit is initially booked as a liability on Subco's balance sheet to represent the Bargain Purchase.

- There is a bias in the financial accounting rules against recording Deferred Credits. Generally, the governing bodies would prefer a business entity to reduce the book basis of the acquired assets rather than record a Deferred Credit. However, certain accounting rules prevent the reduction of the book basis in the RRI. Under the facts in Transaction #2, no other assets exist which Subco could reduce prior to the recording of a Deferred Credit. Accordingly, the Deferred Credit would be recorded instead of a direct increase in stockholders' equity.

- The initial recording of the $80 Deferred Credit causes a book-tax basis difference to exist in the Deferred Credit itself (the tax basis in the Deferred Credit or liability is zero). In turn, the book-tax difference in the Deferred Credit requires the recording of an additional Deferred Tax Asset, thus creating an additional Bargain Purchase element and a corresponding additional Deferred Credit. The new Deferred Credit would again require the recording of a Deferred Tax Asset and so forth on an iterative basis. Accordingly, the net result would be an additional acquisition entry of:

Deferred Tax Asset	53	
Deferred Credit		53

This accounting rule results in a "Gross-Up" of the accounting benefit related to the Bargain Purchase of assets. In other words, the accounting rules cause the original Deferred Credit of $80 to be "grossed up" by Subco's effective tax rate so that the total Deferred Credit is $133 ($80 divided by (1-40% tax rate)). The above entry for $53 ($133 less $80) is recorded as a result of this Gross-Up.

Net Impact of Transaction

- The Deferred Credit will be amortized over time, creating $133 of accounting income. Specifically, this accounting income is recorded in pre-tax earnings as "Other Income." Thus, the additional income is recognized "Above-the-Tax-Line" in Subco's and Co. A's income statements. Accounting rules require that the amortization would occur over the life of the acquired assets, based on a "rational and systematic" methodology. One acceptable methodology is based on the gross returns provided by the acquired assets. Since the RRIs are the only "acquired" assets, the Deferred Credit is amortized in Years 1 through 20 as the RRIs provide economic returns.

It should be noted that the difference between the Base Case and Transaction #2 does not result from securing cash tax benefits that would not otherwise exist. Instead, the difference between the two scenarios is due solely to the differing application of the financial accounting rules where the Recapitalization Provision exists. In the Base Case and Transaction #2, the cash tax benefits remain the same.

EC2 000037589

- As in the Base Case Transaction, the Deferred Tax Asset of $80 recorded in the original acquisition entry will reverse over time as tax losses are recognized from the RRI. There will be no net impact to the income statement, however, as Subco will recognize a current tax benefit when those losses are recognized which will offset the deferred tax cost from the reversal of the Deferred Tax Asset.

- The Deferred Tax Asset of $53 recorded in the second acquisition entry will reverse in proportion with the reversal of the related Deferred Credit. Since this Deferred Tax Asset will not generate actual current tax losses, the reversal of the asset will generate a net Tax Expense to Subco. Thus, a $53 Tax Expense will be recognized in Subco's and Co. A's income statements over years 1 through 20. (Note: As a result, the Gross-Up does not result in an overall increase in Net Book Income because the $53 of "Above-the-Line" income is offset by the $53 increase in the Tax Expense. However, as discussed earlier, the increase in Pre-Tax Earnings is valuable to many corporations, even if such amount is offset by an additional Tax Expense.)

- **It is important to note that the same Federal income tax principals apply in both the Base Case Transaction and in Transaction #2 and the cash tax consequences under both transactions are identical. The addition of the Recapitalization Provision in Transaction #2 provides the following substantial and qualitative accounting benefits to Subco: (1) a Deferred Credit of $80 is recorded, (2) the Deferred Credit is grossed-up from $80 to $133; and (3) the Deferred Credit is reversed into book income as compared to the base case scenario which had no income statement benefit.**

- **It is our professional opinion that our corporate clients would be interested in Transaction #2 and would pay a moderate fee for the financial accounting benefits associated with Transaction #2.**

III. Transaction #3 - Same as Transaction #2 With Additional Assets Contributed by Co. B

Net Impact: Income Statement Benefits Accelerated

Description of Transaction

Same Facts as in Transaction #2, except that:

- Co. A will contribute $135 million of cash to Subco in exchange for common stock representing 95.1% of the vote and approximately 90% of the value of Subco.

- In exchange for cash in the amount of $135, all of the voting preferred stock representing 4.9% of the voting power and approximately 6% of the value of Subco and the $7 million Subco Original Debt security, Co. B will contribute to Subco:
  1. a portfolio of leased assets with a 5 year economic life and a fair market value of $135 million; and
  2. RRIs with a fair market value and book basis (to Subco) of $15 million and tax basis of $215 million (collectively, the "Co. B Assets")

Financial Accounting Discussion

Same as in Transaction #2, except that:

- As a result this transaction, Subco's initial accounting entry for the acquisition of the Co. B assets would instead be as follows:

REMIC Residual	15	
Leased Assets	135	
Deferred Tax Asset (*)	80	
Cash		135
Original Debt		7
Minority Interest (Co. B Equity)		8
Deferred Credit		80

(*) $215 tax basis less $15 book basis times 40% effective tax rate

- Due to the strict application of the accounting rules, Subco is again treated as having made a Bargain Purchase of the Co. B assets. In other words, $230 of assets (RRIs of $15, Leased Assets of $135 and the Deferred Tax Asset of $80) are acquired for only $150 of consideration (cash of $135, debt of $7 and equity of $8), again creating an $80 Bargain Purchase.

- As indicated above, as a result of the bias in the financial accounting rules against recording Deferred Credits, the governing accounting bodies would prefer to reduce the book basis of the acquired assets. Certain rules prevent reduction of the book basis in the RRIs. However, these rules would not prevent a reduction in the book basis of the Leased Assets. Such a reduction would create a book-tax basis difference in the Leased Assets, and in turn would require the recording of a Deferred Tax Asset and a corresponding additional Deferred Credit. The new Deferred Credit would again reduce the book basis of the Leased Assets and so forth on an iterative basis. Accordingly, the net result would be an additional acquisition entry of:

Deferred Tax Asset	53	
Deferred Credit	80	
Leased Assets		133

- As a result, the net acquisition entry would be as follows:

REMIC Residual	15	
Leased Assets	2	
Deferred Tax Asset	133	
Cash		135
Original Debt		7
Minority Interest (Co. B Equity)		8
Deferred Credit		0

Net Financial Impact of Transaction

- Assuming the value of the Leased Assets remains constant, Subco will recognize $133 of pre-tax operating income upon the sale of the Leased Assets (e.g., a sale for $135 of proceeds less book basis of $2). Alternatively, Subco could recognize higher pre-tax earnings via lower book depreciation expense on the Leased Assets over their 5 year economic life (e.g., only $2 of depreciation rather than $135).

  Thus, Subco would accelerate the "Above-the-Line" & "Grossed-Up" Accounting benefit in Transaction #3. Instead of recognizing the accounting benefit in years 1-20 as in Transaction #2, the accounting income would be recognized no later than years 1-5 (as the Leased Assets are depreciated for book purposes) and could be recognized even earlier if the assets are sold. This acceleration is solely the result of the special application of the Purchase Accounting rules in the case where Co. B contributes assets to Subco in addition to the RRIs. There is no difference in the cash tax benefits between the Base Case Transaction, Transaction #2 and Transaction #3.

- As in the Base Case and Transaction #2, the Deferred Tax Asset of $80 recorded in the original acquisition entry will reverse over time as tax losses are recognized from the RRI. There will be no net impact to the income statement, however, as Subco will recognize a current tax benefit when those losses are recognized which will offset the deferred tax cost from the reversal of the Deferred Tax Asset.

- As in Transaction #2, the Deferred Tax Asset of $53 recorded in the second acquisition entry will create a tax expense on Subco's and Co. A's income statements. The reversal of this Deferred Tax Asset should occur at the same time that the basis reduction in the Leased Assets is reversed (e.g., at the time the Leased Assets are sold or over the 5 year depreciable period if the Leased Assets continue to be held by Subco).

- It is our professional opinion that our corporate clients would be extremely interested in Transaction #3 and would pay a substantial fee for the financial accounting benefits associated with Transaction #3.

Summary

In summary, it should be apparent from the above discussion that the Transaction is a deal driven by the accounting benefits. If a client were interested in the tax benefits, other less expensive alternatives exist to generate equivalent tax benefits. Moreover, it is our professional opinion that a business entity would be willing to pay (1) little, if any, fee for Transaction #1, (2) a moderate fee for Transaction #2 and (3) a substantial fee for Transaction #3.

Bankers Trust
Bankers Trust New York Corporation
and its affiliated Companies

Thomas Finley
Managing Director
Bankers Trust Company

Mailing Address:
Mail Stop 2344
P.O. Box 318, Church Street Station
New York, New York 10008

Address:
One Bankers Trust Plaza
New York, New York 10006
Tel: 212-250-3094
Fax: 212-669-1793

June 17, 1997

Mr. R. Davis Maxey
Enron Corp.
1400 Smith Street
P.O. Box 1188
Houston, TX 77251-1188

Dear Dave:

Bankers Trust Company ("***Bankers Trust***") has agreed to furnish to Enron Corp. (the "***Company***") certain Evaluation Material (as defined below) regarding a proposed joint venture structure involving real estate related assets (the "Transaction"). In consideration thereof, and as a condition thereto, the Company agrees to employ Bankers Trust as the Company's exclusive financial advisor in connection with any Transaction, upon such terms and conditions as the Company and Bankers Trust shall mutually agree.

As used herein, the term "***Evaluation Material***" refers to any and all information concerning the Transaction provided to the Company by Bankers Trust, and any analyses or documents prepared by the Company or any of its affiliates or any of their respective officers, directors, employees, agents and advisors (such officers, directors, employees, agents and advisors are hereinafter collectively referred to as "***Representatives***") during the review of such information which contain or otherwise reflect such information. The Company acknowledges and agrees that Bankers Trust makes no representation or warranty as to the accuracy or completeness of the Evaluation Material or any of the tax or accounting consequences thereof or associated therewith. The Company further agrees that neither Bankers Trust nor any of its Representatives shall have any liability to the Company or its Representatives resulting from use of the Evaluation Material.

If the Company is requested or required (by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any information (including Evaluation Material) supplied to the Company by Bankers Trust, the Company agrees to provide Bankers Trust with prompt notice of such request(s).

If any law enacted after the date of this letter shall require that the Transaction be registered as a "*tax shelter*" under Section 6111 of the Internal Revenue Code of 1986, as amended, by virtue of the existence of, or any provision contained in, this letter, then, on the effective date of such law,

this letter shall be null and void, and neither party shall have any obligation or responsibility to the other, or any restriction whatsoever, with respect to the Transaction or the Evaluation Material, including without limitation any payment obligations or any requirement of confidentiality or exclusivity.

The Company acknowledges that the Company's breach of the terms and conditions hereof would result in irreparable damage to Bankers Trust and that money damages may not be a sufficient remedy for any such breach. Money damages shall therefore not be Bankers Trust's sole and exclusive remedy for a breach hereunder, but rather shall be in addition to any other remedies available to Bankers Trust at law or in equity.

This letter shall be governed by and construed in accordance with the laws of the State of New York.

Please confirm that the foregoing correctly sets forth our agreement by signing the enclosed duplicate counterpart of this letter and returning it, whereupon this letter shall constitute a binding agreement as of the date first above written.

Very truly yours,

Bankers Trust Company

By: _____

Title: Managing Director

Confirmed and agreed to:

By: _____

_____

Title:

Date: _____

EC2 000037572

Frank N. Newman
Chairman of the Board
and Chief Executive Officer
Bankers Trust Company

RECEIVED

MAR - 5 1998

ENRON
CORPORATE TAX

March 2, 1998

Bankers Trust
Architects of Value

Bob/Davis
Good job.
Ken
3/4/98

Mr. Kenneth L. Lay
Chairman and Chief Executive Officer
Enron Corp.
1400 Smith Street
Houston, TX 77002-7361

Dear Mr. Lay:

Congratulations on the successful completion of the ECT Investing Partners, L.P. transaction in the fourth quarter of 1997. Bankers Trust is extremely pleased to have worked with your company as both financial advisor and principal on this transaction to collaboratively meet Enron's financial objectives. Moreover, we view this transaction as a solid platform for continuing to explore innovative solutions that are tailored to your needs.

I understand from my colleagues that Robert Hermann, Vice-President of Tax, and R. Davis Maxey, Senior Director of Tax Research and Planning, were instrumental in closing the transaction for Enron, and are to be commended for their fine work and exceptional abilities.

At Bankers Trust, we are extremely proud of our firm's global reputation for helping clients create value. We put our clients first in all our dealings, and our relationship with Enron is very important to us. We look forward to building on our collective successes and to helping you achieve your objectives for the future.

Sincerely,

Frank Newman

cc: Tom Finley, Managing Director

130 Liberty Street
New York NY 10006

EC2 000037643

Bankers Trust
Bankers Trust New York Corporation
and its affiliated Companies

Thomas Finley
Managing Director
Bankers Trust Company

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Tel: 212-250-3094
Fax: 212-669-1793

January 30, 1998

Mr. R. Davis Maxey
Director - Tax Research
Enron Corp.
1400 Smith Street
P.O. Box 1188
Houston, TX 77251-1188

Dear Dave:

In order to ensure that our conference at the Boca Raton Resort & Club is a complete success, we would like to remind you of a few key items.

The Bankers Trust corporate jet will be departing from William P. Hobby International Airport in Houston on Sunday, February 8th at 11:50 a.m. (See enclosed map). Upon your arrival to this terminal, Raytheon Aircraft Services, a fixed based operation service company, will assist you in boarding the corporate jet. Our contact is Bill Leedom and can be reached at (713) 567-5000. It is advisable to arrive at the airport no later than 11:20 a.m. In addition, Doris Eagan will be contacting you to provide you with the tail number of the corporate jet.

For those people who have elected to play golf, we have made arrangements for your clubs to be taken directly to the pro shop upon your arrival. In order to ensure their safety, the club requests that name tags be attached to both the bags and any removable covers. For those of you who will be renting clubs, please make sure to tell the concierge that you will be renting, and if you would like right or left handed clubs. In addition, a golf clinic will be offered on Monday, February 9th from 2:30 p.m. to 4:30 p.m. at the Boca Resort Golf Course Driving Range. The club dress code requires collared shirts. Box lunches will be provided, but please feel free to eat at any restaurant facility on the golf course, or the Resort.

For those people playing tennis, the club has a dress code. Collared shirts are required at all times, and all clothing must be primarily white in color. Additionally, two club pros will be available for lessons or play on Sunday, Monday, Tuesday and Wednesday throughout the day. Lunch is available at the courts, or any restaurant at the Resort.

For those people who will be fishing, all equipment and food for the trips is provided. However, we would advise wearing rubber sole shoes on the boat. With all the fish we are going to catch, the decks could get slippery.

In addition to the coordinated activities specified above, everyone is allowed full access to all of the Resort and Beach Club facilities. This includes the fitness center at the Resort and the beach and pool activities. A cabana has been reserved for anyone who will be using the pool.

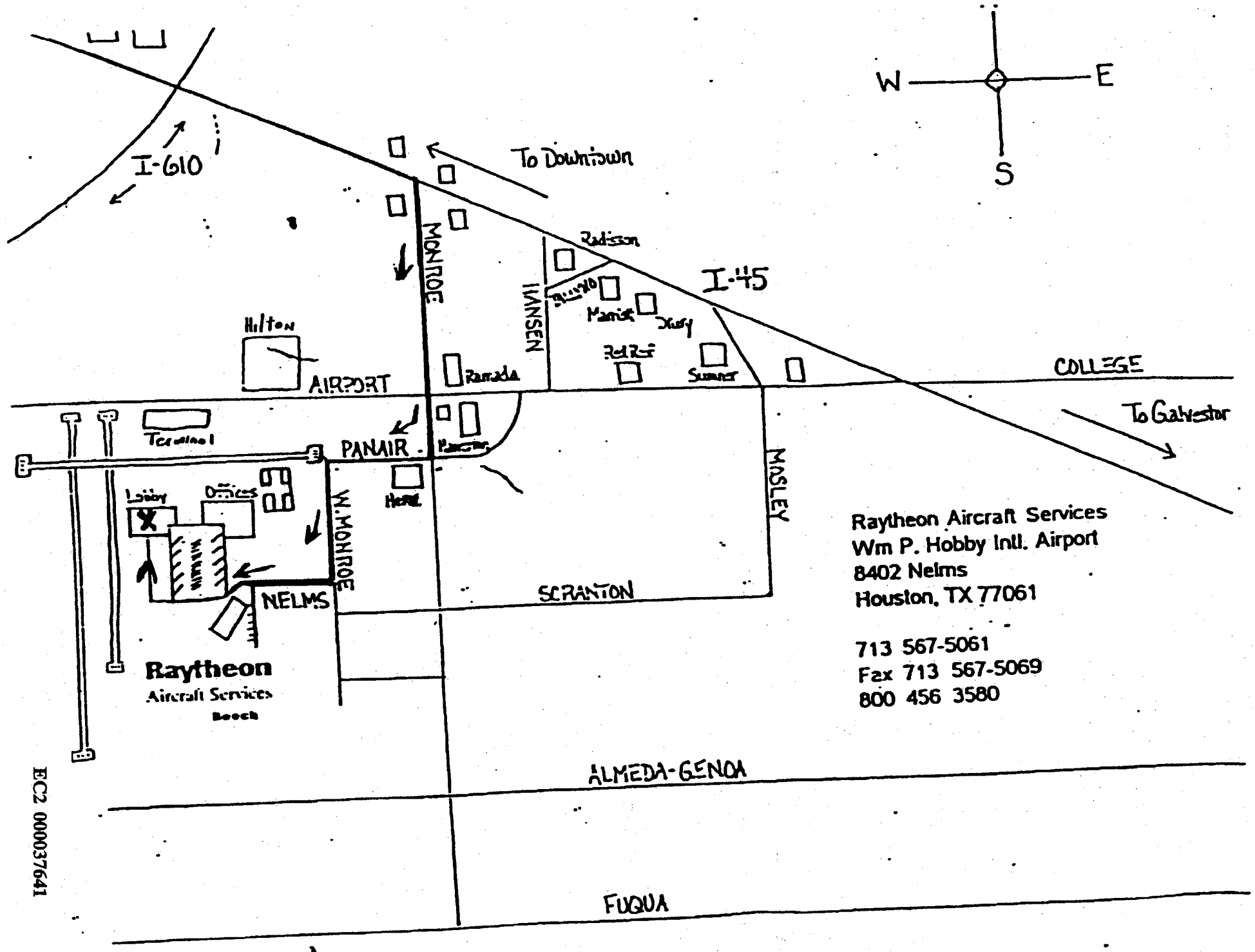
We have reserved conference facilities for Monday, February 9th at 5:30-7:00 p.m. and Tuesday, February 10th at 5:30-7:00 p.m. for anyone who would like to meet with any of the attendees. Please feel free to contact Viktoria Antoniades to coordinate these meetings.

Finally, we have enclosed an agenda outlining all of the events, times and locations. It is especially important to note that on Monday night, there will be a dinner cruise departing from the Resort Building. The boat will be departing at approximately 7:00 p.m., therefore, it is advisable to arrive no later than 6:45 p.m.

Please call Viktoria Antoniades at (212) 250-7962 if you have any other questions. Otherwise, we look forward to seeing all of you in Boca.

Very truly yours,

Thomas Finley
Managing Director



Raytheon Aircraft Services
Wm P. Hobby Intl. Airport
8402 Nelms
Houston, TX 77061

713 567-5061
Fax 713 567-5069
800 456 3580

EC2 000037641

AGENDA
POTOMAC CAPITAL INVESTMENT CORPORATION CONFERENCE

Sunday, February 8, 1998

7:00 p.m. - 1:00 a.m.	Casino Night - Cabana Dining Room

Monday, February 9, 1998

9:00 a.m. - 4:00 p.m.	Golf - (Boca Country Club Golf Course)
9:00 a.m. - 4:00 p.m.	Tennis
10:00 a.m. - 4:00 p.m.	Fishing
12:30 p.m. - 2:30 p.m.	Leisure lunch
2:30 p.m. - 4:30 p.m.	Golf Clinic - (Boca Resort Golf Course Driving Range)
7:00 p.m.- 11:00 p.m.	Reception dinner cruise (Departing from Resort Building)

Tuesday, February 10, 1998

9:00 a.m. - 4:00 p.m.	Golf - (Deer Creek Golf Course)
9:00 a.m. - 4:00 p.m.	Tennis
10:00 a.m. - 4:00 p.m.	Fishing
12:30 p.m. - 2:30 p.m.	Leisure lunch
7:30 p.m. - 11:00 p.m.	Reception dinner at Nick's Fishmarket

Wednesday, February 11, 1998

7:30 a.m. - 4:00 p.m.	Golf - (Boca Resort Golf Course)
9:00 a.m. - 4:00 p.m.	Tennis

*Oceanfront cabana #137 has been reserved throughout the conference for your enjoyment

IV. PROJECT COCHISE

Project Cochise

Deal Basics

Business Purpose – To acquire a diversified portfolio of financial instruments (REMIC interests and equipment leases) with an enhanced earnings profile

Primary Entities – Enron Corp. (bankruptcy filer); Maliseet Properties, Inc.; ECT Investments Holding Corp.

Date Closed – January 1999

Principal Assets – Current assets include REMIC regular & residual interests; $9 million in bank demand deposits (i.e. cash). Formation assets also included a portfolio of airplane leases and commercial paper.

Transaction Size – Approximately $65 million in assets acquired; anticipated earnings of up to $140 million

Net Income Impact – Earnings of approximately $105 million have been recorded through the 3rd quarter of 2001.

Primary Tax Return Effect – Through 2000, the structure generated tax deductions reported in Enron's consolidated return of approximately $1 million. 2001 return not yet filed.

Current Status – Not in default. Solvent. Needs careful attention to maintain REIT status. Various legal issues need to be addressed.

Counterparties

Counterparty – Deutsche Bank (through BT Green, Inc. and BT Ever, Inc.); 99 independent and 6 former and current Enron officers and directors are REIT investors.

Size of Investment – BT Green holds the entire $1.2 million common stock interest; also has a $2 million receivable balance due from Maliseet. A current liquidation could result in a substantial windfall to this investor.

Litigation Status – None currently

Control Rights – BT holds all of the common stock and has controlling vote over certain events including bankruptcy, amendment of charter, liquidation, recapitizations, etc.

Indemnities – Various

Advisory History

Principal Advisors

- King & Spalding – Tax, corporate and REIT counsel
- McKee Nelson – Tax, corporate and REIT counsel
- Potter Anderson – Special Delaware counsel

Primary Opinions

- Formation & operation of Maliseet including exemption from tax-shelter registration analysis (Tax)
- REIT Qualification (Tax)
- SAS 50 Letters issued by Arthur Andersen to Banker's Trust
- Delaware Law Opinion – Potter, Anderson
- Tax basis study on REMIC residual interests – K&S

Confidentiality Agreement – No

Widely Marketed Deal – No

Financial Model and Deal Memo – Completed on transaction

Current Counsel – None (DB has requested hiring of external counsel)

For Tax Department Management Use Only

EC2 000037348

Cochise

. Lay, Chairman
. Belfer
. Blake, Jr.
. Chan
Duncan
Foy
.. Gramm
. Harrison

✓ R. K. Jaedicke
✓ C. A. LeMaistre
✓ J. J. Meyer
✓ J. K. Skilling
✓ J. A. Urquhart
✓ J. Wakeham
C. E. Walker
✓ H. S. Winokur, Jr.

AGENDA
MEETING OF THE BOARD OF DIRECTORS
ENRON CORP.

8:00 A.M., February 8, 1999
The Four Seasons Hotel, Ballroom B
London, United Kingdom

ECUTIVE SESSION:

Approve minutes of meetings of the Board of Directors held on December 8, 1998 – Mr. Lay.

Report on Executive Committee meeting held on December 18, 1998 -- Mr. Duncan.

Report on Compensation and Management Development Committee meetings held on January 25, 1999, and February 7, 1999 -- Dr. LeMaistre.

(a) Approve Amendment to 1991 Enron Corp. Stock Plan to delete members of the Board of Directors from grants of restricted stock or stock options for inclusion in the proxy for the 1999 Annual Shareholders Meeting.

(b) Approve 1999 Annual Incentive Plan for inclusion in the proxy for 1999 Annual Shareholders Meeting.

NOTE: 1998 Performance Review is included for information only.

Report on Finance Committee Meeting held on February 7, 1999 – Mr. Winokur.

(a) Approve amendment to existing debt authority.

(b) Approve amendment to Guaranty Policy.

(c) Approve Dabhol Power Corp. Phase II Equity.

(d) Approve Dabhol Power Corp. Phase II LNG Ship Financing.

Minutes

EC2 000037427

MINUTES
MEETING OF THE BOARD OF DIRECTORS
ENRON CORP.
February 8, 1999

Minutes of a meeting of the Board of Directors of Enron Corp. ("Company"), held pursuant to due notice beginning at 8:00 a.m., G.M.T., on February 8, 1999, at the Four Seasons Hotel in London, England.

The following Directors were present, constituting a quorum:

Mr. Kenneth L. Lay, Chairman
Mr. Robert A. Belfer
Mr. Norman P. Blake, Jr.
Mr. Ronnie C. Chan
Mr. John H. Duncan
Mr. Joe H. Foy
Dr. Wendy L. Gramm
Mr. Ken L. Harrison
Dr. Robert K. Jaedicke
Dr. Charles A. LeMaistre
Mr. Jerome J. Meyer
Mr. Jeffrey K. Skilling
Mr. John A. Urquhart
Lord John Wakeham
Mr. Herbert S. Winokur, Jr.

Director Charls E. Walker was absent from the meeting. Director Chan joined the meeting in progress as noted below. The meeting was begun in executive session, during which only Mr. James V. Derrick, Jr. and Ms. Peggy B. Menchaca were in attendance.

The Chairman, Mr. Lay, presided at the meeting, and the Secretary, Ms. Menchaca, recorded the proceedings.

Mr. Lay called the meeting to order and stated that minutes of a meeting of the Board held on December 8, 1998, had been distributed to the Directors and were included in the meeting material. He called for additions, corrections, or comments. There being none, upon motion duly made by Mr. Blake, seconded by Mr. Foy, and carried, the minutes of the meeting held on December 8, 1998, were approved as distributed.

Mr. Duncan reported on a meeting of the Executive Committee of the Board of Directors held on December 18, 1998. He stated that at the December 18, 1998, meeting, the Executive Committee approved (i) an Azurix project to acquire a 35% interest in Empresa de Obras Sanitarias de Valparaiso S.A., a water and sewerage treatment company located near Valparaiso and Vina del Mar, Chile, (ii) a corporate transaction designed to assist in diversifying the Company's equity and debt investments, and (iii) a financing structure enabling the Company to obtain financing from independent investors at a lower cost of funds, and that the Executive

Committee had also recommended corporate officer elections. He noted that minutes of the meeting were included in the meeting material, and he moved the acceptance of the report and approval of the minutes of the meeting. Mr. Duncan's motion was duly seconded by Mr. Harrison and carried, and the report of the Executive Committee meeting of December 18, 1998, was accepted, and the minutes of such meeting were approved.

Dr. LeMaistre reported on meetings of the Compensation and Management Development Committee held on January 25, 1999, and February 7, 1999. He stated that at the January 25, 1999, meeting, the Committee approved the annual incentive payouts, and he noted that a copy of the 1998 Performance Review, which was relied upon by the Committee in making its decisions with regard to incentive payouts relative to 1998 performance, was included in the meeting material.

Dr. LeMaistre stated that at the Compensation and Management Development Committee meeting held on February 7, 1999, the Committee (i) approved the "Report from the Compensation and Management Development Committee Regarding Executive Compensation" that would be included in the proxy statement for the 1999 Annual Meeting of Shareholders, and (ii) approved for recommendation to the Board amendments to the Enron Corp. 1991 Stock Plan (As Amended and Restated Effective May 6, 1997) (the 1991 Plan) and the Company's Annual Incentive Plan (the "AIP") relating to the need for additional shares, increased flexibility, and to ensure regulatory compliance. He reviewed the rationale for specific changes to each plan and noted that both plans would also be submitted to the shareholders of the Company for consideration at its 1999 Annual Meeting of Shareholders. Dr. LeMaistre moved approval of the amendments to the 1991 Plan and the AIP, his motion was duly seconded and carried, and the following resolutions were approved:

Amendment to Enron Corp. 1991 Stock Plan (As Amended and Restated Effective May 6, 1997)

> WHEREAS, Enron Corp. (the "Company") and the shareholders of the Company heretofore approved and adopted the Enron Corp. 1991 Stock Plan (As Amended and Restated Effective May 6, 1997) (the "1991 Plan"); and
>
> WHEREAS, the Company desires to amend the Plan;
>
> NOW THEREFORE, IT IS RESOLVED, that the proper officers of the Company be, and they hereby are, authorized and directed to prepare an amendment to the 1991 Plan incorporating the form of amendment presented at this meeting with up to an additional ten million shares of Enron Corp. common stock authorized for granting awards under the 1991 Plan, or such lesser number of shares as such officers in their discretion may determine advisable for obtaining shareholder approval, and to present such 1991 Plan amendment for approval by the shareholders of the Company at their annual meeting in May, 1999;

Agenda Item 3
(Suggested Form of Resolutions)

WHEREAS, it is in the Company's best interest for the Company to set up a structure involving several affiliates of the Company to participate, directly or indirectly, in various investing activities and in a corporation formed for the purpose of investing in certain securities and other assets in the range and in the approximate amounts presented to the Executive Committee (the "***Transaction***"); and

WHEREAS, the Company authorized the retention of Bankers Trust Company to assist the Company in setting up such a structure, to be an interest holder in conjunction with the Transaction and to invest in the Transaction and/or the entities participating in the Transaction, all as deemed appropriate by officers or representatives of the Company;

NOW, THEREFORE, BE IT RESOLVED, that the Company authorize and set up the structure contemplated in connection with the Transaction as described to the Executive Committee with such modifications as may be approved by officers of the Company, including without limitation contributions to capital, if any, transfers of assets, guarantees and indemnifications, creation of entities, if any, and issuance of notes, all of the foregoing subject to the finalizing of contractual arrangements deemed necessary and appropriate to the Transaction and meeting the final approval of officers or representatives of the Company acting on the advice of counsel, which shall be conclusively evidenced by their signatures on documents intended to be final documents;

RESOLVED FURTHER, that the Transaction in form acceptable to the officers and representatives of the Company acting on the advice of counsel be, and hereby is, approved;

RESOLVED FURTHER, that the Company approves the purchase by it or one of its affiliates of mortgages and certain leased assets from Bankers Trust Company or an affiliate thereof in connection with the Transaction;

RESOLVED FURTHER, that the Company is authorized to guarantee payments and performances and to provide indemnities with respect to the Transaction as deemed appropriate by any officer of the Company (conclusively evidenced by the signature of such officer on related documents), and the Company also approves such action on the part of its affiliates;

RESOLVED FURTHER, that the Company and/or its affiliates pay such attorneys fees and adviser fees as they deem appropriate, in the range and approximate amounts presented to the Executive Committee;

RESOLVED FURTHER, that the Chairman and Chief Executive Officer, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer, the Senior Vice President, Chief Accounting, Information and Administrative Officer, the Senior Vice President, Finance and Treasurer, or any Vice President of the Company be, and each of them hereby is, authorized and empowered on behalf of the Company to take such actions necessary or appropriate to effectuate the intent of these resolutions;

RESOLVED FURTHER, that all actions heretofore taken by any officer or representative of the Company related to or in connection with the Transaction and the matters described in these resolutions, including without limitation the execution and delivery of any related documents or instruments, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

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Brian J. McGuire
Vice President
Bankers Trust Company

January 28, 1999

Bankers Trust
Architects of Value

Mr. Richard A. Causey
Senior Vice President and
Chief Accounting and Information Officer
Enron Corp.
P.O. Box 1188
Houston, Texas 77251

Dear Mr. Causey:

This letter is to confirm that Enron Corp. (the "***Company***") has engaged Bankers Trust Company ("***Bankers Trust***") as its exclusive financial advisor in connection with (a) the direct investment in various leased property (the "**Leased Assets**") and (b) a real estate investment trust (the "**REIT**") which will acquire and manage financial assets including real estate mortgage backed securities (the "**Mortgage Securities**") and residual interests (the "**REMIC Residuals**") in real estate mortgage investment conduits (the "**Transaction**").

The Transaction will be structured substantially as described during recent conversations between representatives of the Company and representatives of Bankers Trust, and otherwise as agreed to between the Company and Bankers Trust. An affiliate of Bankers Trust will transfer leased property to an Enron affiliate in exchange for cash of equal value. Bankers Trust will contribute various REMIC Residuals and Mortgage Securities to the REIT and will in return receive common stock and debt securities of the REIT. Affiliates of the Company will contribute Mortgage Securities to the REIT and will in return receive preferred stock of the REIT.

Upon the terms and subject to the conditions set forth below (the "***Agreement***"), Bankers Trust is retained as exclusive financial advisor to the Company and any of its applicable affiliates with respect to structuring the Transaction.

1. **Services.** At the request of the Company, Bankers Trust will use its best efforts to perform the following services in connection with the Transaction:

   a) advise and assist in designing an appropriate structure for the proposed Transaction;

   b) assist in the preparation of financial analysis and computer modeling with respect to the Transaction to the extent requested by the Company, it being understood that all results of the use of such model shall be the sole responsibility of the Company;

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New York, NY 10006
Mailing Address:
P.O. Box 318
Church Street Station
New York, NY 10008
Telephone: 212 250-1011
Facsimile: 212 669-1793

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c) work with legal counsel, accountants and other relevant parties to document and close the Transaction;

d) provide future investment advisory services with respect to investments of the REIT, including acquisitions and dispositions of the REIT's assets, as requested by the Company or as deemed necessary by Bankers Trust (in its sole discretion);

e) provide assistance, as necessary, to have the record ownership of the REMIC Residuals transferred on the records of the respective trustees from that of Bankers Trust to that of the REIT; and

f) perform such other investment banking and financial advisory services related to or arising out of the services described in this paragraph 1, as Bankers Trust and the Company may from time to time agree.

2. **Compensation.** In consideration of the services rendered by Bankers Trust, the Company agrees to pay, or cause to be paid, to Bankers Trust a cash fee, in the aggregate amount of $15,000,000, subject to any reduction pursuant to the terms hereof. The preceding sentence notwithstanding, (a) Bankers Trust will be paid $5,250,000 on September 1, 1999 and an additional $750,000 on each March 1, June 1, September 1 and December 1 of the years 1999 through and including 2002, beginning December 1, 1999 and ending December 1, 2002; and (b) if a change in law or accounting rule (or the enacted effective date thereof) prior to December 1, 2002 materially reduces the Company's expected accounting reporting treatment of the Transaction under GAAP (as hereinafter defined), the portion of such fee which has not been paid to Bankers Trust at such time will be forfeited by Bankers Trust. Because the predominant purpose of the Transaction is to generate financial accounting benefits, if a Change in Law Event (as such term is used in the operative documents) or a change in accounting rule (or the enacted effective date thereof) occurs prior to December 31, 2003, that materially reduces the Company's expected financial accounting benefit (the "**Expected Benefit**") from the Transaction under GAAP, the fee payable to Bankers Trust will be reduced on a proportionate basis (comparing the actual recorded benefit to the Expected Benefit), provided that in no circumstances will Bankers Trust fee be less than $2 million.

For the purposes of this Agreement, (a) "**GAAP**" means generally accepted accounting principles in effect in the United States as in effect from time to time as applied to the REIT Transaction, and (b) the "**Closing**" is deemed to have occurred upon the transfer of the REMIC Residuals and the Mortgage Securities by Bankers Trust to the REIT and the acquisition by an Enron affiliate of the Leased Assets.

It is understood that the foregoing fee does not include fees for additional services including services provided to the Company or its affiliates under other engagement letters, and other services such as swaps, bridge financing, valuation services, commitment fees, and fees and expenses for other parties involved in the transaction (e.g., trustee fees and expenses).

3. **Indemnification.** The Company hereby agrees to indemnify and hold harmless Bankers Trust and its affiliates and their respective directors, officers, employees, agents and representatives (collectively, "***Indemnified Persons***") from and against all losses, claims, damages, liabilities, costs and expenses incurred by any of them (including fees and disbursements of legal counsel) which (i) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any information provided by the Company in connection herewith or arise out of or are based upon any omission or alleged omission to state therein any material fact necessary to make the statements therein not misleading, or (ii) are otherwise related to or arise out of or in connection with the services contemplated hereby, and the Company will reimburse Bankers Trust and each other Indemnified Person for all expenses (including fees and disbursements of legal counsel) as they are incurred in connection with investigating, preparing or defending any such action or claim, whether or not in connection with pending or threatened litigation in which Bankers Trust or such other Indemnified Person is a party. The Company will not be responsible, however, for any losses, claims, damages, liabilities, costs or expenses of any Indemnified Person pursuant to clause (ii) in the preceding sentence to the extent they result primarily from the bad faith or recklessness of such Indemnified Person. The Company also agrees that neither Bankers Trust, nor any other Indemnified Person, shall have any liability to the Company for or in connection with the services contemplated hereby except for such liability for losses, claims, damages, liabilities, costs or expenses incurred by the Company to the extent they result primarily from Bankers Trust's bad faith or recklessness. If for any reason the foregoing indemnification is unavailable to an Indemnified Person or insufficient to hold any Indemnified Person harmless, then the Company shall contribute to the amount paid or payable by it and Bankers Trust as a result of such losses, claims, damages, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative benefits received by the Company on one hand and Bankers Trust on the other hand, as well as any relevant equitable considerations. The amount paid or payable by a party as a result of losses, claims, damages, liabilities, costs or expenses shall be deemed to include any reasonable legal or other fees or expenses incurred in defending any action or claim. In no event shall the Company be liable to any Indemnified Person for any lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise) under or in respect of this Agreement for any failure of performance related hereto howsoever caused, whether or not arising from the Company's sole, joint or concurrent negligence. The Indemnified Persons shall not be required to contribute in the aggregate any amount in excess of the amount of fees actually received by Bankers Trust hereunder.

4. **Company Approval.** The Company acknowledges that the Transaction has been approved by senior management personnel of the Company and by the Executive Committee of its Board of Directors.

5. **Additional Services.** If the Company requests Bankers Trust to perform services not contemplated by this Agreement, or if the terms and conditions of Bankers Trust's engagement

change, Bankers Trust's compensation therefor will be determined through negotiations conducted in good faith, and the terms of such engagement will be set forth in a separate written agreement between the Company and Bankers Trust. Nothing in this Agreement is intended to obligate or commit Bankers Trust or any of its affiliates to provide any services other than as set out herein.

6. **Affiliate Services.** In connection with the services to be provided hereunder, Bankers Trust may employ the services of its affiliates, including BT Alex. Brown Incorporated. Bankers Trust may share with any of its affiliates any non-public information related to the Company or the contemplated Transaction. The term "***affiliate***" as used herein shall have the meaning ascribed to such term in the rules and regulations promulgated under the Securities Exchange Act of 1934, as amended.

7. **Survival.** Bankers Trust's engagement hereunder may be terminated at any time by either Bankers Trust or the Company by prior written notice thereof to the other party, provided, that the indemnification provisions set out in Paragraph 3, the compensation provisions outlined in Paragraph 2, and the representations and warranties of the Company contained herein, shall remain operative and in full force and effect and shall survive such termination. The indemnity obligations of the Company hereunder and referred to herein shall be in addition to any liability the Company may otherwise have.

8. **Information.** The Company agrees to furnish Bankers Trust with such information as Bankers Trust reasonably requests in connection with its engagement hereunder. The Company recognizes and confirms that Bankers Trust (i) will be relying solely on such information and other information available from generally recognized public sources in performing the services contemplated hereunder, (ii) will not independently verify the accuracy or completeness of such information, (iii) does not assume responsibility for the accuracy or completeness thereof, and (iv) will make appropriate disclaimers consistent with the foregoing.

9. **Counterparts, Etc.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof, supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof and cannot be amended or otherwise modified except in writing executed by the parties hereto. Bankers Trust may transfer or assign, in whole or from time to time in part, to one or more of its affiliates its rights and obligations hereunder, but no such transfer or assignment will relieve Bankers Trust of its obligations hereunder without the prior written consent of the Company. The provisions hereof shall inure to the benefit of and be binding upon the successors and assigns of the Company and Bankers Trust and their respective affiliates.

10. **Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE CONFLICTS OF LAWS PROVISIONS THEREOF.

11. **Notices.** Notice given pursuant to any of the provisions of this Agreement shall be in writing and shall be mailed or delivered (a) to the Company, at its office at the address set forth above and (b) to Bankers Trust, at its offices at One Bankers Trust Plaza, 130 Liberty Street, New York, New York 10006, Attention: Mr. Brian McGuire.

12. **Bankers Trust Advice, Role, Etc.** No opinion or advice rendered by Bankers Trust, whether formal or informal, may be publicly disclosed nor may the Company refer to Bankers Trust's role in the contemplated Transaction without Bankers Trust's prior written consent. The Company confirms that it will rely on its own counsel, accountants and other similar expert advisors for legal, accounting, tax and other similar expert advice. Moreover, the Company understands and agrees that Bankers Trust makes no representation or warranty as to the tax or accounting consequences of the Transaction. The Company further agrees that neither Bankers Trust nor any of its directors, officers, employees, agents or representatives shall have any liability to the Company or its representatives resulting from their use of the form of structure to be used in the Transaction.

13. **No Rights in Shareholders, Etc.** The Company recognizes that Bankers Trust has been retained only by the Company, and that the Company's engagement of Bankers Trust is not deemed to be on behalf of and is not intended to confer rights upon any shareholder, owner or partner of the Company or any other person not a party hereto as against Bankers Trust or any of Bankers Trust's affiliates or the respective directors, officers, agents, employees or representatives of Bankers Trust or Bankers Trust's affiliates. Unless otherwise expressly agreed, no one other than the Company is authorized to rely upon the Company's engagement of Bankers Trust or any statements, advice, opinions or conduct by Bankers Trust.

If the Company is in agreement with the foregoing, please sign and return one copy of this letter which will thereupon constitute the agreement of the parties hereto with respect to the subject matter of this letter.

BANKERS TRUST COMPANY

By: _____

Brian J. McGuire
Vice-President

Agreed and Accepted:

Enron Corp.

By: _____

Richard A. Causey
Senior Vice President

AEB

ARTHUR ANDERSEN

Arthur Andersen LLP

1345 Avenue of the Americas
New York NY 10105-0032
Writer's Direct Dial
(212) 708 4930

MAY 26, 1999

Bankers Trust Company
One Bankers Trust Plaza
New York, NY 10006

Gentlemen:

We have been engaged to report on the appropriate application of United States generally accepted accounting principles to the hypothetical transaction described below. This report is being issued to Bankers Trust Company for assistance in evaluating accounting principles for the described hypothetical transaction. Our engagement has been conducted in accordance with standards established by the American Institute of Certified Public Accountants.

Hypothetical Transaction:

Note: Amounts and rates used in this description are for illustrative purposes only, and are not necessarily indicative of those in an actual transaction.

1. Co A, Co B and an unrelated group of investors will form a venture for the purpose of making investments in real estate related assets. The venture will be organized as a corporation for legal purposes, while it will be treated as a real estate investment trust (the "REIT") for Federal income tax purposes.

2. Four wholly-owned subsidiaries of Co A (collectively, the "Co A Subs") will each purchase a diversified portfolio of publicly-traded mortgage securities (the "Mortgages") for $11,262,500 in cash (for a total of $45,050,000 among all of the Co A Subs) directly from Co B. The Co A Subs will then contribute the Mortgages they purchased from Co B to the REIT in exchange for (1) $11,250,000 of Class A voting coupon preferred stock of REIT representing approximately 23.75% of the REIT's vote and 23.7187% of its value to each contributing subsidiary (for a total of approximately 95.000% of the vote and approximately 94.8749% of the value of the REIT held by the Co A Subs) and (2) $12,500 of Class B non-voting preferred stock of REIT representing approximately 0.0263% of the value of the REIT to each contributing subsidiary (for a total of approximately 0.1054% of the REIT's value held by the

Co A Subs). In total, the Co A Subs will initially hold 100% of the outstanding Class A voting coupon preferred stock and 80% of the outstanding Class B non-voting coupon preferred stock for a combined total of 95.0000% of the vote and 94.9803% of the value of REIT. Since the Co A Subs are wholly-owned by Co A, all references herein to Co A means either Co A or the consolidated group including Co A and the Co A Subs.

3. A wholly-owned subsidiary of Co B ("Co B Sub"), operating through its London branch ("Co B Sub (London)") will contribute to the REIT a diversified portfolio of publicly traded mortgage securities (additional "Mortgages") with a fair market value of approximately $4,912,500 and a portfolio of REMIC Residual Interests (the "REMICs") with little or no economic value and a tax basis of approximately $70 million in exchange for (1) 100% of the common stock of REIT with a value of approximately $2,368,400 which represents approximately 5.0000% of the vote of REIT and approximately 4.9934% of the REIT's value, (2) a 20 year zero-coupon debt security of REIT (the "Original REIT Debt Security") with a value of approximately $2,531,600 and (3) $12,500 of Class B non-voting coupon preferred stock representing approximately 0.0263% of the value of REIT (the "Class B Stock"). Co B Sub (London) will transfer $12,500 of Class B non-voting coupon preferred stock to at least 99 qualified investors (the "Investors") in exchange for fair market value consideration.

4. A wholly owned subsidiary of Co A (Co A Sub 5) will make a $45 million cash purchase from a Co B subsidiary (Co B Sub2) of assets (such as leased aircraft) on long term lease to an unrelated lessee (the "Leased Assets").

5. Since all the assets of the REIT are being acquired from Co B and its affiliates, Co B Sub (London) and Co B Sub 2, the pools of assets can be viewed as an acquisition from one party. Accordingly, we will refer herein to the Mortgages acquired from Co B, the Leased Assets acquired from Co B Sub 2, and the Mortgages and REMICs contributed by Co B Sub (London) as the "Co B Assets".

6. At this point, absent consideration of any deferred tax assets or liabilities that may be appropriate, the REIT consists of the following (in millions):

REMIC Residual Interests	$0
Mortgages	$49,962,500
Total Assets	$49,962,500
Original Debt	$2,531,600
Equity-	
Class A Preferred	45,000,000

Class B Preferred	62,500
Common Stock	2,368,400
Total Equity	47,430,900
Total Debt and Equity	$49,962,500

The corporate charter of the REIT will contain a provision which will allow any shareholder with a voting interest to force (a) a recapitalization (the "Recap") of Co B Sub (London)'s common stock interest and the Original REIT Debt Security into a debt security (the "Recap Debt") with equal fair market value at any time after five years and (b) a conversion of the Class A voting preferred stock into common stock. Economic Earnings on the REIT assets will be distributed annually in accordance with the economic ownership percentages of the various classes of stock.

Subsequently, Co A could (1) cause the REIT to dispose of some or all of the Mortgages and/or (2) cause Co A Sub 5 to sell some or all of the Leased Assets to an unrelated third party for cash of equal value. You have instructed us to assume that the REMIC Residual Interests will not be sold in any event. If such sale(s) occur, the sales proceeds would be reinvested in assets used in the respective seller(s) normal course of business. Any decision to make such sale(s) would be made subsequent to the acquisition of such assets by the REIT and/or Co A Sub 5 and would be based on prevailing market conditions at the time of the subsequent sale(s).

7. Should Co B Sub (London) exercise its right to effect the Recap and that right not be honored for any reason, Co B Sub (London) will not have creditor rights against the REIT or any of the parties in the transaction, including Co A.

8. The activities of the REIT will be limited by its charter to the ownership of real estate related assets (such as the Mortgages and REMIC Residuals). Those governance decisions which do need to be made, such as the reinvestment of the income or proceeds or maturing investments (within investment parameters defined in the charter) or appointment of investment managers to do so will be made solely by Co A as owner of the majority of the voting rights.

9. You have informed us that the following apply or will occur:

   a. Co A's initial tax basis in the REIT Class A and Class B preferred stock will be $45,050,000.

   b. The formation of the REIT and the contribution of assets to the REIT will be a tax-free exchange to the REIT and to Co B Sub (London). The REIT's acquisition of the assets will not result in an allocation of the purchase price directly to the assets themselves for

tax purposes; nor will there by any election to treat the acquisition as a purchase of assets for tax purposes.

c. The REIT will not be included in Co A's consolidated tax return during the period prior to the Recap or for any subsequent period in which it is treated as a REIT for tax purposes.

d. To the extent the REIT has taxable income in excess of actual cash income in any particular year, it is expected that the remaining taxable income each year will be deemed to be distributed to Co B Sub (London) as the common shareholder for income tax purposes who will be taxed thereon. To the extent of such distributions, the REIT will receive a tax deduction for such dividends and thus will eliminate its taxable income and, accordingly, have no tax due of its own.

e. Subsequent to the contributions to the REIT, the REMICs are expected to generate non-cash taxable income totaling approximately $330 million which will create additional tax basis in the REMICs within the REIT (thus the tax basis in the REMICS is expected to increase to approximately $400 million).

f. If Co B Sub (London) does not elect to require a Recap at the end of year five, it is the intention of Co A to do so. In either case, Co A would further intend, once Co B Sub (London)'s common stock interest in the REIT has been exchanged for Recap Debt, to implement a strategy to allow any deductions generated by the REIT to offset income taxable to a taxable entity other than one treated as a real estate investment trust for income tax purposes.

Accounting discussion:

You have asked that we address the accounting for this transaction in the consolidated financial statements of Co A. You have not asked us to consider the treatment of the transaction for tax purposes; accordingly, our discussion of the accounting for income taxes pursuant to Statement of Financial Accounting Standards ("SFAS") No. 109 – Accounting for Income Taxes, is in sole reliance upon your description of the tax consequences of the transaction.

Consolidation of the REIT –

The rules for consolidation of subsidiaries are set forth in Accounting Research Bulletin No. 51 and Statement No. 94 of the Financial Accounting Standards Board (FASB). These rules specify

that a company should generally consolidate the accounts of an investee when it has a controlling financial interest in the investee. The usual condition for a controlling financial interest is ownership of a majority voting interest.

The Emerging Issues Task Force (the Task Force) of the FASB (in Issue 96-16) discussed the consolidation of an entity when the investor owns a majority of the voting stock but the minority shareholder or shareholders have certain approval or veto rights. The Task Force agreed that the assessment of whether rights of a minority shareholder should preclude an investor from consolidating when the investor has a majority voting interest in an investee is a matter of judgment that depends on facts and circumstances. The Task Force further agreed that the framework in which such facts and circumstances are judged should be based on whether the minority rights, individually or in the aggregate, provide for the minority shareholder(s) to effectively participate in significant decisions that would be expected to be made in the "ordinary course of business." This assessment of minority rights should be made at the time a majority voting interest is obtained and should be reassessed if there is a significant modification to the terms of the rights of the minority shareholder(s). The Task Force observed that all minority rights could be described as "protective" of the minority shareholder's investment in the investee, but that some minority rights also allow the minority shareholder(s) to participate in determining certain financial and operating decisions of the investee that are made in the ordinary course of business (subsequently referred to as "participating rights"). The Task Force agreed that minority rights that are only protective in nature (subsequently referred to as "protective rights") would not overcome the presumption in Statement 94 that the owner of a majority voting interest should consolidate its investee. The Task Force agreed that substantive minority rights that provide the minority shareholders with the right to effectively participate in significant decisions that would be expected to be related to the investee's ordinary course of business, although also protective of the minority shareholder's investment, should overcome the presumption in Statement 94 that the investor with a majority voting interest should consolidate its investee.

For these purposes, decisions made in the ordinary course of business are defined as decisions concerning matters of a type consistent with those normally expected to be addressed in directing and carrying out the entity's current business activities, regardless of whether the events or transactions that would necessitate such decisions are expected to occur in the near term. However, it must be at least reasonably possible that such events or transactions that would necessitate such decisions will occur. The ordinary course of business definition would not include self-dealing transactions with controlling shareholders.

The Task Force concluded that minority rights (whether granted by contract or by law) that would allow the minority shareholder(s) to participate in the following corporate actions should be considered participating rights and would create a presumption that the investor of a majority voting interest should not consolidate its investee:

a. Selecting, terminating, and setting the compensation of management responsible for implementing the investee's policies and procedures

b. Establishing operating and capital decisions of the investee, including budgets in the ordinary course of business.

The Task Force considered the above listing to be illustrative of participating rights, not necessarily all inclusive. The Task Force agreed that the following factors should be considered in evaluating whether minority rights that appear to be participating are substantive rights; that is, these factors provide for effective participation in decisions related to the investee's ordinary course of business:

a. As the disparity between the ownership interest of majority and minority shareholders increases, minority shareholders' rights are presumptively more likely to be protective rights and should raise the level of skepticism about the substance of the right.

b. The corporate governance arrangements need to be considered to determine at what level decisions are made. In all situations, any matters that can be put to a vote of the shareholders must be considered to determine if other investors, individually or in the aggregate, have participating rights by virtue of their ability to vote on matters submitted to a shareholder vote.

c. Relationships between the majority and minority shareholders (other than investment in the common investee) that are of a related party nature, should be considered in determining if the minority shareholder's participating rights are substantive.

d. Certain minority rights may deal with operating or capital decisions that are not significant to the ordinary course of business of the investee and thus may not convey participating rights to the minority interest.

e. Certain minority rights may provide for the minority shareholder to participate in significant decisions that would be expected to be made in certain business activities in the "ordinary course of business"; however, the Task Force concluded that the existence of such a minority right should not overcome the presumption that the majority should consolidate if it is remote that the event or transaction that requires minority approval will occur.

f. An owner of a majority voting interest who has a contractual right to buy out the minority shareholder's (s') interest in the investee for fair value or less should consider the feasibility of exercising that contractual right when determining if the minority shareholder's (s') participating rights are substantive.

Inasmuch as Co A is the sole owner of the Class A preferred, and as such has 95% of the voting interest in the REIT, Co A will have voting control. Though the REIT's charter will include certain limits on its activities, so long as Co A has the unilateral ability to determine REIT actions, including management of the REIT's assets or selection of the manager thereof, or disposition of some or all of the Mortgages, without having to submit to "participating rights" held by Co B, Co A should consolidate the financial statements of the REIT with its own.

The FASB has issued an Exposure Draft (the Consolidation ED) that could significantly revise the accounting rules for consolidated financial statements. As presently proposed, we do not believe that the Consolidation ED would change our conclusions regarding the consolidation of The REIT.

Accounting By Co A For Co B Sub (London) and the Investors' Interest In the REIT

Equity interests in consolidated entities not owned by the parent company are normally reflected as minority interests. If, however, the holders of such interests obtain rights that are creditor rights or are identical to creditor rights against the issuing entity (or the parent company, possibly due to the presence of a guarantee) in the event of nonpayment of dividends or in liquidation, they should generally be classified as debt. Since the REIT will be consolidated by Co A, the common stock of the REIT issued to Co B Sub (London) needs to be examined under these principles. You have informed us that neither the Class B preferred nor the common shares have any rights that could collectively be classified as creditor rights. Though Co B Sub (London) as the common equity holder may have the right under certain circumstances to assume control of the REIT (i.e., the failure to honor a request for a Recap) and direct it to liquidate assets, it has no direct creditor rights against the REIT or against Co A with respect to its common equity interests unless and until they effect a Recap. Accordingly, its investment should be accounted for as minority interest in Co A's consolidated balance sheet, a classification which falls between liabilities and stockholders' equity. This accounting would also apply to the accounting for the Investor's equity interest in Co A' s consolidated financial statements.

Regulation S-X issued by the Securities and Exchange Commission ("SEC") specifies that preferred stock which either is automatically redeemable by its terms or otherwise may be redeemed outside of the control of the issuing company should be reflected as redeemable

equity which is to be classified outside of stockholders' equity and is not to be included in a subtotal with stockholders' equity. The staff of the SEC and practice has generally extended this concept to any form of equity that may be redeemed outside of the control of management. In our view, since Co B has the ability to unilaterally convert its equity in REIT to debt, this equity should be reflected as redeemable equity in The REIT's financial statements.

The Financial Accounting Standards Board (FASB) has added a project to its agenda on distinguishing debt instruments from equity. While no firm positions on this project have been reached, the FASB has developed a working framework for determining the proper classification of financial instruments that appear to have both liability and equity attributes. Under that framework, individual obligations and certain types of options that are embodied in a financial instrument would be separated and initially classified based on certain characteristics of the component. A component that embodies an obligation that requires the issuer to transfer assets would be a liability. An obligation that requires or permits the issuer to satisfy the obligation by issuing its own equity shares would be classified as equity only if the fair value of the component is indexed to the fair value of the issuer's own equity shares. If the fair value of the component that obligates the entity to issue its own stock is indexed to something other than the issuer's own equity shares, it would be classified as a liability.

There is no way to know when or if this project may result in proposed changes to existing rules or practices relative to equity securities that may be put to the issuer or otherwise redeemed outside of the issuer's control or, if such changes are proposed, what the final rules may require.

The Original REIT Debt Security represents debt of The REIT and, hence, would be reflected as debt in Co A's consolidated financial statements.

Accounting for the acquisition of the Co B assets by Co A

Inasmuch as Co A will consolidate the REIT, it will need to account for the acquisition of the Co B Assets in its consolidated financial statements as well as the acquisition of the Leased Assets from Co B Sub 2. Since these acquisitions are being made by entities in the Co A consolidated group from entities in the Co B consolidated group, under a structured purchase, they should be aggregated as the same purchase transaction. It is unclear whether these acquisitions would constitute a business combination under US GAAP. Accounting Principles Board Opinion ("APB") No. 16 – *Business Combinations* states that "A business combination occurs when a corporation and one or more incorporated or unincorporated businesses are brought together into one accounting entity". Since APB 16 provides no further guidance as to what constitutes a "business", we would look to Regulation S-X which states, in Rule 11-01(d):

"For purposes of this rule, the term business should be evaluated in light of the facts and circumstances involved and whether there is sufficient continuity of the acquired entity's operations prior to and after transactions so that disclosure of prior financial information is material to an understanding of future operations. A presumption exists that a separate entity, a subsidiary, or a division is a business. Among the facts and circumstances which should be considered in evaluating whether an acquisition of a lesser component of an entity constitutes a business are the following:

Physical facilities,
Employee base,
Market distribution system,
Sales force,
Customer base,
Operating rights,
Production techniques, or
Trade names."

The determination of whether the acquisition of the Co B Assets is a business combination thus depends on whether the Co B Assets are considered a "business" which in turn depends on the significance of the operations relative to the nonoperating assets. No guidance exists in the accounting literature and we are unable to provide any "rule of thumb" for this facts and circumstances judgmental decision. In this letter, we will discuss the accounting in both the case where the acquisition is considered a business combination as well as when it is not.

Accounting For Transfers of Financial Assets

SFAS 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on an approach that focuses on control over the transferred assets. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. SFAS 125 provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

Under SFAS 125, a transfer of financial assets, in which the transferor surrenders control over those assets, is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

a. The transferred assets have been isolated from the transferor -- put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. This would require that the Co B Assets transferred to the REIT be beyond the reach of the creditors of Co B Sub (London) or Co B should one or both become insolvent (i.e. the creditors could get the stock and debt representing Co B's investment in REIT but could not reach into REIT).

b. Either (1) each transferee obtains the right -- free of conditions that constrain it from taking advantage of that right -- to pledge or exchange the transferred assets or (2) the transferee is a qualifying special-purpose entity and the holders of beneficial interests in that entity have the right -- free of conditions that constrain them from taking advantage of that right -- to pledge or exchange those interests. This would be met in the transaction discussed herein unless the terms limiting Co A's ability to exercise free and uninhibited control were so limiting as to violate this requirement. So long as Co A has the right to pledge any or all of the Co B Assets (and has the right to add leverage), we believe that this criterion is met.

c. The transferor does not maintain effective control over the transferred assets through (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) an agreement that entitles the transferor to repurchase or redeem transferred assets that are not readily obtainable. As to Co B and subsidiaries, this requirement would be met.

You have instructed us to assume that the SFAS 125 requirements set forth above will be met relative to Co B's transfer of assets and that, hence, Co B would reflect these assets as sold for accounting purposes and The REIT (and Co A Sub 5, if the Leased Assets are deemed to be financial assets) would reflect them as its assets. If this were not the case, the transfer of the Co B Assets would be accounted for, by REIT (and, if applicable by Co A Sub 5), as a collateralized loan to Co B.

Recording of deferred tax assets/liabilities related to REIT assets/liabilities

Accounting for income taxes is governed by SFAS No. 109. That Statement provides that, among other things, assets and liabilities which are recorded at different amounts for financial reporting purposes than for income tax purposes create basis differences for which a deferred tax asset or liability might be required. In this transaction, the REMICs, with fair value at or close to $0 and an initial tax basis of $70 million, give rise to such a basis difference. In addition, $330 million of non-cash taxable income to be generated in future years will create an additional difference.

SFAS No. 109 provides that deferred taxes be provided only for basis differences which qualify as temporary differences, meaning those differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the book carrying value of the asset or liability is recovered or settled, respectively. Further, deferred tax assets or liabilities are recorded only by the specific entity on whose books such differences reside (i.e., the REIT). In other words, if the REIT were a true tax "flow through" entity (i.e., not a taxpayer) such as a partnership, no deferred tax asset would be provided on the books of the REIT itself. In this case only the temporary differences which may exist on the unconsolidated books of Co A would be considered (such temporary differences are assumed to be nil since the tax basis of Co A's investment in the REIT of $45,050,000 equals its initial accounting basis).

You have informed us, however, that under the Federal Income Tax rules (FIT), a REIT is not a non-taxable flow-through entity, but rather an entity which receives a tax deduction for its dividends (deemed or actual) to its equity owners. While REIT remains a qualified REIT for FIT purposes, the reversal of the basis differences in the REMICS would not have tax consequences to the REIT because of the aforementioned tax deduction for distributions. The excess of tax basis over book value of the REMICs, however, could result in beneficial tax deductions to the extent such deductions are used to offset income which would be taxable to REIT at a time when it is neither a flow through entity nor an entity entitled to a tax deduction for dividends paid. Accordingly, we believe that a deferred tax asset should be recorded with respect to the book/tax basis difference related to the REMICs (totaling approximately $400 million) held by the REIT to the extent that such differences are expected to reverse and offset income which would otherwise be taxable to an entity that is neither a flow-through entity nor an entity entitled to a tax deduction for dividends paid. You have informed us that Co A and the REIT have a prudent and feasible strategy within their control and which they can exercise without incurring substantial cost to ensure this will be the case. Thus, Co A should be able to record a $28 million deferred tax asset for the initial basis difference in the REMICs upon their contribution to The REIT ($70 million basis difference times an assumed tax rate of 40%).

In addition, Co A could record an additional deferred tax asset in each future year (as the additional non-cash taxable income is generated on the REMICs) totaling approximately $132 million ($330 million of future taxable income at the assumed 40% effective rate). Accordingly, as taxable income is generated in future periods from the REMICs, Co A will recognize a deferred tax benefit and will record a corresponding deferred tax asset, subject to the realizability test (need for a valuation reserve) discussed below. For example, assuming the REMICs generate $50 million of non cash income in year one and assuming no need for a valuation reserve, then Co A would make the following journal entry (assuming 40% tax rate):

Dr Deferred tax asset $20 million
Cr Deferred tax expense $20 million

Accounting if Deemed a Business Combination –

If Co A's acquisition of the Co B Assets were judged to constitute a business combination, APB No. 16 would apply, and the acquisition would be accounted for as a purchase. Inasmuch as the purchase price is not being allocated to the underlying assets and liabilities for tax purposes, deferred tax assets and liabilities must be recorded (or maintained) for any differences between their book basis (adjusted as necessary to fair values) and tax basis. Accordingly, the purchase accounting by Co A on a consolidated basis (assuming a 40% effective tax rate) would consist of:

Dr.	Leased Assets	45,000,000	
Dr.	REMIC Residual Interests	0	
Dr.	Mortgages	49,962,500	
Dr.	Deferred Tax Asset	28,000,000	
	Cr. Cash		90,050,000
	Cr. Original REIT Debt		2,531,600
	Cr. Minority Interest		2,380,900
	Cr. Negative Goodwill		28,000,000

APB 16 provides that neither current assets nor marketable securities (e.g. the Mortgages) are reduced to eliminate the negative goodwill. However, while APB No. 16 does not specifically prevent the reduction of non-marketable debt instruments such as the REMIC residuals, the SEC staff, in correspondence with banking regulators in 1990, indicated their belief that such loans should not be reduced. Though the staff has not, to our knowledge, addressed the issue with respect to other financial assets such as REMICs, we believe the principle to be sufficiently similar to reach the conclusion that such assets should also not be reduced by the negative goodwill (the REMIC residuals in any case are already carried at or close to zero).

If the Leased Assets were considered to be financial assets, their transfer would need to be considered under SFAS 125. They would be considered to be financial assets if they were classified as either direct financing leases or leveraged leases under SFAS 13, as amended (at least to the extent of the present value of minimum lease payments and possibly in total). If, however, the Leased Assets were classified as equipment subject to operating lease, the negative goodwill would be offset against these assets as follows:

Dr. Negative Goodwill	28,000,000	
Cr. Leased Assets		28,000,000

This results in the Leased Assets having a book basis of 17,000,000 and a tax basis of 45,000,000 and may require additions to the Deferred Tax Asset account and negative goodwill which is again netted against the Leased Asset balance. This leads to an iterative process with the following effect:

Dr. Deferred Tax Asset	18,000,000	
Cr. Leased Assets		17,000,000
Cr. Negative Goodwill		1,000,000

See the discussion of the Accounting for Leases in a Business Combination below.

Additionally, though the negative goodwill which has been created for accounting purposes has no tax basis, SFAS No. 109 specifically provides, in paragraph 30, that no deferred tax asset be recorded with respect to this difference. Accordingly, the amortization of the negative goodwill, which should be recorded over a reasonable life on a systematic and rational method (which in practice is generally on a straight-line basis) will increase income before taxes without a corresponding deferred tax expense being reflected.

Assuming that, at some subsequent date, Co A decides to have the REIT sell the Mortgages and to have CO A Sub 5 sell the Leased Assets, the entry to record the sales (assuming market prices do not change from the date of acquisition of these assets) would be as follows (again, assuming that the Leased Assets are not financial assets:

Cash	$94,962,500	
Mortgages		$49,962,500
Gain		45,000,000

Accounting if not Deemed a Business Combination –

If it were determined that the Co B Assets did not meet the definition of a business, the acquisition of these assets by Co A would not constitute a business combination, and APB No. 16 would not apply to the transaction. The Emerging Issues Task Force of the FASB (the Task Force), in Issue 98-11, discussed the *Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations.* The Task Force reached a final consensus on May 20, 1999. The Task Force has decided that the tax effect of different book and tax bases in a single-asset acquisition should be recorded as an adjustment to the carrying amount of the purchased asset unless the asset is a financial asset. The consensus also included the following conclusions, among others:

1. The accounting for single-asset acquisitions when the single asset acquired is a financial asset should always be recognized at fair value.

2. The accounting (amortization and classification) for the additional credit that can arise when there is a deferred tax asset that is greater than the purchase price paid for the "non-tax asset" acquired should not be grossed for a "tax-on-tax" effect (i.e. although this credit has

no tax basis, no additional deferred tax would be recorded for this book/tax difference). The amortization of this balancing credit should go though the income tax provision line in the income statement. The amortization to income of the credit should be based on the timing of the actual cash reduction in income taxes as a result of using the acquired tax benefit.

3. The final consensus reached by the Task Force regarding Issue 98-11 should be applied prospectively.

As further discussed below, SFAS 109 specifies that deferred tax assets must be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. To the extent that the deferred tax asset recorded as part of the acquisition are offset by a valuation allowance the balancing credit would also be reduced or eliminated.

The resulting entries would be essentially the same as those described above, except that instead of negative goodwill there would be a balancing credit to be recognized though the income tax provision line in the income statement. The amortization to income of this credit would be based on the timing of the actual cash reduction in income taxes as a result of using the acquired tax benefit.

Assuming that, at some subsequent date, Co A decides to have the REIT sell the Mortgages and to have CO A Sub 5 sell the Leased Assets, the entry to record the sales (assuming market prices do not change from the date of acquisition of these assets) would be as follows:

Cash	$94,962,500		
		Mortgages	$49,962,500
		Gain	45,000,000

Need for a Valuation Allowance –

An additional issue is whether the deferred tax asset on the REIT's balance sheet will now require a valuation allowance since REIT will not be included in Co A's consolidated tax return for some period of time. Co A, for consolidated financial reporting purposes, may consider the effect of tax-planning strategies, which are described in paragraph 22 of FAS 109:

"In some circumstances, there are actions (including elections for tax purposes) that (a) are prudent and feasible, (b) an enterprise ordinarily might not take, but would take to prevent an

operating loss or tax credit carryforward from expiring unused, and (c) would result in realization of deferred tax assets. This Statement refers to those actions as tax-planning strategies. An enterprise shall consider tax-planning strategies in determining the amount of valuation allowance required. Significant expenses to implement a tax-planning strategy or any significant losses that would be recognized if that strategy were implemented (net of any recognizable tax benefits associated with those expenses or losses) shall be included in the valuation allowance."

You have informed us that no valuation allowance would be necessary since Co A and the REIT have a planning strategy available which can be exercised at no significant cost which will provide sufficient taxable income is available to ensure the realization of the benefit of any tax deductions to be generated by the Co B Assets. As a result, we believe there is no need to provide a valuation allowance with respect to (1) the deferred tax asset relating to the book/tax basis difference in the REMIC residuals when the Co B Assets are acquired nor, (2) for the additional basis difference created in the REMIC residuals in future years.

Accounting For the Minority Interest After Inception –

On an ongoing basis, minority interest is generally accounted for by allocating to the minority its share of the income/loss of the entity in which it holds an ownership. However, a modification is appropriate in this case because of the presence of the Recap right and the likelihood of Co A exercising such right (in the event Co B Sub (London) does not exercise it first) to achieve the objectives discussed herein.

Therefore, the cash flows to Co B Sub (London) and Investors should be estimated, including the estimated exercise of the Recap right, as to timing and amount. Co B Sub (London) and Investors' original investment, classified as minority interest in the consolidated balance sheet as discussed above, should be accreted on a level-yield basis to such cash outflow amounts. Changes in estimates should be reflected each accounting period by a cumulative catch-up adjustment to the recorded minority interest balance. The accretion expense should be classified as minority interest expense in the consolidated income statement.

ACCOUNTING FOR LEASES IN A BUSINESS COMBINATION

In FASB Interpretation No. 21, "Accounting for Leases in a Business Combination," the FASB clarifies the application of SFAS No. 13 in business combinations. Specifically, FASB Interpretation No. 21 addresses the following questions:

a. Does the consummation of a business combination require the combined enterprise to treat leases of the combining companies as new leases to be classified according to the criteria set forth in SFAS No. 13, based on conditions as of the date of the combination?

b. If the consummation of a business combination does not require enterprises to treat leases of the combining companies as new leases as of the date of the combination, how should SFAS No. 13 be applied to the leases of the combined enterprise?

c. How do the requirements of APB Opinion No. 16, "Business Combinations," for assigning amounts to the assets acquired and liabilities assumed in a business combination that is accounted for by the purchase method affect the application of SFAS No. 13 by the combined enterprise to leases of the acquired company?

SFAS No. 13 requires that the classification of a lease be determined at the inception of the lease. Once that determination is made, the classification of the lease is not re-examined unless either (a) both parties to the lease agree to a revision that would have resulted in a different classification of the lease had the changed terms been in effect at the inception of the lease or (b) the lease is extended or renewed. In FASB Interpretation No. 21, the FASB views the substance of a business combination that is accounted for under the purchase method to be the purchase of the lessor or lessee's interest in an existing lease. The original lessee or lessor does not become a party to a new agreement; accordingly, there is no new agreement to be classified, and SFAS No. 13 does not permit reclassification of the existing lease unless the provisions of the lease are modified. The fact that the identity of one party to a lease may change in a business combination is not substantive. If the provisions of the lease are not changed, the modification does not represent a new agreement between the lessee and lessor, and the lease should not be reclassified.

Paragraph 88 of APB Opinion No. 16 provides "general guides for assigning amounts to the individual assets acquired and liabilities assumed, except goodwill," in a business combination that is accounted for by the purchase method. The guides in subparagraphs of paragraph 88 indicate the method of valuation to be used for various types of assets and liabilities. In a business combination that is accounted for by the purchase method, the acquiring enterprise should determine the amounts assigned to individual assets acquired and liabilities assumed (including assets and liabilities related to lease commitments and leased property) at the date of the combination consistent with the general guides for that type of asset or liability in paragraph 88 of APB Opinion No. 16. Subsequent to the recording of the amounts called for by APB Opinion No. 16, the leases should thereafter be accounted for in accordance with SFAS No. 13. FASB Interpretation No. 21 goes on to explain the application of this guidance to a leveraged lease by an enterprise that acquires a lessor. In practice, the guidance in FASB Interpretation No. 21 also has been used to value acquired lease portfolios as well as leases acquired as part of a purchase business combination.

In addition to a business combination, we believe the provisions of paragraphs 40A through 40E of SFAS No. 13 apply to the acquisition of a lease (for example, an investment in an existing leveraged lease) or a portfolio of leases. When a lease or a portfolio of leases is acquired, or a target company owns only a portfolio of leases, some additional accounting issues arise. These are discussed below.

In our view, where the target company in a purchase business acquisition owns a portfolio of leases but does not have other assets or operations, it is inappropriate to have the APB Opinion No. 16, "Business Combinations," allocation result in goodwill because the acquirer has purchased only a lease portfolio. In this situation, the purchase price should be allocated based on the remaining estimated after-tax cash flows from the leases purchased. This will typically be the same basis used by the purchaser to price the transaction.

Except for leveraged leases, SFAS No. 109, "Accounting for Income Taxes," has amended APB Opinion No. 16 to eliminate "net of tax" valuation for acquired assets and liabilities. When the acquirer of leveraged leases is in a tax net operating loss carryforward position, we believe that the net operating losses and carryforwards should be included in the computation of cash flows used to allocate the purchase price to the leases because (a) such net operating losses probably were considered in the pricing of the transaction and (b) if "net of tax" values were assigned to the acquired leases, the resulting "goodwill" would need to be eliminated by reallocating the excess back to the leases.

Ongoing Need for Deferred Taxes –

A final issue relates to the need to provide a deferred tax liability for any difference in the tax basis vs. book basis of Co A's investment in the REIT which may arise. Paragraph 33 of SFAS No. 109 addresses basis differences related to a parent's investment in the stock of a subsidiary, as follows:

"Whether an excess of the amount for financial reporting over the tax basis of an investment in a more-than-50-percent owned domestic subsidiary is a taxable temporary difference must be assessed. It is not a taxable temporary difference if the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. For example, under current U.S. federal tax law:

An enterprise may elect to determine taxable gain or loss on liquidation of an 80-percent-or-more owned subsidiary by reference to the tax basis of the subsidiary's net assets rather than by reference to the parent company's tax basis for the stock of that subsidiary.

An enterprise may execute a statutory merger whereby a subsidiary is merged into the parent company, the minority shareholders receive stock of the parent, the subsidiary's stock is canceled, and no taxable gain or loss results if the continuity of ownership, continuity of business enterprise, and certain other requirements of the tax law are met.

Some elections for tax purposes are available only if the parent company owns a specified percentage of the subsidiary's stock. The parent company sometimes may own less than that specified percentage, and the price per share to acquire a minority interest may significantly exceed the per share equivalent of the amount reported as minority interest in the consolidated financial statements. In those circumstances, the excess of the amount for financial reporting over the tax basis of the parent's investment in the subsidiary is not a taxable temporary difference if settlement of the minority interest is expected to occur at the point in time when settlement would not result in a significant cost. That would occur, for example, toward the end of the life of the subsidiary, after it has recovered and settled most of its assets and liabilities, respectively. The fair value of the minority interest ordinarily will approximately equal its percentage of the subsidiary's net assets if those net assets consist primarily of cash."

In this regard, you have informed us that Co A has available to it a planning strategy which, without the incurring of substantial cost, would enable Co A to realize its investment in REIT but avoid recognition of future taxable income attributable to any excess of book carrying value of its investment in REIT over its corresponding tax basis in the stock of REIT. Accordingly, we believe there is no need to provide a deferred tax liability on any basis difference relating to Co A's investment in the stock of the REIT. Note that this conclusion relies on Co A's intention to complete such planning strategy. A plan to maintain the REIT's existence indefinitely, and therefore only postpone the tax liability on any basis difference even in perpetuity, would not eliminate the need for a deferred tax liability under SFAS No. 109.

Assurance of Sustaining Tax Positions –

The preceding discussion is predicated on assumptions about certain provisions of the Internal Revenue Code of 1986, as amended, the regulations thereunder, and other relevant authorities promulgated by the Internal Revenue Service and the courts applicable to the various aspects of the transaction. The recording of the financial statement benefits of the transaction is dependent on the proper interpretation and implementation of such authorities. All companies, in preparing their financial statements for presentation to their shareholders, have a responsibility to evaluate the possibility that positions they have taken on their tax returns may be subject to challenge.

In situations such as these, in which the ultimate realization of the economic and financial statement benefits is dependent upon certain positions that will be taken on current and future tax returns, we believe that the financial statement benefits should be recorded only if it is probable that the pertinent tax positions will be sustained. The term "probable", though discussed in SFAS No. 5 – Accounting for Contingencies, is not numerically defined therein or elsewhere in the authoritative accounting literature. It is clear that it requires a higher degree of likelihood than the "more likely than not" standard discussed in SFAS No. 109 (which represents a threshold of more than 50%).

The ultimate responsibility for the decision on the appropriate application of generally accepted accounting principles for an actual transaction rests with the preparers of financial statements, who should consult with their continuing accountants. Our judgment on the appropriate application of generally accepted accounting principles for the described hypothetical transaction is based solely on the facts provided to us as described above; should these facts and circumstances differ, our conclusion may change. We have not been asked to address and have not addressed any tax matters related to this transaction.

Our opinion is as of the date of this letter, and we do not assume an obligation to update this opinion for subsequent changes in relevant rules or practice.

Arthur Andersen LLP

· portfolio limitations:
· term of mtg around 5 yrs. - basis for amortizing pre-tax benefits
351(e) invest. company rules - mtg. must be diversified

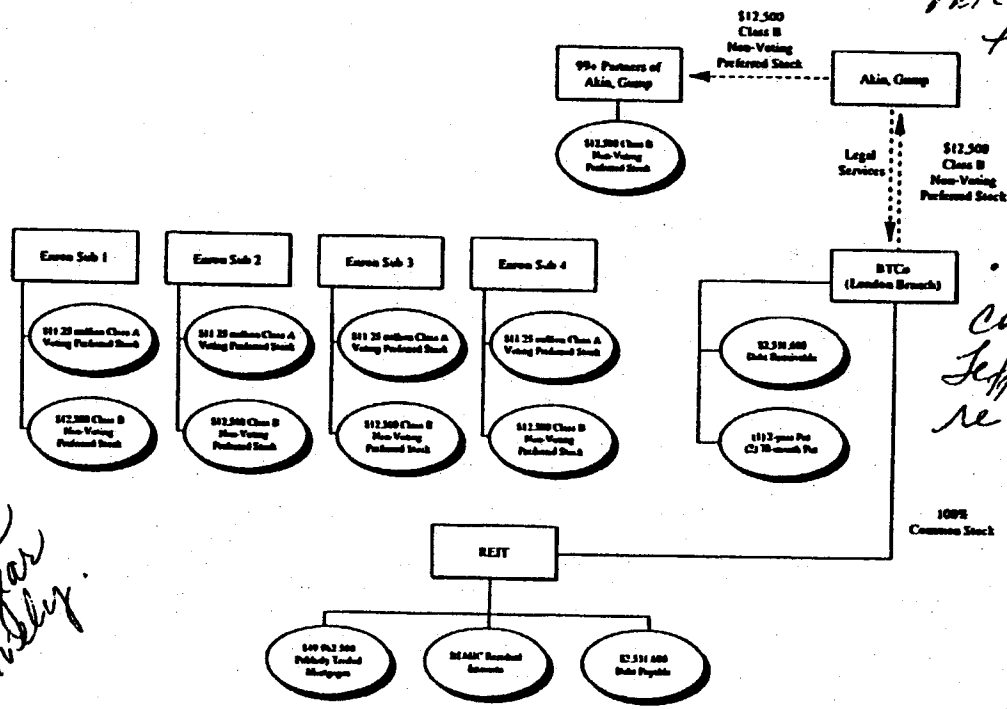
II. Transaction Structure

for each contributor to the REIT - ~~Ab~~ issuers of equal size accomplish this result

2. Transfer of Preferred Stock to Akin, Gump Partners

· found mtgs that meet these qualifications - fixed rate, callable - issues that need to be dealt w/ - sufficient cash flow to make payments on the preferred stock.

· need to start conversations w/ Jeff Kinnemon re the CMO's



recent Tony Edwards article - can one count executive officers of private REITs toward the 400 owner unit

alternatives to Akin Gump being considered:
· lees of Enron
· holding by a benefit plan (w/ look through to beneficiaries)

REIT no investor rule is tested in the 2nd yr. - 1st month of the following year effectively.

- BTCo (London Branch) will transfer approximately $12,500 of Class B non-voting coupon preferred stock to Akin, Gump, Strauss, Hauer & Feld ("Akin, Gump") in satisfaction of legal services provided on matters unrelated to the REIT. Akin, Gump will distribute the Class B non-voting coupon preferred stock of the REIT to at least 99 partners of Akin, Gump.

— look @ grandfather rule in Admin. proposal — private REIT issue — complete mechanics before Labor Day - before legis extenders

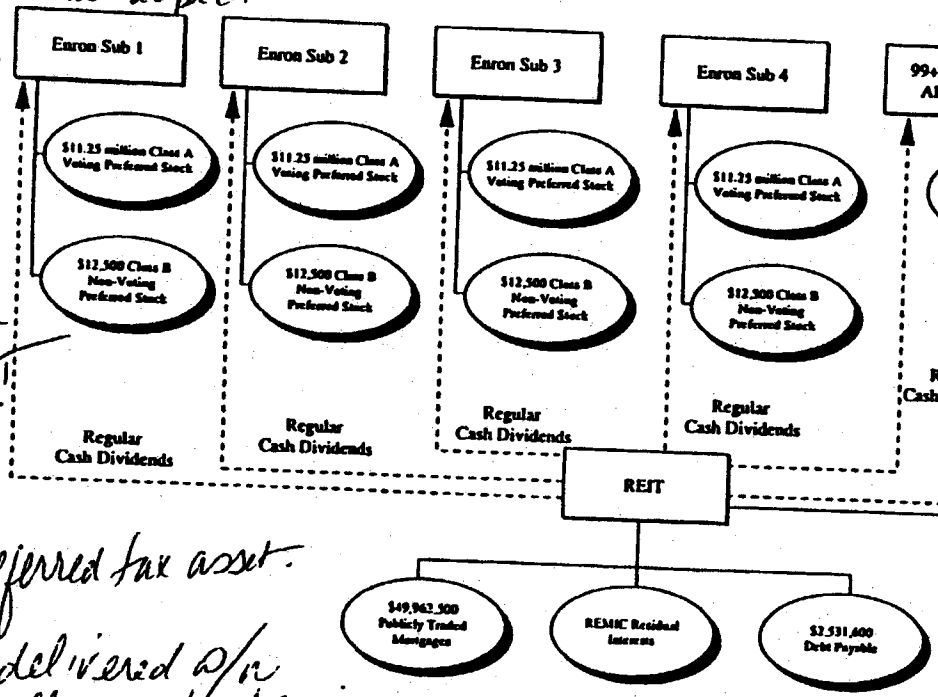
EC2 000037373

· start middle of August projected close - October 31 1998

· Replacement securities needed for some of the REMICs - will take a couple months to clean-up

II. Transaction Structure

3. Dividends During Subsequent Years



- During subsequent years of operation, the REIT will make the required coupon payments on the voting and non-voting preferred stock. In addition, the REIT will distribute any remaining taxable income through cash and consent dividends to BTCo (London Branch) as the holder of the common stock.

AA ① basis of already accreated basis. $40m. asset being acquired viewed as a purchase transaction recorded as asset and deferred credit of $40m

② this asset creates another iterative aspect

amortization on a reasonable basis

③ future accretion - consented to BT to underlie its common stk interest - creates add. deferred tax asset.

A memo s/b delivered o/n next week - all substantive issues resolved.

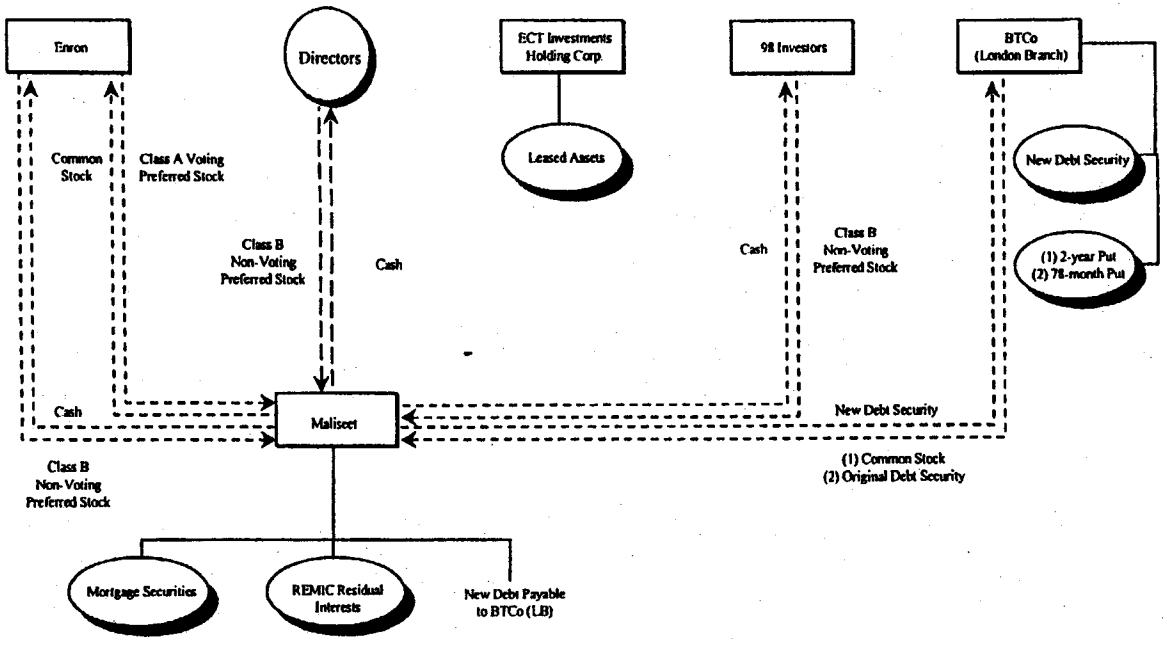
Open issue - admin. mgmt of REITs - ser. hundred securities generating quarterly income

corollary issues - REIT qualification - if disqualif. becomes C corp. giving rise to substan taxable income - drag on it / low would cause it to become insolvent - affect ability to make payments and do recapitaliz - so suggesting an indemnity Bill Blacker says Instead we all need to "row" the REIT boat

B-240

Transaction Structure

Recapitalization



- After at least 5 years, pursuant to the terms of the corporate documents governing Maliseet, either Enron or BTCo may force a recapitalization of Maliseet.
- As part of a recapitalization, Maliseet would redeem the Class B non-voting preferred stock.

B-241
EC2 000037446

I. Executive Summary

- This technique (the "Transaction") utilizes the rules of FAS 109 which ignore the time value of money concept and require the recording of deferred tax assets based on gross, undiscounted amounts. In the Transaction, Enron Corp. ("Enron") is able to record deferred tax assets at gross amounts well in excess of their present value. A portion of the deferred tax asset is recorded upon execution of the Transaction and effectively creates a bargain purchase for Enron. Moreover, the purchase accounting rules of APB 16 cause Enron to reduce the book basis of other assets acquired by Enron. The Transaction is structured in a manner which allows the benefit of the bargain purchase to be recognized into pre-tax income over a relatively short time frame. The remaining deferred tax asset is recorded over the next several years with a corresponding benefit directly to Enron's income tax provision.

- Specifically, the effect of the Transaction is to create pre-tax accounting income of approximately $75 million through the reduction of book basis of acquired assets and the amortization of a deferred credit, as well as approximately $79 million of earnings in the tax provision of the income statement, for a total of approximately $154 million of after-tax earnings. The net result is the generation of annual pre-tax accounting earnings of between $2-18 million per year from 1999-2003 and after-tax accounting earnings of between $15-36 million per year from 1999-2003.

- The Transaction will create tax losses of approximately $400 million during years 2006-2025. After allowance for fees and expenses, the Transaction will generate cash flows with a net present value at 7% of $100.7 million pre-tax and $63.5 million after-tax and a net present value at 10% of $59.9 million pre-tax and $37.7 million after-tax. The internal rate of return of the Transaction is 25.72% pre-tax and 16.20% after-tax.

B-242

EC2 000037381

V. PROJECT TERESA

Discussion Material for

ENRON CORP.

Bankers Trust Company

A Wholly-Owned Subsidiary of Bankers Trust New York Corporation

March 27, 1997

EC2 000037924

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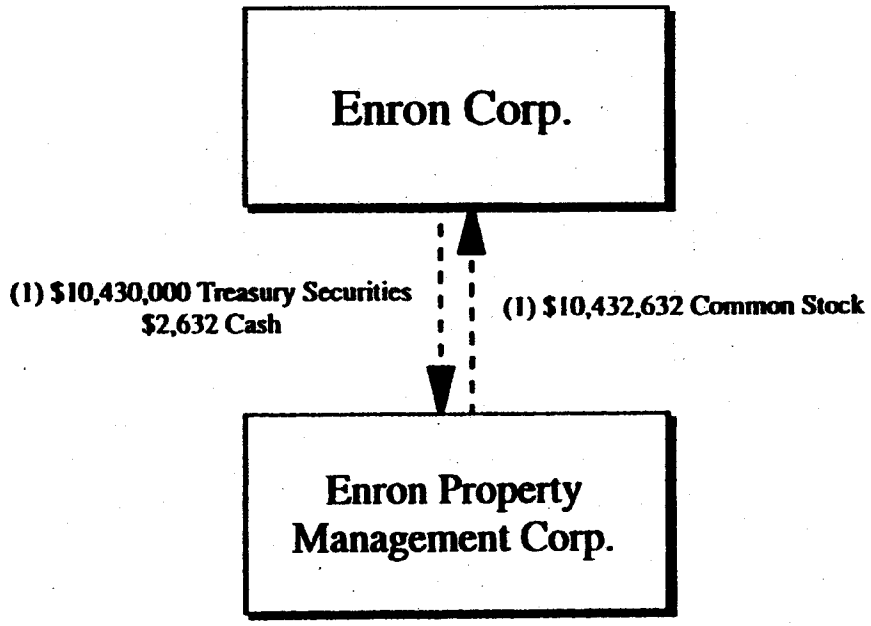
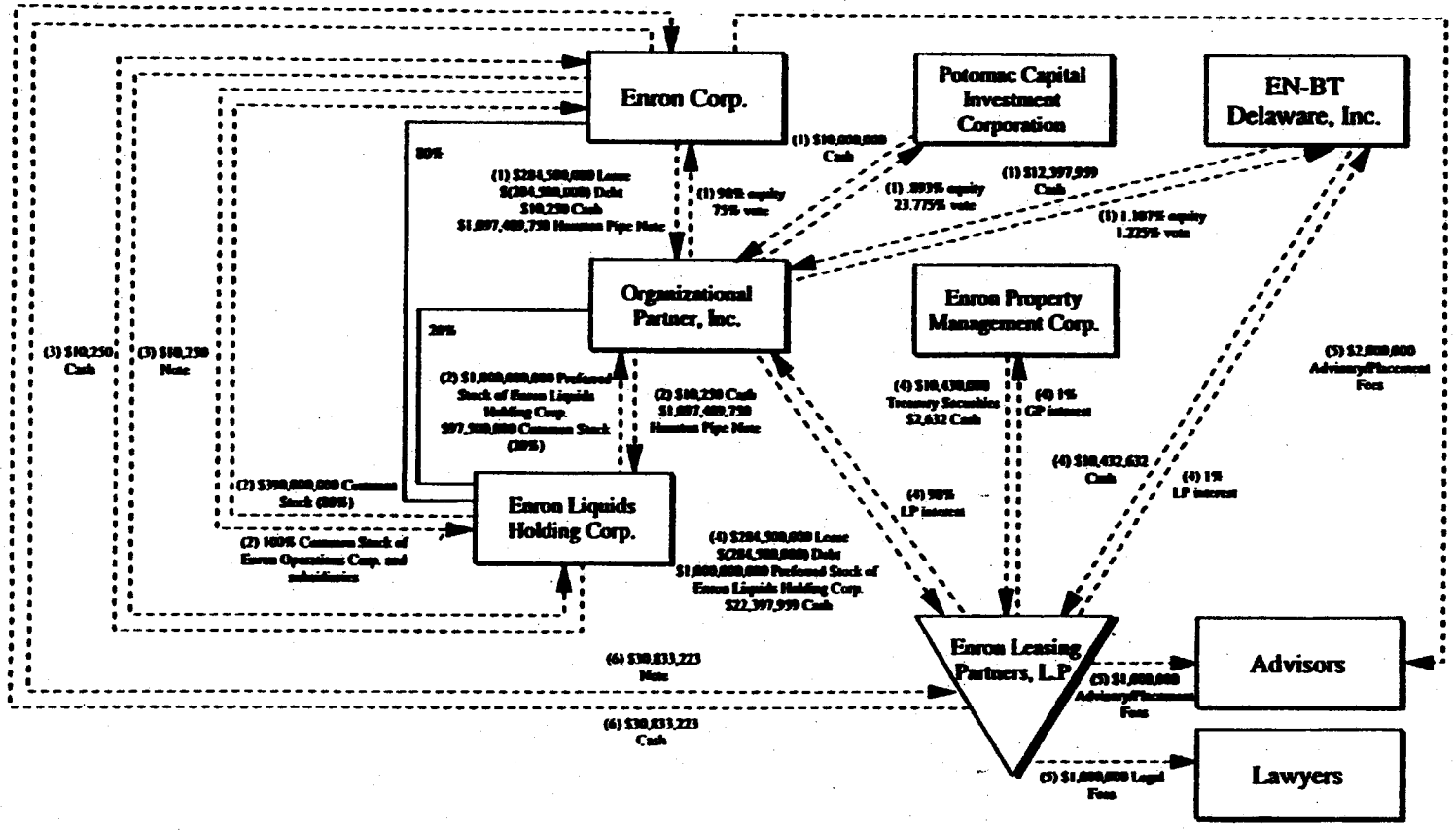
Transaction Cashflows on Closing Date



(1) Contribution of US Treasury Securities and capital contribution from Enron Corp. to Enron Property Management Corp.

Transaction Cashflows on Closing Date



(1) Formation of Organizational Partner, Inc.
(2) Formation of Enron Liquids Holding Corp.
(3) Enron Liquids Holding Corp. loan of excess cash to Enron Corp.
(4) Formation of Enron Leasing Partners, L.P.
(5) Payment of Transaction Expenses.
(6) Enron Leasing Partners, L.P. loan of excess cash to Enron Corp.

B-246
EC2 000037926

Transaction Cashflows on Closing Date

Entity	Inflows	Outflows	Net Cash Position
Enron	$30,843,473	$2,012,882	$28,830,591
Enron Property Management Corp.	2,632	2,632	0
EN-BT Delaware, Inc.	0	22,830,591	(22,830,591)
Potomac Capital Investment Corporation	0	10,000,000	(10,000,000)
Organizational Partner, Inc.	22,408,209	22,408,209	0
Enron Leasing Partners, L.P.	32,833,223	32,833,223	0
Enron Liquids Holding Corp.	10,250	10,250	0
Advisors, Lawyers and etc.	4,000,000	0	4,000,000
Totals	90,097,787	90,097,787	0

B-247
EC2 000037927

Summary of Cashflows on Closing Date

(1) Enron Corp. will transfer $2,632 to Enron Property Management Corp. as a capital contribution.
(2) Enron Property Management Corp. will receive $2,632 from Enron Corp. as a capital contribution.

(3) Enron Corp. will transfer $10,250 to Organizational Partner, Inc. as a capital contribution.
(4) Potomac Capital Investment Corporation will transfer $10,000,000 to Organizational Partner, Inc. for $10,000,000 of preferred stock.
(5) EN-BT Delaware, Inc. will transfer $12,397,959 to Organizational Partner, Inc. for $12,397,959 of preferred stock.
(6) Organizational Partner, Inc. will receive $10,250 from Enron Corp. as a capital contribution.
(7) Organizational Partner, Inc. will receive $10,000,000 from Potomac Capital Investment Corporation and issue $10,000,000 of preferred stock.
(8) Organizational Partner, Inc. will receive $12,397,959 from EN-BT Delaware, Inc. and issue $12,397,959 of preferred stock.

(9) Organizational Partner, Inc. will transfer $10,250 to Enron Liquids Holding Corp. in exchange for preferred and common stock.
(10) Enron Liquids Holding Corp. will receive $10,250 from Organizational Partner, Inc. in exchange for preferred and common stock.

(11) Enron Liquids Holding Corp. will transfer $10,250 to Enron Corp. for a note.
(12) Enron Corp. will receive $10,250 from Enron Liquids Holding Corp. for a note.

(13) Organizational Partner, Inc. will transfer $22,397,959 to Enron Leasing Partners, L.P. in exchange for a 98% partnership interest.
(14) Enron Property Management Corp. will transfer $2,632 to Enron Leasing Partners, L.P. in exchange for a 1% partnership interest
(15) EN-BT Delaware, Inc. will transfer $10,432,632 to Leasing Partners, L.P. in exchange for a 1% partnership interest
(16) Enron Leasing Partners, L.P. will receive $22,397,959 from Organizational Partner, Inc. and will issue a 98% LP interest.
(17) Enron Leasing Partners, L.P. will receive $2,632 from Enron Property Management Corp. and will issue a 1% GP interest.
(18) Enron Leasing Partners, L.P. will receive $10,432,632 from EN-BT Delaware, Inc. and will issue a 1% LP interest.

(19) Enron Leasing Partners, L.P. will transfer $1,000,000 to Bankers Trust Company as advisory/placement fees.
(20) Enron Leasing Partners, L.P. will transfer $1,000,000 to Lawyers as legal fees.
(21) Enron Corp. will transfer $2,000,000 to Bankers Trust Company as a advisory/placement fee.

(22) Enron Leasing Partners, L.P. will transfer $30,833,223 to Enron Corp. in exchange for a note.
(23) Enron Corp. will receive $30,833,223 from Enron Leasing Partners, L.P. for a note.

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EC2 000037928

PARTNERSHIP LEASING PROPOSAL

I. OVERVIEW OF TRANSACTION

A. **I.R.C. § 304** – Under this Code section, the acquisition from a shareholder (not part of the same controlled group of corporations) by one corporation of stock issued by another corporation (where the acquirer and issuer are members of the same controlled group) will result in a deemed dividend to the seller to the extent of the acquirer's earnings & profits.

B. **I.R.C. § 732(b)** – Upon liquidation of a partnership, any assets distributed will receive as their tax basis the outside basis of the partner's interest.

C. **SFAS 109** – For deferred tax accounting purposes, a corporation is allowed to record a benefit for the difference between its book and tax basis in an asset.

II. BENEFITS OF TRANSACTION

A. **Accounting Earnings** – Recognize deferred tax assets over the five life of the project.

B. **High Basis Tax Asset** – This transaction will create an asset(s) with a tax basis much higher than its FMV. This basis differential can be either recognized over time through depreciation and triggered sooner by a sale of the asset.

C. **Low Tax Risk** – Under current tax law, if modeled properly, the transaction will be revenue neutral to the IRS. Thus, there is little motivation for the Service to challenge this structure upon audit.

III. OUTSTANDING ISSUES

A. **SFAS 109** – In order to recognize the deferred tax assets, Enron must prove to Arthur Andersen that it is likely that the additional tax basis will be realized.

B. **SFAS 13** – The structure must be designed so that operating lease treatment will be maintained for book accounting purposes.

C. **Earning & Profits** – To receive dividend treatment, Enron must establish E&P in the subsidiaries purchasing the preferred stock from the Partnership.

D. **Tax Law Changes** – In its 1996 budget proposal, the Clinton Administration proposed a technical change to § 304 that could indirectly disallow the deemed dividend required for this transaction.

E. **Transaction Costs**

1. **Tax leakage** – The deemed dividend will result in a current tax liability of 7% of each deemed dividend.

2. **Outside fees** – Implementation of the transaction will require the services of investment bankers, attorneys and accountants. Negotiation of fee structures will be integral to the economics of the transaction.

Enron Corp.
Summary of Benefits of the Transaction
(Cumulative Over Life of Transaction)

Gross Dividend to Enron and Subsidiaries	$980.1 million
Gross Value of Basis ($980.1 million x 35% Tax Rate)	343.0 million
Taxes Paid by SPV Co on Dividend ($970.2 million x 20% x 35%)	(67.9) million
Taxes Paid by Enron GP on Dividend ($9.9 million x 30% x 35%)	(1.0) million
Taxes Paid on Preferred Stock Dividend to the Partnership	(15.8) million
Gross After-Tax Accounting Benefit	258.3 million
Costs of Transaction:	
Fees Paid to Bankers Trust Company	(12.0) million
Legal Fees	(1.0) million
Operational Expenses	(3.2) million
Tax Benefit for Cost of Transaction	5.8 million
Net After-Tax Accounting Benefit	247.9 million
Return on BTNY's investment*:	
BTNY Return on Partnership Interest	(2.3) million
Preferred Stock Dividends to BTNY	(15.6) million
After-Tax Accounting Earnings	230.0 million

Note
The after-tax accounting earnings of $230 million does not include earnings from Enron Corp.'s investment of BTNY's capital contributions of $43.1 million.

Need to understand -

EC2 000037931

Transaction Cashflows on Closing Date

Entity	Inflows	Outflows	Net Cash Position
Enron	$1,540,330,212	$1,510,188,302	$30,141,910
Enron GP	10,188,302	10;188,302	0
Enron Sub II	1,500,000,000	1,500,000,000	0
Enron Sub III	1,500,000,000	1,500,000,000	0
BT Sub	0	43,141,910	(43,141,910)
SPV Co	32,953,608	32,953,608	0
Partnership	123,330,212	123,330,212	0
Advisors, Lawyers and etc.	13,000,000	0	13,000,000
Totals	4,719,802,334	4,719,802,334	0

Transaction Cashflows on Closing Date

	Rate	NPV of Benefit
AFR	6.78%	$10,989,698
Cost of Funds	7.00%	$8,162,741

*Assumes benefit is taken through the depreciation of the real estate over 39.5 years.

Project Teresa

Deal Basics

Business Purpose – To raise third party capital. To create a leasing company to manage a portfolio of leased assets. To achieve certain financial accounting benefits arising from basis increases in stock and partnership interests.

Primary Entities – Enron Corp. (bankruptcy filer); Enron Leasing Partners, L.P.; Organizational Partners, Inc.; Enron Pipeline Holding Company (EPHC)

Date Closed – March 1997

Principal Assets – Current assets include the Enron Center North Building; corporate aircraft; HPL note receivable; preferred stock in EPHC; potential IRS refund claims

Transaction Size – $1.2 billion in contributed assets (EPHC stock, building); anticipated earnings of up to $300 million from the structure

Net Income Impact – $225 million in earnings recorded through the 3rd quarter of 2001

Primary Tax Return Effect – Deconsolidation of OPI and EPMC; these entities paid $130 million in cash taxes for 1997-2000 ($25 million in estimated tax payments for 2001). These taxes were attributable to lease payments, interest, etc.

Current Status – A standstill agreement is under negotiation with Chase following default on synthetic lease financing of Building (immediate foreclosure possible absent such an agreement). Information demands received from Chase, DB and Potomac. No Enron officers or directors at OPI. Possible franchise tax, pipeline and building issues are on the horizon.

Counterparties

Counterparty – Bankers Trust (BT) & Potomac Capital as shareholders and lenders in OPI and BT as a limited partner in ELP.

Size of Investment – Approximately $30million aggregate equity and debt investments.

Litigation Status – None currently; default in OPI loan payments, action by DB possible.

Control Rights – Over major events of OPI & ELP including liquidation and bankruptcy.

Indemnities – Numerous

Advisory History

Principal Advisors

- King & Spalding – Tax and corporate counsel for initial structuring
- Ernst & Young – Tax services on restructuring
- Locke, Liddell – Corporate for restructuring
- Vinson & Elkins – Tax and corporate/real estate counsel for initial structuring

Primary Opinions

- ELP formation memo – K&S
- Business purpose opinion – K&S
- Stock purchase opinion – K&S
- Stock redemption opinion – K&S
- Building ownership opinion – V&E
- Restructuring Memo – E&Y
- SAS 50 Letter issued to BT from Arthur Andersen

Confidentiality Agreement – No

Widely Marketed Deal – No

Financial Model and Deal Memo – Financial model utilized; no deal memo

Current Counsel – Weil on certain building-related matters. No representation on structural or tax matters, but DB has requested that external counsel be engaged.

For Tax Department Management Use Only

EC2 000037870

VI. PROJECT TOMAS

ARTHUR ANDERSEN

Arthur Andersen LLP

Suite 1300
711 Louisiana Street
Houston TX 77002-2786
713 237 2323

December 11, 1997

Mr. David Maxey
Enron Corp.
1400 Smith Street
Houston, Texas 77251-1188

Dear Dave:

This letter further expands on our discussion regarding permanent gain deferral.

Basic Structure

The product is a technique through which a corporate partner may redeem its partnership interest while minimizing any potential tax consequences on the redemption. There are a number of variations of the technique and several implementation steps, depending on the particular facts. However, where a partnership currently exists, the implementation steps of the product are as follows:

1. The fair market value of the Enron's partnership interest is determined. Nonmarketable securities (or assets related to the business of the entity) in an amount equal to the fair market value of Enron's interest are purchased by the partnership.

2. The partnership transfers the nonmarketable securities to a corporation (newly formed or currently controlled by the partnership) in exchange for all of the stock of the corporation. § 351

3. Enron's entire partnership interest is redeemed by the partnership in exchange for the stock of the corporation controlled by the partnership. Enron becomes the parent of the corporation formerly controlled by the partnership (i.e., a subsidiary). § 732(b)

4. Enron later liquidates its subsidiary. The nonmarketable securities are distributed to the Enron. The tax basis of the nonmarketable securities is the fair market value of the Enron's former partnership interest (i.e., the purchase price cost basis of the securities). The nonmarketable securities are sold later to a third party. Effectively, Enron recognizes no gain or loss on the sale of its partnership interest. § 332

In the alternative, Enron holds appreciated property and may be able to use the product to permanently defer recognition of the current gain if it is willing to contribute the property to a

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partnership and wait the time period required. For example, forming a partnership with an affiliated entity may start the running of the seven-year clock until a "buyer" can be located.

There are several other variations of the technique that may better fit your particular fact situation and tolerance for risk.

What's the Benefit?

The benefits of the product are as follows:

(1) Partition of partnership activities. Provides Enron and its current partners with the ability to partition partnership assets in an economically efficient manner. Thus after the redemption, each party may devote its undivided attention to the particular segment of the partnership business in which it is most proficient.

(2) Resolution of partner disputes. The product provides a tax effective technique for Enron and its partners to resolve disputes. An opportunity for a tax-free redemption of unwanted partners is available.

(3) Stepped-up basis to remaining partners. Upon redemption of the partnership interest held by Enron, the partnership has the opportunity to make an election to increase the basis of its remaining assets so as to avoid the recognition of some of the gain inherent in the partnership's retained assets.

(4) Substantial tax savings to Enron on disposition. Without the technique, Enron upon selling its partnership interest or analyzing assets, would be subject to tax on the gain (at a potential maximum rate of 35 percent). With the technique, however, the entire gain is either eliminated or the tax is significantly minimized. The result is a substantial tax savings to the Enron.

(5) Gain deferral to noncorporate partners. The technique is available to noncorporate partners but gain deferral and not gain elimination is the goal.

(6) Basis step-up. A step-up of partnership assets to be sold is possible.

ARTHUR ANDERSEN

Inherent Risk

As with other tax savings techniques, there is a potential risk that the Internal Revenue Service (IRS) may attempt to recast the transaction. For example, the IRS may seek to recast the transaction under the common law doctrines of business purpose, step transaction, and substance over form. Additionally, the IRS may argue that the product triggers the "avoidance or evasion of tax" provisions under I.R.C. § 269 or the Partnership Anti-Abuse Regulations. There is also a risk that Congress may change the law in this area as the technique was mentioned last April by the Joint Committee on Taxation as a possible target for legislative change. However, the inherent risk in the product will depend on your particular factual situation. At a minimum, we believe that substantial authority exist in support of the product. Because of the substantial benefits that the product provides, and the possibility of legislative action, you should be advised to utilize the technique now, as its shelf life may be limited.

I look forward to discussing this further with you.

Very truly yours,

ARTHUR ANDERSEN LLP

By
Robert P. Palmquist

MLP

Copies to:
Greek Rice
Bob Hermann

EC2 000038052

Brian J. McGuire
Vice President
Bankers Trust Company

Bankers Trust
Architects of Value

September 15, 1998

Mr. Richard A. Causey
Senior Vice President and
Chief Accounting and Information Officer
Enron Corp.
P.O. Box 1188
Houston, Texas 77251

Dear Mr. Causey:

This letter is to confirm that Enron Corp. (the "Company") has engaged Bankers Trust Company ("Bankers Trust") as its exclusive financial advisor in connection with structuring and establishing a limited partnership (the "Partnership" or the "Partnership Transaction") to acquire and manage a leasing portfolio currently owned by Portland General Holdings, Inc. ("PGH").

The Partnership will be structured substantially as described during recent conversations between representatives of the Company and representatives of Bankers Trust, and otherwise as agreed to between the Company and Bankers Trust. PGH will make a capital contribution to the Partnership consisting of a portfolio of leased assets (the "Leased Assets") subject to non-recourse debt and the stock of a wholly-owned subsidiary (the "PGH Subsidiary"), and will in return receive a limited partnership interest. As part of PGH's capital contribution to the Partnership, the Partnership will assume a recourse debt obligation of PGH which is payable to Toronto Dominion (Texas), Inc. Affiliates of Bankers Trust Corporation will contribute cash to the Partnership, and will in return receive general partnership interests in the Partnership.

Upon the terms and subject to the conditions set forth below (the "Agreement"), Bankers Trust is retained as exclusive financial advisor to the Company and any of its applicable affiliates with respect to structuring the Partnership Transaction.

1. **Services.** At the request of the Company, Bankers Trust will use its best efforts to perform the following services in connection with the Partnership Transaction:

   a) advise and assist in designing an appropriate structure for the proposed Partnership Transaction;

130 Liberty Street, MS 2344
New York, NY 10006

Mailing Address:
P.O. Box 318
Church Street Station
New York, NY 10008

Telephone 212 250-1011
Facsimile 212 669-1793

EC2 000038045

b) assist in the preparation of financial analysis and computer modeling with respect to the Partnership Transaction to the extent requested by the Company, it being understood that all results of the use of such model shall be the responsibility of the Company;

c) work with legal counsel, accountants and other relevant parties to document and close the Partnership Transaction; and

d) perform such other investment banking and financial advisory services related to or arising out of the services described in this paragraph 1, as Bankers Trust and the Company may from time to time agree.

2. **Compensation.** In consideration of the services rendered by Bankers Trust, the Company agrees to pay, or cause to be paid, to Bankers Trust a non-refundable cash fee, in the aggregate amount of $10,000,000 subject to any reduction pursuant to the terms hereof. The foregoing notwithstanding, (a) Bankers Trust will be paid $5,000,000 upon the "Closing" of the Partnership Transaction and an additional $625,000 on each March 31, June 30, September 30 and December 31 of the years 1999 and 2000, beginning March 31, 1999 and ending December 31, 2000 and (b) if a change in law or accounting rule (or the enacted effective date thereof) prior to December 31, 2000 materially reduces the Company's expected accounting reporting treatment of the Partnership Transaction under GAAP (as hereinafter defined), the portion of such fee which has not been paid to Bankers Trust at such time will be forfeited by Bankers Trust.

For the purposes of this Agreement, (a) "GAAP" means generally accepted accounting principles in effect in the United States as in effect from time to time as applied to the Partnership Transaction, and (b) the "Closing" is deemed to have occurred upon PGH's initial contribution of Leased Assets and the PGH Subsidiary to the Partnership.

It is understood that the foregoing fee does not include fees for additional services including services provided to the Company, its affiliates or the Partnership under other engagement letters and other services such as leased asset management and disposition fees, swaps, bridge financing, valuation services, commitment fees, and fees and expenses for other parties involved in the transaction (e.g., trustee fees and expenses).

3. **Indemnification.** The Company hereby agrees to indemnify and hold harmless Bankers Trust and its affiliates and their respective directors, officers, employees, agents and representatives (collectively, "Indemnified Persons") from and against all losses, claims, damages, liabilities, costs and expenses incurred by any of them (including fees and disbursements of legal counsel) which (i) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any information provided by the Company in connection herewith or arise out of or are based upon any omission or alleged omission to state therein any material fact necessary to make the

statements therein not misleading, or (ii) are otherwise related to or arise out of or in connection with the services contemplated hereby, and the Company will reimburse Bankers Trust and each other Indemnified Person for all reasonable expenses (including fees and disbursements of legal counsel) as they are incurred in connection with investigating, preparing or defending any such action or claim, whether or not in connection with pending or threatened litigation in which Bankers Trust or such other Indemnified Person is a party. The Company will not be responsible, however, for any losses, claims, damages, liabilities, costs or expenses of any Indemnified Person pursuant to clause (ii) in the preceding sentence to the extent they result primarily from the bad faith or recklessness of such Indemnified Person. The Company also agrees that neither Bankers Trust, nor any other Indemnified Person, shall have any liability to the Company for or in connection with the services contemplated hereby except for such liability for losses, claims, damages, liabilities, costs or expenses incurred by the Company to the extent they result primarily from Bankers Trust's bad faith or recklessness (provided, however, that this limitation is not intended to and does not limit responsibilities and/or liabilities under any other written agreements with the Company). If for any reason the foregoing indemnification is unavailable to an Indemnified Person or insufficient to hold any Indemnified Person harmless, then the Company shall contribute to the amount paid or payable by it and Bankers Trust as a result of such losses, claims, damages, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative benefits received by the Company on one hand and Bankers Trust on the other hand, as well as any relevant equitable considerations. The amount paid or payable by a party as a result of losses, claims, damages, liabilities, costs or expenses shall be deemed to include any reasonable legal or other fees or expenses incurred in defending any action or claim. In no event shall the Company be liable to any Indemnified Person for any lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise) under or in respect of this Agreement for any failure of performance related hereto howsoever caused, whether or not arising from the Company's sole, joint or concurrent negligence. The Indemnified Persons shall not be required to contribute in the aggregate any amount in excess of the amount of fees actually received by Bankers Trust hereunder.

4. **Additional Services.** If the Company requests Bankers Trust to perform services not contemplated by this Agreement, or if the terms and conditions of Bankers Trust's engagement change, Bankers Trust's compensation therefor will be determined through negotiations conducted in good faith, and the terms of such engagement will be set forth in a separate written agreement between the Company and Bankers Trust. Nothing in this Agreement is intended to obligate or commit Banker Trust or any of its affiliates to provide any services other than as set out herein.

5. **Affiliate Services.** In connection with the services to be provided hereunder. Bankers Trust may employ the services of its affiliates, including BT Alex Brown Incorporated. Bankers Trust may share with any of its affiliates any non-public

information related to the Company or the contemplated Partnership Transaction. The term "affiliate" as used herein shall have the meaning ascribed to such term in the rules and regulations promulgated under the Securities Exchange Act of 1934, as amended.

6. **Survival.** Bankers Trust's engagement hereunder may be terminated at any time by either Bankers Trust or the Company by prior written notice thereof to the other party, provided that the indemnification provisions set out in Paragraph 3, the compensation provisions outlined in Paragraph 2, and the representations and warranties of the Company contained herein, shall remain operative and in full force and effect and shall survive such termination. The indemnity obligations of the Company hereunder and referred to herein shall be in addition to any liability the Company may otherwise have.

7. **Information.** The Company agrees to furnish Bankers Trust with such information as Bankers Trust reasonably requests in connection with its engagement hereunder. The Company recognizes and confirms that Bankers Trust (i) will be relying solely on such information and other information available from generally recognized public sources in performing the services contemplated hereunder, (ii) will not independently verify the accuracy or completeness of such information, (iii) does not assume responsibility for the accuracy or completeness thereof, and (iv) will make appropriate disclaimers consistent with the foregoing.

8. **Counterparts, Etc.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof, supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof and cannot be amended or otherwise modified except in writing executed by the parties hereto. Bankers Trust may transfer or assign, in whole or from time to time in part, to one or more of its affiliates its rights and obligations hereunder, but no such transfer or assignment will relieve Bankers Trust of its obligations hereunder without the prior written consent of the Company. The provisions hereof shall inure to the benefit of and be binding upon the successors and assigns of the Company and Bankers Trust and their respective affiliates.

9. **Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE CONFLICTS OF LAWS PROVISIONS THEREOF.

10. **Notices.** Notice given pursuant to any of this Agreement shall be in writing and shall be mailed or delivered (a) to the Company, at its office at the address set forth above and (b) to Bankers Trust, at its offices at One Bankers Trust Plaza, 130 Liberty Street, New York, New York 10006, Attention: Mr. Brian McGuire.

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11. **Bankers Trust Advice, Role, Etc.** No opinion or advice rendered by Bankers Trust, whether formal or informal, may be publicly disclosed nor may the Company refer to Bankers Trust's role in the contemplated Partnership Transaction without Bankers Trust's prior written consent. The Company confirms that it will rely on its own counsel, accountants and other similar expert advisors for legal, accounting, tax and other similar expert advice. Moreover, the Company understands and agrees that Bankers Trust makes no representation or warranty as to the tax or accounting consequences of the Partnership Transaction. The Company further agrees that neither Bankers Trust nor any of its directors, officers, employees, agents or representatives shall have any liability to the Company or its representatives resulting from the Company's use of the form of structure to be used in the Partnership Transaction.

12. **No Right in Shareholders, Etc.** The Company recognizes that Bankers Trust has been retained only by the Company, and that the Company's engagement of Bankers Trust is not deemed to be on behalf of and is not intended to confer rights upon any shareholder, owner or partner of the Company or any other person not a party hereto as against Bankers Trust or any of Bankers Trust's affiliates or the respective directors, officers, agents, employees or representatives of Bankers Trust or Bankers Trust's affiliates. Unless otherwise expressly agreed, no one other than the Company is authorized to rely upon the Company's engagement of Bankers Trust or any statements, advice, opinions or conduct by Bankers Trust.

If the Company is in agreement with the foregoing, please sign and return one copy of this letter which will thereupon constitute the agreement of the parties hereto with respect to the subject matter of this letter.

BANKERS TRUST COMPANY

By: _____

Brian J. McGuire
Vice-President

Agreed and Accepted:

ENRON CORP.

By: _____

Richard A. Causey
Senior Vice President and Chief Accounting and Information Officer

ENRON RISK ASSESSMENT AND CONTROL
DEAL APPROVAL SHEET

DEAL NAME: Project Tomas Windup
Counterparty: Deutsche Bank / Bankers Trust Corp.
Business Unit: Corporate Tax
Business Unit Originator: R. Davis Maxey
☐Public ☒Private
☒Merchant ☐Strategic
☒Conforming Nonconforming

Date DASH Completed: September 26, 2000
RAC Analyst/Underwriter: NA/David Gorte
Investment Type: Divestiture for Non-Cash Consideration
Capital Funding Source(s): Self-Funded by Project
Expected Closing Date: October 2, 2000
Expected Funding Date: N/A
Board Approval: ☐Pending ☐Received ☐Denied ☒N/A

RAC Recommendation: ☒Proceed with Transaction ☐Returns below Capital Price ☐Do not Proceed

APPROVAL AMOUNT REQUESTED

Approve the receipt of the retirement distribution from Seneca Leasing Partners, L.P. ("Seneca") to Enron's affiliate, PGH Leasing, LLC ("PGH Leasing") consisting of (1) a demand note receivable from Bankers Trust Corp. ("Bankers Trust") in the amount of approximately $226 million (including accrued interest) and (2) three aircraft subject to leases (value of approximately $47 million). Also part of the retirement will be the assumption by PGH Leasing of approximately $160 million of Seneca's demand note payable to Bankers Trust; such assumption of debt is necessary because the value of the assets received exceeds PGH Leasing's entitlement upon retirement (its marked-to-market capital account in Seneca of $113 million).

EXPOSURE SUMMARY

This transaction:	$ 222,308,495	Demand Note from Bankers Trust
	4,168,453	Accrued interest on demand note from Bankers Trust
Sub-total, Money Market	$ 226,476,948	
Aircraft Leases	47,311,782	
Total	$ 273,788,730*	

*Because of the near-cash, money market nature of this Bankers Trust demand note obligation, an imputed credit reserve amount equal to $200,000 associated with this Bankers Trust exposure. This amount, plus the amount of the aircraft leases, a total of $47,511,782, was used as the approval amount.

TRANSACTION SOURCES AND USES OF FUNDS

	Sources		Uses
Liquidation of interest In Seneca	$273,788,730	Bankers Trust Note (including accrued interest)	$226,476,948
		Leased Aircraft	47,311,782
	$273,788,730		$273,788,730

RETURN SUMMARY

This transaction represents a liquidation of Enron's interest in Seneca for appraised, or estimated fair market, value. This transaction is expected to generate approximately $40 million of pre-tax accounting income upon its consummation.

CASH FLOW SUMMARY

The Bankers Trust note will be called before December 31, 2000. The leased aircraft have leases terminating in 2006 (Continental DC-9-82) and 2002 (United 747-200); a Hawker 800XP leased to Enron will also be acquired and may be liquidated at any time.

EC2 000038053

DEAL DESCRIPTION

Enron Corp. ("Enron") seeks approval for its subsidiary, PGH Leasing, to accept a $222 million demand note from Bankers Trust (plus accrued interest) and three aircraft leased to other parties (value of $47 million), and to assume debt of approximately $160 million, upon PGH Leasing's retirement as limited partner from Seneca. Bankers Trust is rated "A" by Standard & Poors and "A2" by Moody's. Deutsche Bank AG acquired Bankers Trust in 1999.

Background. Portland General Holdings, Inc. ("PGH"), as a limited partner, entered into the Seneca partnership with two Bankers Trust subsidiaries in September 1998. At that time, PGH contributed its portfolio of leveraged leased assets (approximately 17 portfolios, including commercial aircraft, railcars, containerships, and manufacturing facilities

Retirement. Under the terms of Seneca's partnership agreement, after September 30 2000, PGH Leasing has the right to retire from the partnership. Seneca gave notice in June 2000, asking the partnership to initiate a valuation of the partnership assets. Based on the outcome of the valuation, the general partners will mark the partnership assets to market.

The valuation process is nearing completion, and the anticipated retirement date for PGH Leasing from Seneca is October 2, 2000. Based upon initial estimates, the value of PGH Leasing's interest in Seneca should be approximately $113 million.

Distribution to Retiring Partner. Upon retirement, PGH Leasing will receive assets as a distribution from the partnership in exchange for its partnership interest. The value of these assets exceeds the amount of Seneca value allocable to PGH Leasing, so PGH Leasing will also assume a portion of the partnership's debt payable to Bankers Trust as part of the retirement distribution.

The terms of the note receivable from Bankers Trust provide for payment of all or any part of the principal amount due on the day following demand for such payment. Interest is payable at the end of each quarter, or if demand is made for repayment of the principal in full, on the date such principal repayment is due. Interest accrues on outstanding principal at the rate of LIBOR plus 35%.

We anticipate that Bankers Trust will call the portion of the Seneca debt assumed by PGH Leasing (approximately $160 million) on or soon after the retirement date. We further anticipate that the note receivable, payable from Bankers Trust ($226 million including accrued interest) will not be called until some time after the retirement date (but in any event prior to the end of the year). Even if the note payable to Bankers Trust were to remain outstanding, the two notes do not provide for any right of offset with each other in the event of default (or for any other reason).

Benefit to Enron. Enron anticipates generating pretax accounting income from this transaction of approximately $40 million. This income value reflects the valuation of PGH Leasing partnership interest, as described above, less PGH Leasing's basis in its partnership interest of approximately $72 million.

TRANSACTION UPSIDES/OPTIONALITY
(include chart to show impact if appropriate)

None.

EXIT STRATEGY (Merchant investments only)

Payment on the Bankers Trust demand note can be demanded at any time following the Retirement Date. Demand will be made on this note prior to December 31, 2000. The aircraft leased to United and Continental are expected to be sold upon lease termination; Enron is expected to use the Hawker aircraft acquired for its corporate purposes, but because this is an intercompany lease, flexibility with respect to the disposition of this aircraft exists.

RISK MATRIX (Maximum 5)

DESCRIPTION	MITIGATION/COMMENTS
Credit Risk	The principal credit risk is to Bankers Trust. Bankers Trust is rated "A" by Standard & Poors and "A2" by Moody's. Due to the short-term nature of this exposure and the pricing of this note at LIBOR + 0.35%, at market for this note, the pricing of this note compensates Enron adequately for this risk. Additional credit risks arise from secured exposures to Continental and United Airlines, rated (unsecured) BB-/Ba2 and BB+/Ba3, respectively, by S&P and Moody's. The lease rates are deemed to be market for secured credits to these lessees.
Aircraft Valuation Risk	At lease termination, Enron will have the residual value risk related to the leased aircraft. An independent appraisal of this residual value corroborating the valuation of these leased aircraft has been received.

KEY SUCCESS FACTORS

	NA	Poor				Excellent
Core Business				X		
Strategic Fit					X	
Upside Potential			X			
Management	X					
Risk Mitigation						X

TRANSACTION MILESTONES:

1. Update on status of call of Bankers Trust Note — November 15, 2000
2. Confirmation that Bankers Trust Note has been called, if not by November 15, 2000 — December 15, 2000

OTHER RAC COMMENTS:

APPROVALS	Name	Signature	Date
Regional Mgmt.	Rick Causey		9-28-00
Legal	Ann Ballard		September 27, 2000
RAC Management	Rick Buy/David Gorte		27 September 2000
Enron Capital Management	Andy Fastow/Ben Glisan		9-28-00
ENE Management	Jeff Skilling/Joe Sutton		9-28-00
Other - Tax	Davis Maxey		9/28/00
ENE Office of the Chairman	Jeff Skilling		9/30/00

EC2 000038055

Global Finance Summary (addendum to DASH)

1. Transaction Summary
   Retirement of PGH Leasing as Limited partner of Seneca

	Amount ($000)
Total Deal/Project Capital Commitment	$
Less: Financings	-0-
Less: Syndications	-0-
Net Enron Investment	$

EC2 000038056

Response to 12/31/02 letter from JCT
Project Tomas, Question #102

Exhibit XX -- Sales of Leased Assets reported by Seneca Leasing Partners, L.P.

Date of Sale	Description	Sales Price	Tax Basis
4/1/1999	Acid Recovery Plant	4,649,500	1,278,230
1/4/1999	Rail Cars (CSX 1988-1)	8,908,000	-
8/2/1999	Rail Cars (SOO Line 1989)	32,198	-
2/12/1999	Tank Cars (GATC 86-1)	13,871	-
8/2/1999	Dry Van Containers (American President Lines Ltd.)	15,238	-
12/11/2000	Dry Van Containers (American President Lines Ltd.)	19,270	-
12/11/2000	Intangible Assets - Dry Van Containers (APL)	53,207	53,207
12/11/2000	Dry Van Containers (American President Lines Ltd.)	3,235,728	-
12/20/2000	Aircraft (Delta Airlines 1986-10)	579,645	-
12/20/2000	Intangible Asset (Delta Airlines 1986-10)	353,737	353,737
12/21/2000	Aircraft - Boeing (Delta Airlines Trust No. 29)	89,526	-
12/21/2000	Boeing 757 (Meridian Trust Co.)	2,470,078	-
12/21/2000	Intangible Assets (Meridian Trust Co.)	114,347	114,347
12/20/2000	Aircraft (Pan AM/Airbus 1988 PA-D)	-	-
12/20/2000	Intangible Assets (Pan AM/Airbus 1988 PA-D)	590,720	590,720
12/21/2000	Boeing 737 (TAC 328)	1,723,051	-
12/21/2000	Intangible Assets (TAC 328)	85,651	85,651
12/11/2000	Dry Van Containers - §754 asset (APL)	7,074,139	7,074,139
12/20/2000	Aircraft - §754 asset (Delta Airlines 1986-10)	29,684,691	29,684,691
12/21/2000	Boeing Aircraft - §754 asset (Delta Airlines Trust No. 29)	4,213,130	4,213,130
12/21/2000	Boeing 757 - §754 asset (Meridian Trust Co.)	16,406,862	16,406,862
12/20/2000	Aircraft - §754 asset (Pan AM/Airbus 1988 PA-D)	30,024,181	31,965,268
12/21/2000	Boeing 737 - §754 asset (TAC 328)	11,002,338	11,002,338

VII. PROJECT CONDOR

ARTHUR ANDERSEN

NOTE-
IT IS UNCLEAR WHY CHASE RECEIVED THIS LETTER OR WHY THEY SENT IT TO ENRON

Arthur Andersen LLP

1345 Avenue of the Americas
New York NY 10105-0032
Writer's Direct Dial
(212) 708-4930

September 29, 1999

Chase Securities Inc.
270 Park Avenue
New York, NY 10017

Dear Sir or Madam:

We have been engaged to report on the appropriate application of United States generally accepted accounting principles (US GAAP) to the hypothetical transaction described below. This report is being issued to Chase Securities Inc. for assistance in evaluating accounting principles for the described hypothetical transaction. Our engagement has been conducted in accordance with standards established by the American Institute of Certified Public Accountants.

Hypothetical Transaction:

1. Sponsor, a U.S. corporation has two wholly owned domestic corporate subsidiaries ("Sponsor Sub 1" and "Sponsor Sub 2"). Sponsor Sub 1, Sponsor Sub 2, and an unrelated third party investor (the "Investor") will form a partnership (the "Partnership"). The Partnership will be organized as a limited partnership under the Delaware Revised Uniform Limited Partnership Act.[1] Sponsor Sub 1 will be its general partner. Sponsor Sub 2 and the Investor will be its limited partners.

2. Sponsor Sub 1 will purchase $500 million of Sponsor common stock (the "Sponsor Common Stock") in the marketplace. Sponsor Sub 1 will contribute the Sponsor Common Stock to the Partnership in exchange for 97.0 percent of the Partnership's common interests (in the form of GP and LP units). Common Interests for purposes of this memo is defined as a partner's entitlement to profits or losses after the preferred return has been allocated. Sponsor Sub 2 will contribute intangibles (the "Property") with a tax basis of -0- and a fair market value of $500 million in exchange for 1.5 percent of the common LP units and a preferred LP interest that entitles Sponsor Sub 2 to an 8 percent preferred return on $500 million of its contribution. As the common interest holders, Sponsor Sub 1 and Sponsor Sub 2 (and

[1] It should also be possible for the Partnership to be organized as a limited liability company.

Investor) will, for US Federal Income Tax (FIT) purposes, be allocated all remaining profits and losses (including book gains and losses that may arise upon a distribution or revaluation of Partnership property), after allocation of the preferred returns, pro rata in accordance with their common interest holdings.

3. The Investor will contribute $500 million in cash in exchange for 1.5 percent of the common LP interests and a preferred LP interest that entitles the Investor to an 8 percent preferred return on its contribution. The Partnership will be permitted to invest the $500 million in cash contributed to it by the Investor in certain permitted investments. Furthermore, the Partnership will lease the contributed Property to the Sponsor or a Sponsor affiliate for a period of years.

4. The following sets forth the FIT assumptions and analysis:

   a. The Property contributed by Sponsor Sub 2 would be amortizable over 15-years if newly purchased by the Partnership.

   b. The Partnership will adopt the remedial method under Treas. Reg. § 1.704-3.

   c. The taxable income allocated to Sponsor Sub 2 should exceed the Section 704(b) book income allocated to such Partner by the amount of section 704(b) book amortization with respect to the contributed Property.

   d. Assuming Sponsor Sub 2 receives a cash distribution annually equal to its preferred return, it's tax basis in its Partnership interest should increase each year by the excess of taxable income over section 704(b) book income allocated to such partner.

   e. If Sponsor Sub 2 were to receive a distribution of the Property in liquidation of its interest in the Partnership, it should take a basis equal to its then existing outside tax basis in its Partnership interest.

   f. Sponsor Sub 1 should be able to receive a liquidating distribution of the Sponsor Common Stock without recognizing gain for FIT purposes. Sponsor Sub 1 should take a substituted basis in such property it receives from the Partnership in liquidation of its interest.

   g. With respect to the property which Sponsor Sub 1 receives in liquidation of its interest, Sponsor Sub 1 should be able to undertake steps to permanently eliminate any deferred FIT gain inherent in such property.

h. For purposes of this memorandum we will assume the investor will receive upon retirement from the Partnership an amount equal to its original contribution in cash. As such it can be assumed that the tax consequences to the investor associated with its residual share of income are deminimus.

Accounting Discussion:

You have asked us to address the accounting for this transaction under US GAAP in the consolidated financial statements of Sponsor. We have not been asked to address and, accordingly have not addressed, the treatment of this transaction for FIT purposes, regulatory purposes or any purposes other than treatment under US GAAP and all references to the treatment for FIT purposes are based on your analysis as described above. Accordingly, we express no opinion on the FIT consequences the transaction.

Accounting for Sponsor Sub 1, Sponsor Sub 2, and the Partnership

The rules for consolidation of subsidiaries are set forth in Accounting Research Bulletin No. 51 (ARB 51), Opinion No. 18 of the Accounting Principles Board (APB 18) and Statement No. 94 of the Financial Accounting Standards Board (SFAS 94). These rules specify that a company should generally consolidate the accounts of an investee when it has a controlling financial interest in the investee. The usual condition for a controlling financial interest is ownership of a majority voting interest. An interpretation issued by the American Institute of Certified Public Accountants generally extends the conclusions of APB 18 to partnerships. Accordingly, Sponsor would consolidate Sponsor Sub 1, Sponsor Sub 2 and the Partnership (which it controls as general partner).

Under US GAAP, the non-affiliate equity holders of a consolidated investee are treated as minority interests in the consolidated financial statements. Hence, Investor's investment in Partnership would be reflected as a minority interest in Sponsor's consolidated financial statements.

The Financial Accounting Standards Board (FASB) has issued an Exposure Draft (the ED) that would significantly revise the accounting rules for consolidated financial statements. As presently proposed, we do not believe that the ED would change our conclusions regarding the consolidation of Sponsor Sub 1, Sponsor Sub 2 or of Partnership by Sponsor.

Accordingly, all transactions among Sponsor, Sponsor Sub 1, Sponsor Sub 2 and the Partnership would eliminate in consolidation.

Purchase of the Sponsor Shares in the Market

Since Sponsor Sub 1 is a wholly-owned subsidiary of Sponsor, its purchase of the Sponsor common shares in the market place will be recorded as a purchase of treasury shares in Sponsor's consolidated financial statements (i.e. will reduce consolidated equity). The transfer of these shares to Partnership will not change this accounting since Partnership is also a consolidated entity.

Business combinations that meet all of the criteria to be accounted for using the pooling-of-interests method in accordance with APB 16 must use this method. Otherwise, APB 16 requires the use of the purchase method. Among the criteria for a pooling, are i) there must be no alterations of the equity interests of the combining companies in contemplation of the business combination and ii) the combining companies may not have aggregate tainted treasury stock, as defined, in excess of 10% of the shares being issued to effect the business combination. With certain exceptions, treasury stock that is purchased within two years preceding the date a plan of combination that is to be accounted for as a pooling is initiated, is considered to be so called "tainted treasury stock" for purposes of applying this rule (Paragraph 47d of APB 16). The shares being purchased by Sponsor Sub 1 would likely be tainted treasury shares for these purposes.

To the extent that treasury shares reacquired within two years prior to initiation or between initiation and consummation of a pooling transaction have not been reissued or specifically reserved, an equivalent number of shares of treasury stock may be sold prior to consummation to an independent party to "cure" the presumed violation of paragraph 47d. The SEC staff agrees that so long as the treasury shares were acquired for a business purpose other than to circumvent a pooling-of-interests criterion, issuance of shares to cure the taint may occur at any time prior to consummation. Although the issuance of shares is a change in equity interest, the reissuance of the shares in the market is not a transaction that is preferential to any one shareholder group. Therefore, the taint may be cured by issuing the shares for fair value to an independent third party (assuming fair value can be established) or into the market at any time prior to consummation without violating the pooling-of-interests requirements.

The FASB has issued an exposure draft that comprehensively reconsiders the accounting standards for business combinations. This exposure draft proposes to eliminate the pooling of interests method and thus the concept of tainted treasury shares. The proposed exposure draft would be effective for transactions initiated after the issuance of a final statement (the effective date is anticipated to approximate January 1, 2001 for calendar companies). There is no way to predict whether or when this exposure draft will be adopted or what changes, if any, may be made to its provisions.

Investment by Investor

Investor's cash contribution would be recorded as a minority interest in Sponsor's consolidated financial statements. Investor would be allocated its 8% preferred dividend plus 1.5% of Partnership's net income after all preferred returns (including the preferred return to Sponsor Sub 2). These amounts would be charged against Sponsor's consolidated income statement as minority interest in earnings.

Accounting For Income Taxes

Accounting for income taxes is governed by SFAS No. 109. That Statement provides that, among other things, assets and liabilities which are recorded at different amounts for financial reporting purposes than for income tax purposes create basis differences for which a deferred tax asset or liability might be required. You have informed us that, in the transaction discussed herein, Sponsor Sub 2's tax basis in its preferred LP units will increase each year by approximately $33 until such time as Sponsor Sub 2 has a $500 basis in its preferred LP units, while Sponsor Sub 1's tax basis in its common Partnership units decreases from $500 to $0 over the life of the transaction. The resultant current tax charge and tax benefits will approximately offset in Sponsor's FIT return. Further, you have informed us that the Property can either be distributed in year 15 with its tax basis stepped up to $500 or can be distributed in any given year and be stepped up approximately by an amount equal to the product of (i) $33 and (ii) the number of tax years which have elapsed since the formation of the Partnership. Furthermore, you have informed us that the Sponsor common stock can be withdrawn from the Partnership and retired without ever resulting in a taxable gain.

SFAS No. 109 provides that deferred taxes be provided only for basis differences which qualify as temporary differences, meaning those differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the book carrying value of the asset or liability is recovered or settled, respectively. Further, deferred tax assets or liabilities are recorded only by the specific entity on whose books such differences reside. In other words, since the Partnership is a true tax "flow through" entity (i.e., not a taxpayer), no deferred tax asset would be provided on the books of the Partnership itself.

As the FIT dynamics of this transaction create tax basis each year available to Sponsor's consolidated group through the increase in the tax basis of Sponsor Sub 2's preferred LP units,

without such an increase for financial reporting purposes, the tax effect of the increase in basis each year would be recorded as an asset (or as a decrease to net deferred tax liability) each year with a corresponding credit to income tax expense in Sponsor's consolidated financial statements (subject to a net realization test if there is a net deferred tax asset). Further, you have informed us that Sponsor has available to it a planning strategy which, without the incurring of substantial cost, would enable it to transfer the common shares to Sponsor and retire them without incurring a tax cost. Accordingly, the decline in the tax basis of the Sponsor Sub 1's Partnership interests each year does not result in a temporary difference that would require a charge to tax expense.

Other

In situations such as these, in which the ultimate realization of the economic and financial statement benefits is dependent upon certain positions that will be taken on current and future tax returns, we believe that the financial statement benefits should be recorded only if it is probable that the pertinent tax positions will be sustained. The term "probable" is discussed in SFAS 5, *Accounting for Contingencies*, but is not numerically defined therein or elsewhere in the authoritative accounting literature. It is clear that it requires a higher degree of likelihood than the "more likely than not" standard discussed in SFAS 109 (which represents a threshold of more than 50%).

The ultimate responsibility for the decision on the appropriate application of generally accepted accounting principles for an actual transaction rests with the preparers of financial statements, who should consult with their continuing accountants. Our judgment on the appropriate application of generally accepted accounting principles for the described hypothetical transaction is based solely on the facts provided to us as described above; should these facts and circumstances differ, our conclusion may change. We have not been asked to address and have not addressed any tax matters relating to this transaction.

Our opinion is as of the date of this letter and we do not assume an obligation to update this opinion for subsequent changes in relevant rules or practice.

Very truly yours,

Arthur Andersen LLP

DISCUSSION MATERIAL FOR

Project Condor

April, 1999

EC2 000037482

Table of Contents

	Section
EXECUTIVE SUMMARY	I.
TRANSACTION STRUCTURE	II.
SUMMARY OF FINANCIAL IMPACTS	III.
OVERVIEW OF FINANCIAL ACCOUNTING RULES	IV.
RISKS OF THE TRANSACTION	V.

B-277

EC2 000037483

I. Executive Summary

- Transaction's purpose or goal. The transaction involves the utilization of an already existing financing structure (Project Nighthawk) into which Enron will transfer certain assets in order to free up balance sheet capacity at the Enron Corp. level (Project Daybreak). The transaction contemplates a basis step-up in fully-depreciated operating assets with a FMV of approximately $1B that are already owned by Enron back up to their FMV and the recognition of approximately $370MM in after-tax income as a result of recording a deferred tax asset for the tax benefit created by the basis step-up. In addition, it is anticipated that Enron may save as much as $5MM annually by changing or eliminating the derivatives in the current financing structure.

- The transaction will create deductions of approximately $370MM in years 2015-2032. After allowance for fees and expenses, the Transaction will generate cash flow benefits with a net present value at 7% of $72MM after-tax and a net present value at 10% of $38MM after-tax.

- Initial asset contribution. The transaction anticipates that an Enron affiliate included in Enron Corp's consolidated return would contribute fully depreciated assets (i.e., built-in gain property) with a value of approximately $1.0B to a Delaware LLC treated as a partnership for tax purposes called Whitewing Associates, LLC in exchange for a general partnership interest (calling for preferential distributions) without recognizing either taxable gain or loss. At the time of the transaction, it is anticipated that sufficient changes will have been made to the management or control of Whitewing that the entity will be treated as deconsolidated for financial accounting purposes.

- Assets leased back to Enron Affiliate. The assets contributed by Enron affiliate to Whitewing would be leased back to Enron affiliate by Whitewing.

Partnership allocation rules. Since the newly contributed assets' book basis will differ from their tax basis, the partnership tax rules operate so as to (1) allocate the tax consequences of built-in gain property to the partner contributing the property as opposed to having those consequences shifted to another partner, and (2) eliminate those book-tax disparities over time.

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EC2 000037484

I. Executive Summary

- Remedial allocation method. In this case, the partnership makes remedial and offsetting allocations of income, gain, loss, or deduction to the contributing and noncontributing partners' adjusted tax basis in their partnership interests (and not to the partners' book capital accounts). Specifically, Enron would be allocated a remedial allocation of depreciation deductions equal to the amount limited by the ceiling rule, and Enron affiliate would receive an equal and offsetting remedial allocation of taxable income.

- Basis Step-Up. The remedial allocations each year will increase Enron affiliate's basis in his partnership interest and reduce Enron's basis in its partnership interest. Over the tax depreciable life of the asset contributed by Enron affiliate to Whitewing, Enron affiliate's basis in its partnership interest will increase from $-0- to $1B.

- Basis Step-Up Carries Over to Distributed Assets. When Whitewing distributes the property to Enron affiliate in liquidation of Enron affiliate's interest in the partnership, Enron affiliate will have a basis in the property equal to the $1B basis Enron affiliate had in its partnership interest.

- Enron's Basis Reduction. At the same time that Enron affiliate's basis is being increased by a combination of both operating income and remedial allocations of taxable income (net of cash distributions), Enron Corp's basis in its partnership interest will be reduced by the same amount. Since Enron Corp's current basis in Whitewing is only slightly in excess of $500MM, Enron Corp. will need to acquire the outside investor's $500MM interest in order to provide Enron Corp. with the basis necessary for offset by the remedial allocation rules and cash distributions.

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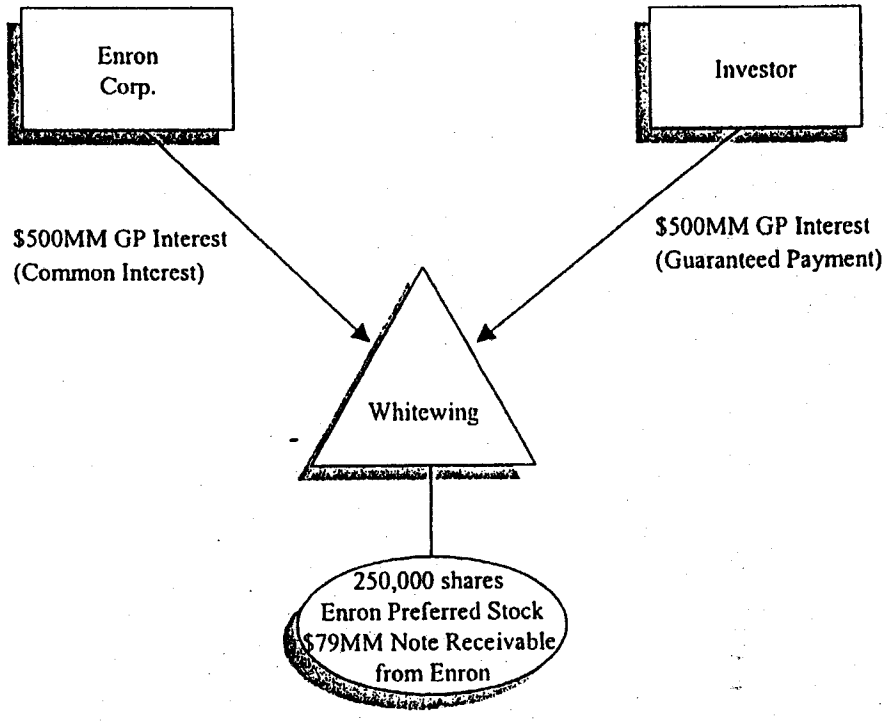
EC2 00037485

II. Transaction Structure

1. Current Structure (Project Nighthawk)



- This illustration provides a simplified illustration of the financing structure put in place in late 1997.
- The 250,000 shares of Enron preferred stock are convertible into an aggregate number of 25MM common shares with a total fair market value of over $1.5B (assuming a FMV of $60/share).
- The current structure is scheduled to terminate, if not before, on the structure's fifth anniversary, December 29, 2002.

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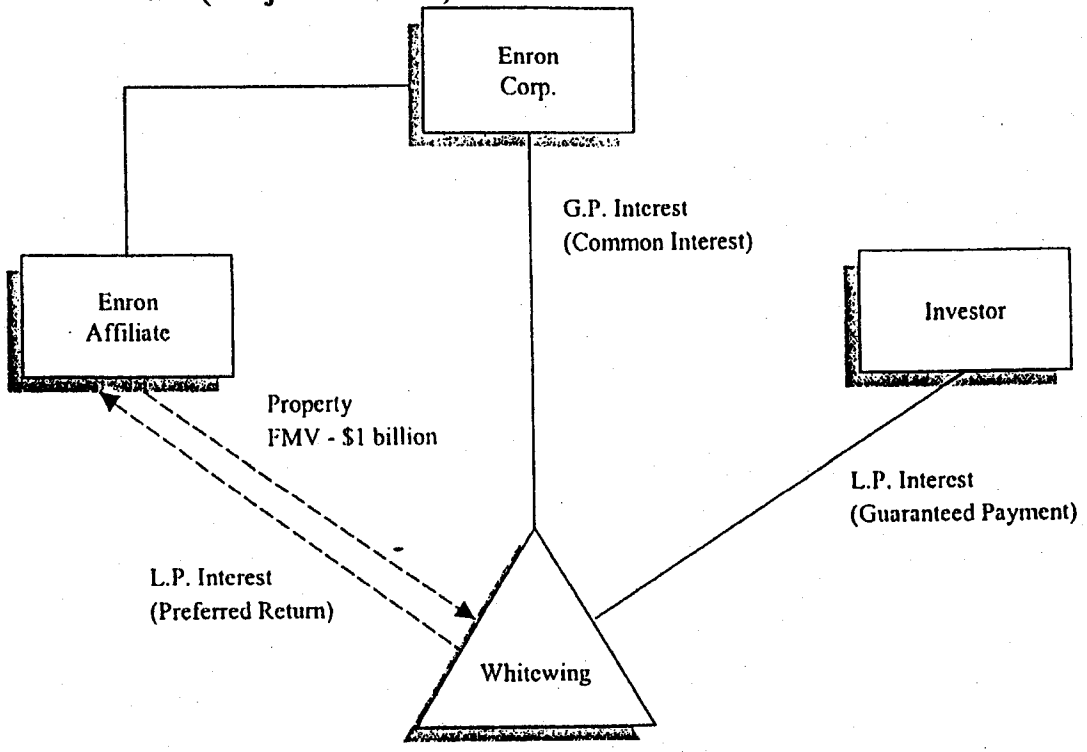
EC2 000037486

II. Transaction Structure

2. Admission of Enron Affiliate (Project Condor)



- Enron Affiliate makes a contribution to Whitewing of fully-depreciated assets with a FMV of approximately $1B in exchange for a partnership interest which provides a preferred return.
- The assets are subject to lease by Whitewing back to Enron Affiliate over a period of 16 years, equal to the depreciable life of newly purchased assets of that type.
- Over the term of the structure, Enron would be allocated a remedial allocation of depreciation deductions which will reduce, over a 16 year period, the basis in its partnership interest to zero. Enron affiliate would be allocated an equal and offsetting remedial allocation of taxable income which will increase, over the 16 year period, the basis in its partnership interest to $1.0B.

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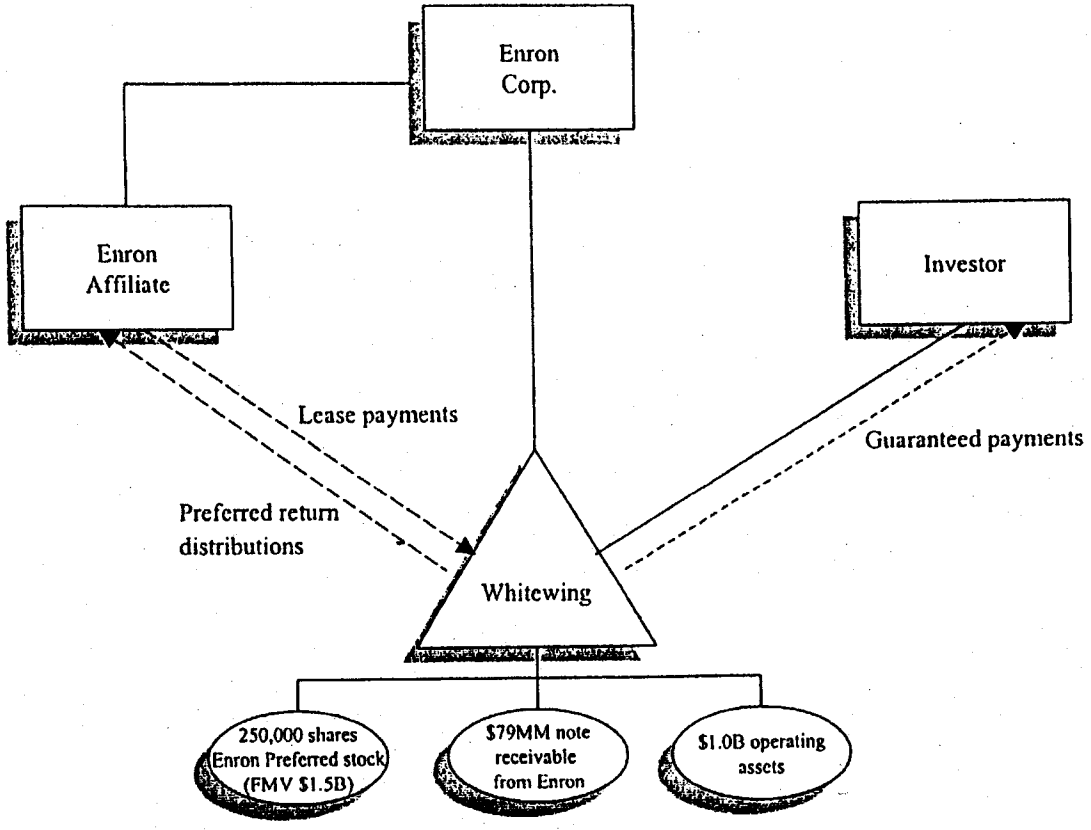
EC2 000037487

II. Transaction Structure

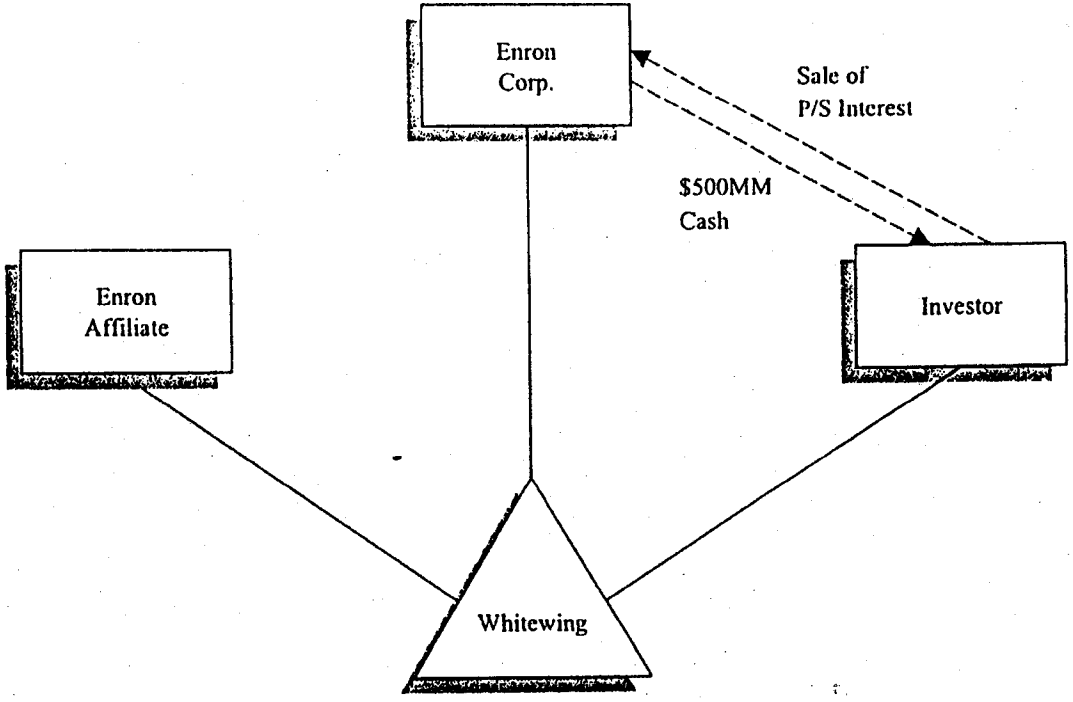
3. Transaction's Effect on Enron Affiliate



Over the 16 year period of the structure, Enron affiliate would make lease payments to Whitewing for the use of the operating assets.

II. Transaction Structure

4. Purchase of Investor Interest



- At a point sometime during the term of the structure before Enron takes cash distributions that reduce its capital account to zero, Enron would acquire the investor's partnership interest in Whitewing.

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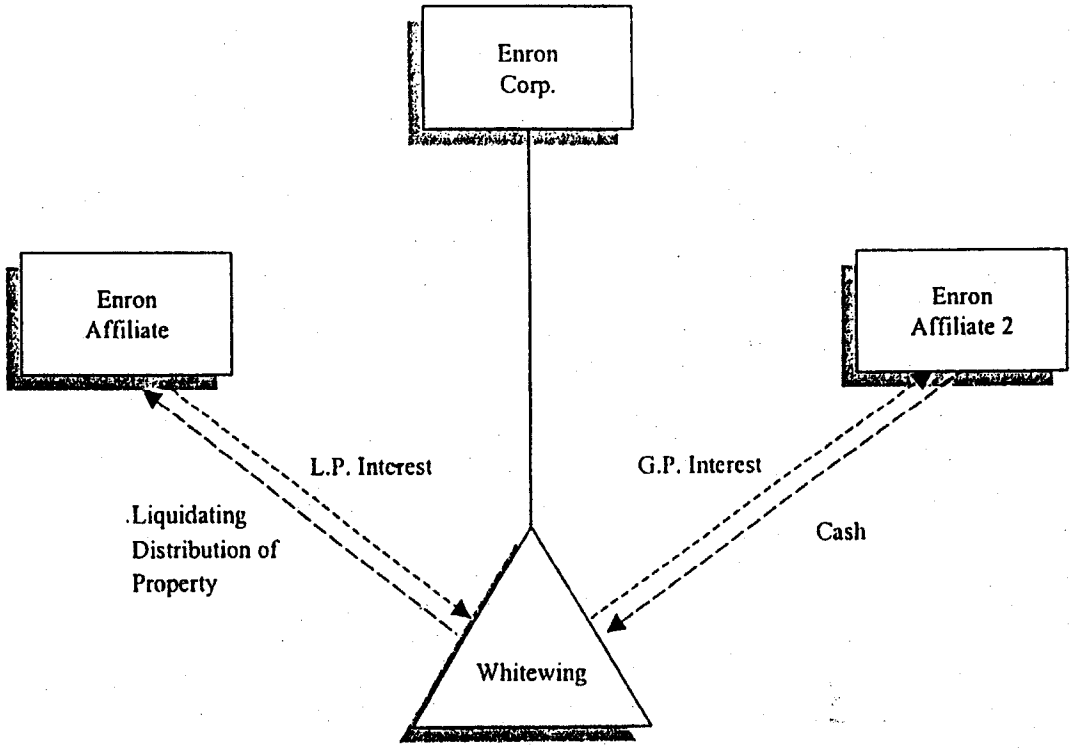
EC2 000037489

II. Transaction Structure

5. Liquidation of Enron Affiliate's Interest



- After 16 years have passed, Whitewing would distribute the assets originally contributed by Enron Affiliate in a liquidating distribution in exchange for Enron Affiliate's interest in Whitewing.
- If Enron wanted Whitewing to maintain its status as a partnership, a second Enron Affiliate could contribute cash (or other property) to Whitewing in exchange for a partnership interest prior to, or simultaneously with, the liquidating distribution to the first Enron affiliate.

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EC2 000037490

III. Summary of Financial Impacts

Project Condor
Summary Projections of Cash Flow and Accounting Earnings

	Cash Position		Annual Accounting Earning
Years	Tax Deduction for Depreciation	Total Annual Cash Position	After-tax Earnings
1999	$ -0-	$ -0-	$ 18,500,000
2000	-0-	-0-	35,150,000
2001	-0-	-0-	31,635,000
2002	-0-	-0-	28,490,000
2003	-0-	-0-	25,641,000
2004	-0-	-0-	23,051,000
2005	-0-	-0-	21,830,000
2006	-0-	-0-	21,830,000
2007	-0-	-0-	21,867,000
2008	-0-	-0-	21,830,000
2009	-0-	-0-	21,867,000
2010-2014	-0-	-0-	98,309,000
2015-2019	139,416,000	139,416,000	-0-
2020-2024	110,408,000	110,408,000	-0-
2025-2032	120,176,000	120,176,000	-0-
	$ 370,000,000	$ 370,000,000	$ 370,000,000

Assumptions:
1. Transaction occurs June 30, 1999.
2. Effective tax rate of 37%.

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EC2 00037491

IV. Overview of Financial Accounting Rules

- The initial accounting entry recorded by Enron affiliate at the outset of the transaction should be as follows:

Investment in Whitewing	[book basis]		
		Investment in Asset	[book basis]

- Each year over a period of 16 years, remedial allocations of income to Enron affiliate results in a deduction to Enron for which a current tax benefit would be recorded as follows.

Year 1, assuming a $50M remedial allocation

Current tax liability	16,300,000		
		Current tax expense	16,300,000

Year 2, assuming a $95M remedial allocation

Current tax liability	32,950,000		
		Current tax expense	32,950,000

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EC2 000037492

V. Risks of the Transaction

Specific Risks	Mitigating Factors
• Business purpose - A transaction must have a business purpose separate and apart from the creation of tax benefits to be assured that it will be sustained on audit.	• Contribution of assets to Whitewing provides additional balance sheet capacity to Enron • New funding raised by Whitewing can be used to make additional equity investments • Recapitalization of Whitewing will allow for the change or elimination of expensive derivatives in the original structure • Whitewing is an "old and cold" entity formed to be a fundraising vehicle and accomplish certain financial reporting and rating agency goals
• Clinton administration's fiscal year 2000 budget proposal tax provisions - The budget proposal includes provisions that tighten the standards applicable to so-called "corporate tax shelters" and attempt to restrict the shifting of basis from non-depreciable assets to depreciable assets for partnership liquidating distributions. -	• The budget proposal excludes from the definition of "corporate tax shelter" those transactions where the sought-after tax benefit is clearly contemplated by the applicable provision. This carve-out should be applicable to the sanctioned use of the remedial allocation method. • The budget proposal relating to partnership liquidating distributions has the curious effect of potentially turning an ordinary depreciation deduction that would be recognized over time into an immediate capital loss. Also, one can potentially structure around the provision. • Preliminary information indicates that the partnership provisions in the budget proposal are not expected to receive much in the way of Congressional support.
• Risk of a change in law - A change in law could deny Enron affiliate the sought-after basis step-up	• Transaction can be unwound at any time. • Benefits achieved would be proportional to the time the structure was outstanding. • Complications of an "unwind" are minimized since the transaction occurs mainly between two Enron entities.

Project Condor

Purchase of equity interest to increase Enron Corp's basis in Whitewing. Steven had envisioned that Enron would purchase the outside investor's (equity's) interest about 4-5 years into or mid-way through the life of the partnership. Enron Corp's basis has to be sufficient to absorb the cash distributions during the term of the partnership because cash distributions in excess of Enron's basis will give rise to capital gain. The problem is that buying the equity interest will cause a deconsolidation of the partnership. In response to this problem, Steven suggests that Enron could wait until just before it wants to take its cash out of the partnership [or even until the partnership is liquidated] before acquiring the investor interest.

For example, during the first 7 years or so, Enron Corp. would take its cash distributions until its basis is reduced to zero. From that point forward until the [pipeline assets] are distributed to Enron affiliate, the same money would be distributed to Enron by the partnership but only in the form of a loan. After the [pipeline assets] are distributed to Enron affiliate, the $30M in annual dividend income coming into the partnership would increase Enron Corp's basis sufficiently to allow the distribution of the current income. When the structure has been in place over the [15-20] year depreciable life of the [pipeline assets] and Whitewing is ready to be deconsolidated, Enron Corp. would purchase the outside investor's interest and [reduce the deficit in its book basis or capital account to bring it up to zero].

Enron's election not to use either the full or partial purchase option. Presumably, the new partnership agreement for Whitewing will also not contain a right on the part of Enron elect a full or partial purchase option. Steven, in fact, seemed to indicate that the partnership might operate in 5 year increments. This intuitively makes sense based on the time horizon of most lenders, but it complicates things.

Since the benefits of the transaction would be much reduced if the partnership were terminated only 5 years into the structure, Steven suggests that the partnership agreement provide for a doomsday scenario that would occur is the outside investor required the partnership's liquidation. In this case, the partnership agreement would provide that the partnership's assets could be distributed in kind to either the partners or to persons designated by the partners in accordance with their positive capital accounts. The partnership would have to accumulate cash sufficient to repay the investor [or obtain a loan from Enron?]. The partnership would then transfer the Enron common stock and [pipeline assets] subject to lease to a new partnership. Under Section 708(a), this new partnership would be considered a continuation of the old partnership [on the assumption that because of the introduction of Enron affiliate as a partner,

EC 000850644

the outside investor would no longer have an interest constituting 50% or more of the total interest in partnership capital and profits under section 708(b)(1)(B)].

Use of assets temporarily. The use of Whitewing as a entity to cycle assets in and out of is not a good idea because of the disguised sale rules. Steven seemed to agree that we should get the appropriate asset(s) into the structure at the same time we lever up Whitewing. I'm still not clear, I guess, on Ben's rationale here. He indicated that Jeff McMahon wants to sell some assets out of the Rawhide structure, and Ben wants to scale back the transaction because from his standpoint, it is not efficient to tie up assets of this value given the amount borrowed. That makes sense. What is still unclear to me is why moving them into this structure is a good idea unless they would serve as additional collateral and Ben doesn't seem to be treating them this way based on the put option he has designed. (See below for more on this issue)

Use of the current Enron building. [For federal income tax purposes, the Enron building is treated as owned by Enron Leasing Partners, LP. ("Leasing Partners"), a Delaware limited partnership of which a 97% LP interest is owned by Organizational Partner, Inc. or "OPI," a 1% GP interest is owned by Enron Property Management Corp., and a 2 LP interest is owned by an unrelated institutional investor. Leasing Partners received the rights (and assumed the obligations) under the lease from OPI as a partnership contribution in exchange for an LP interest.... Ben will want to know why he can't use the Enron building in Project Condor...]

Leverage as business purpose. If pipeline assets are contributed to Whitewing, we should get credit for them from a business perspective and to support leverage as our business purpose. Specifically, the put option should be reduced for the value of the assets. Steven wonders why we even need the put option at all. See below for more.

Put options. It is more awkward for the bank with the put agreements with Enron and Whitewing to also be the lender to Whitewing. We may be able to get there, but this is an awkward arrangement. What is the cost of the option versus the value of the tax deduction on the interest over the period of the debt that is being put at risk. ("Quick and dirty" example: $1B x 8% x 35% x 5 years = $140M)

Confirm with Ben that the reason he wants both banks to be the same is because the cost of the put is reduced when only one bank rather than two have Enron credit exposure. In terms of quantifying the cost of the put, confirm with Ben how far the first bank's credit exposure extends. For example, if Enron's stock is worth zero, is the first bank on the hook for the full $1.5B?

Steven asks why do we need the put option. The partnership agreement could provide that if the value of the underlying property has a value of less than $1B, Enron or Enron affiliate could be obligated to make capital improvements or sell the property. This would

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result in liquidation of the partnership, but in this case, we could lose the sought-after benefit any way. Why? The partnership rules require that the distribution of proceeds in liquidation be in accordance with the partners' capital accounts. If the value of the property has fallen below $1B but Enron affiliate's capital account still equals $1B, the partnership will have an obligation to distribute cash (or stock) to make up the difference.

General partnership anti-abuse rules.

Remedial allocation anti-abuse rules. In McKee's partnership treatise, the authors state that the choice of the remedial allocation method is subject to the anti-abuse rule of Reg. section 1.704-3(a)(10). [see legislative history also cited] Steven says, however, that our application of the remedial allocation method should not run afoul of the rule and, in fact, follows it to the letter. The rule provides that an allocation method (or combination of methods) is not reasonable if the contribution of property and the corresponding allocation of tax items with respect to the property are made with a view to shifting the tax consequences of built-in gain (or loss) among the partners in a manner that substantially reduces the present value of the partners' aggregate tax liability. In this case, the tax consequences are not being "shifted" but are instead being allocated to the partner whose contribution of property had the built-in gain.

Depreciation anti-churning rules. Bob Hermann has asked the question of whether the depreciation anti-churning rules apply. Essentially, Steven Klig hadn't focused on these rules and we both plan to study them further. My quick research thus far indicates that the MACRS and ACRS anti-abuse rules are intended to disallow a taxpayer from applying these accelerated accounting rules to property originally placed in service prior to the effective dates for these rules.

EC 000850646

ENRON

Interoffice Memorandum

To:

From: AnnMarie Tiller

Department: Corporate Tax Department

Subject: Whitewing Associates, Proposed Restructuring of

Date: February 26, 1999

Confidential: Attorney-Client Privilege

Per your request, I have provided a summary below of the tax issues relating to a three-pronged proposal regarding the restructuring of Whitewing Associates, LLC to:

1.) remove Enron's "cash-out" option to persuade the rating agencies to give Enron some portion of equity credit for the transaction;
2.) effect a book deconsolidation of the Whitewing so as to treat Nighthawk's interest in Whitewing under the equity method for financial accounting purposes rather than as minority interest; and/or
3.) restructure the transaction to refinance Whitewing by replacing Nighthawk with [new equity of $250M and new lenders of $1B that would allow Nighthawk to be repaid its $500M and allow Enron to take $250M in new funds out of the structure, leaving Enron and Equity each with $250M in equity holdings. What would the $500M in new Whitewing liquidity be used for? – This scenario would appear to run afoul of Notice 94-48. Left Ben Glisan a VMX on 2/26/99.]

Background

EC 000850731

Whitewing Associates, LLC ("Whitewing") came into existence as part of a leveraged equity financing transaction put into place in late 1997. The advantages of the initial transaction from Enron's perspective included the following:

- The ability to raise the $500M in new capital from the issuance of $1B in newly issued convertible preferred stock of Enron Corp.;
- The newly issued Enron Corp. preferred stock was purchased by Whitewing, a newly-formed entity, treated as a partnership for tax purposes, which Enron controls;
- Enron retained much of the upside and downside potential in its stock held by Whitewing;
- The transaction does not [or at least did not] have any earnings per share ("EPS") impact since the transaction permits Enron to report the shares held by the partnership as treasury shares;
- Enron deducts 100% of the guaranteed payment made by Whitewing to the outside investor, a special purpose entity, called Nighthawk Investors, LLC ("Nighthawk"), as Enron's distributive share of this partnership item;
- Nighthawk's interest in Whitewing is reflected for financial accounting purposes as minority interst in the financial statements;
- The transaction was designed with the hope that it would receive some degree of equity credit from the rating agencies.

Rating Agency Issue. Because the rating agencies have failed to-date to give Enron any degree of equity credit for the transaction, Enron management has for some time considered what structural changes could be made to

eliminate what the rating agencies apparently view as Enron's "cash out" option. Under the transaction documents that have now been drafted and exchanged with the outside investor, lender, and surety provider in the structure, Enron proposes to elect to (1) to settle the underperformance option of Enron stock with a physical (stock) rather than a cash settletment; and (2) to deny itself the right to voluntarily exercise the full or partial purchase option under the purchase option agreement to redeem the interest of the outside investor.

Deconsolidation. A proposal has recently been made to restructure the transaction to accomplish the balance sheet objective of deconsolidating Whitewing so that Nighthawk's interest will no longer be treated as minority interest but will instead be treated under the equity method for book purposes. Arthur Andersen has indicated tentative approval for a non-redemptive transaction, i.e., a transaction that would not require the distribution of either either the Enron demand notes or Enron preferred stock held by Whitewing. The general categories of action steps AA has identified to accomplish the short-term goal of deconsolidating Whitewing include the following:

1.) The Whitewing LLC Agreement must be amended to provide Nighthawk with some additional management rights;
2.) Whitewing may have to distribute some portion of its assets - either the $79M Enron demand note or Enron preferred stock with a similar value - to reflect a more even 50/50 split of the partners' interests; and
3.) If some portion of Enron stock is removed from the structure, Enron may have to write a share settled put option [for the benefit of Citibank] to protect against the additional price risk to which Citibank would then be subject.
4.) [Do any of the other derivative contracts need to be unwound?]
5.) [Anything else?]

[Restructuring. A longer term goal that may be pursued on [a parallel track/or later in the year] is a review of the structure to determine whether certain additional benefits could be achieved from a replacement of some of the Enron preferred stock held by Whitewing with another income generating asset(s) of the same value ....]

Conclusion

[Because of the importance of the $79M demand note from a purely business perspective, there is a a business question of whether it makes sense to distribute Enron preferred stock out of the partnership rather than the Enron demand note. From a tax perspective, however, neither the distribution of the stock or the notes should result in the recognition of taxable income. Revisions of the Whitewing LLC Agreement to provide Nighthawk with additional management rights are beneficial to our characterization of Whitewing as a partnership for tax purposes.]

necessity for reserves against the tax deductions [given the changes to the structure and how it is being highlighted in Board Minutes, etc....]

Discussion

EC 000850732

1.) Rating Agency Issue. If Enron elects not to exercise either its Partial or Full Purchse Options under the Purchase Option Agreement, Enron will severely restrict at least its contractual ability to decide the manner and timing for unwinding the structure. Assuming Enron goes forward with this election, an unwind must take one of the following forms: (a) newly negotiated purchase option by Enron and Nighthawk outside the original transaction documents; (b) a transfer by Nighthawk of its Class B

Interest to a third party under Section 10.2(b) (which requires Enron's consent); (c) liquidation provisions...

[Since Nighthaw is supposed to receive a distribution of cash under Section 12.5 of the PartnershipAgreement and since the partnership is scheduled to liquidate in [2002] under Section [___], the result of this change is that Nighthawk can force a liquidation of the partnership and a sale of the preferred stock. Outside counsel has indicated that Reg. section 1.337(d)-3 should probably not pose a threat to such a sale and that the regulation can be expected to be repealed, but we may have Texas franchise tax issues to face in the event of a sale of the stock to the public wherein we could not identify what ....[Mitigant – Citibank is motivated to work with Enron to unwind the transaction in the manner in which is most beneficial to Enron...]
will probably be deleted by the and the fact that the, Nighthawk can effectively force a liquidation of the partnership in

Enron's election to settle the underperformance put with stock should not make it easier for the IRS to assert the application of section 163(l). Section 12.5 of the Joint Venture Agreement requires that Citibank be paid in cash which would require that stock be sold by the JV to raise the funds to pay Citibank. And, as discussed further below, the IRS has recently issued a PLR that indicates such a sale should qualify for nonrecognition of gain (and loss) treatment under section 1032. See TAM 9822002 (5/29/98

Distribution of Enron Demand Note. Ignoring the important role the $79M amount has from a business perspective as the "Termination Premium Reserve" for the transaction, there should not be any tax consequence of distributing the Enron Demand Note if that is deemed necessary to accomplish deconsolidation.. First, both the contribution and the distribution of the Note should probably be ignored as merely transitory. See Reg. section 1.704-1(b)(2)(iv)(d)(2) provides that a partner's capital account is only increased for a promissory note contributed to a partnership by the partner making the note when the partner makes principal payments on the note (or when there is a taxable disposition of the note by the partnership. Second, even if the distribution of the Note is treated as a partnership distribution, there should be no cancellation of indebtedness consequences to Enron Corp. If a partnership loans money to a partner and the partner's indebtedness is subsequently canceled, Reg. section 1.731-1(c)(2) provides that the obligor partner will be deemed to have received a distribution of money or property at the time of cancellation. As a result, Whitewing will be generally insulated from gain or loss under Section 731(b), and Enron Corp. will not recognize gain or loss under Section 731(a)(1) unless the amount of money distributed to it exceeds the basis of its partnership interest (or the distribution was a liquidating distribution and loss was recognized under Section 731(a)(2)).

If the distribution of the loan were treated as a cash distribution, it is possible that the Service could allege that the distribution is part of a disguised sale under section 707(a)(2)(B) and Reg. section 1.707-3. If so, there should still not be any potential for Enron Corp. to recognize a tax gain. Reg. section 1.707-3(a)(2) provides that any deemed sale is considered to take place on the date that the partnership is considered the owner of the initial transfer of property. In this case then, the deeemed sale, if any, would be deeemed to have taken place on the creation of the structure when the basis of the Enron preferred stock held by the partnership equaled its fair market value. As a result, any "sale" deemed to have taken place should not give rise to any gain to Enron. To the extent that the Service alleged that the deemed sale was subject to disclosure on Form 8275 (since the transfers were made within a two-year period), the response should be that it was too late since the form is supposed to be filed for the taxable year of the transfer which, now given this recharacterization, would have been back in 1997. Reg. sections 1.707-3(c)(2) and –8

EC 000850733

Debt vs. Equity – Management Rights. Whitewing has two partners: (1) Enron Corp. which made an approximately $579M cash contribution for a 98.5% common interest in the partnership, and (2) Nighthawk

which made a $500M contribution in exchange for a guaranteed payment interest and a 1.5% common interest in the partnership. Currently, Nighthawk does not have any right to participate in the management or control of Whitewing except with respect to certain extraordinary matters. *See* Whitewing LLC Agreement, Sections 3.3 and 4.3.

2.) In concluding initially that Whitewing should be treated as a partnership and that Enron's and Nighthawk's interests should be treated as partnership interests, weight was given to the following factors:

a.) Intent of the parties to treat Whitewing as a partnership;

b.) Treatment for regulatory, rating agency, and financial accounting purposes. The intent of the parties was to treat Nighthawk's interest as minority interest for all reporting purposes.

c.) Upside potential and downside risk. Nighthawk is entitled to 1.5% of the gain and losses on the preferred stock held by Whitewing.

d.) Subordination to other creditors. As an equity holder in the partnership, Nighthawk's interest is subordinated to all creditors of Whitewing.

e.) Participation in management. Nighthawk has limited management rights regarding the operations of Whitewing. Without the consent of Nighthwk, Whitewing cannot, among other things, (i) enter into any transaction of merger or consolidation; (ii) liquidate, wind up or dissolve itself, or commence a voluntary case, action or proceeding under any bankruptcy or insolvency laws except as specifically provided for in the LLC Agreement; or (iii) convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, any portion of Whitewing's property except as specifically provided for in the LLC Agreement. *See* Whitewing LLC Agreement, Section 4.3.

f.) Absence of a fixed maturity date (other than the scheduled partnership termination date of 5 years).

If additional management powers are necessary for purposes of deconsolidating Whitewing for GAAP accounting purposes, such changes should be helpful for purposes of supporting the partnership characterization of Whitewing.

3.) **Distribution of Enron Stock**. If Enron stock must be removed from Whitewing to accomplish either of the short- or long-term objectives, several tax issues must be considered:

a. **Reg. section 1.337(d)-3**. To the extent that the balance sheet fix requires a distribution of some portion of the Enron preferred stock held by Whitewing back to Enron, Enron runs the risk of being required to treat the transaction as a redemption or exchange of the stock for a portion of Enron's partnership interest with a value equal to the stock distributed. In effect, Enron would have gain to recognize approximately equal to the appreciation in the Enron stock since the transaction was closed on December 30, 1997. [Number of shares x ($65/share - $40/share)]

The regulations are intended to restrict a company from using a partnership to circumvent the repeal of the General Utilitites doctrine. In this case, however, the perceived abuse sought to be addressed is not present. The stock is intended to distributed solely to Enron Corp. which would have a zero basis in its own stock anyway and Enron would be able to sell the stock again without the recognition of gain (or loss) under section 1032. The problem is that the proposed regulations currently contain no carve-out for non-abusive transactions and their effective date, when and if they are ever finalized, is retroactive back to March 9, 1989. It was, in fact, this issue which had caused the tax folks working on setting up the initial structure to conclude that the preferred stock held by Whitewing might have to remain outstanding indefinitely unless and until Treasury could be convinced to carve out non-abusive transactions from the regulation's coverage.

Notwithstanding the regulation and its retroactive date, Steven Klig of Deloitte & Touche, has an off the record discussions with the folks at Treasury regarding this regulation and they have indicated that the regulation will never be finalized. Steven believes that even it the regulation were ultimately finalized, it would take a different form and

b. **Disguised sale**. [Open. Presumably, the analysis would be similar to that above regarding the distribution of the Enron demand note....]

c. **Section 1032**. If Enron were intending to issue additional equity anyway, Enron could consider selling that equity into the market directly out of the partnership. There has been ongoing concern about whether a sale of this sort by a partnership holding stock of its corporate partner would qualify for nonrecognition of gain (and loss) treatment under section 1032. The conclusion that nonrecognition treatment is indeed appropriate was bolstered in a recently issued Taxpayer Advice Memorandum (TAM 9822002 (5/29/98)) wherein the IRS concluded that a partnership should be treated as an aggregate of its partners for purposes of applying section 1032. (The gain allocated to a corporate partner as its distributive share of gain realized by the partnership from the transfer of stock to the other partner (in exchange for the other partner's contribution of an operating business to the partnership – an exchange which the Service separately concluded was subject to the the disguised sale rules) did not have to be recognized by the corporate partner because the partnership was treated as the aggregate of its partners.) However, since a TAM cannot be cited as precedent, this approach is not without risk. [There is also a Texas franchise tax issue to the extent that stock is sold out of the partnership to the the public since some portion of the holders will be deeemed Texas persons....]

4.) **Dividends Received Deduction**. While Enron common stock is the only asset held by Whitewing, Enron will claim the 100% dividends received deduction under section 243(a) for its distributive share of the dividend income recognized by the partnership on the common stock. If in connection with the long-term goal, other assets are substituted for some portion of the stock held by Whitewing, then Whitewing will have income some portion of which will presumably be allocated to Enron which will offset the Enron's distributive share of the partnership's deduction for the guaranteed payment. Presumably, this income will be the type that would have been recognized in taxable income anyway by some member of Ernon's consolidated group.

5.) Notice 94-48. One of the distinctions drawn between Notice 94-48 and Enron's 1997 transaction was the thinly capitalized nature of the partnership in the Notice versus the 100% overcollateralization of Whitewing. Whitewing is capitalized with $1B in Enron preferred stock and certain additional assets which together secure Nighthawk's $500M interest in the partnership. The additional assets held by the partnership include (1) $79M used to establish the Termination Premium Reserve (and that while Enron retained a certain [credit rating status] is loaned to Enron in exchange for a interest-bearing demand note), (2) Enron's obligation to fund a Preferred Payment Reserve on the event of [.....], (3) the insurance contract purchased by Nighthawk from AMBAC, and (4) the put options purchased by the lenders.

It is the $79M demand note that Enron now proposes to distribute or forgive for purposes of establishing a more even 50/50 split of the partners' interests in Whitewing. [Assuming one get resolve the legal or business issue of obtaining Nighthawk's agreement to eliminate this credit support, the removal of this amount would presumably not affect the Whitewing's overall collaterization to too large an extent.]

6.) **and other issues of these changes**.....[Open]

EC 00085073

Executive Summary

- The transaction involves the interplay of the partnership distributive share rules of Section 704(b) and the nonrecognition rules of Section 1032 applicable to corporate taxpayers on the receipt of consideration for their own stock. If built-in gain property is involved rather than full cost property, the transaction also relies upon the rule of remedial allocation rules of Section 704(c). The transaction is possible because the partnership, Whitewing Associates, LLC, is capitalized with Enron common stock.

EC 000850647

Nighthawk Restructuring Summary

Structure:

- Based on the Project Nighthawk structure already in place
- Contribution by Enron affiliate to Whitewing of $1B of leased assets in return for preferred partnership interest subordinate to Nighthawk's current interest
- Assets may be built-in gain (i.e., fully depreciated) property or full cost property, depending on what is available
- Effect of remedial allocations under partnership tax rules results in Enron affiliate's basis in the partnership climbing to $1B over the term of the transaction (or it would stay the same if full cost property is used), while Enron's basis in the partnership decreases to zero.
- When the leased assets are distributed at the end of the transaction (e.g., 15 to 20 years), the tax basis of the property will be stepped up to $1B, the amount of Enron affiliate's tax basis in its partnership interest in Whitewing. Section 732(b).
- Enron affiliate's tax basis will be used by Enron affiliate in the form of future depreciation or loss on the sale of the property.

Benefits:

- The increase in tax basis in Enron affiliate's interest in its partnership interest (and in the assets that will be distributed on liquidation) is approximately $1B that represents a future tax benefit of $350M.
- The tax liability of Enron and Enron affiliate from the transaction is approximately $310.7M (35% x [$1,367,760B less $480,000,000 DRD].
- Enron should, therefore, be able to create a deferred tax asset of $39.3M as a credit to income [$350M future tax benefit less the $310.7M tax payment].
- Change in law risk is mitigated with an unwind possible at any time with proportional benefit equal to time the structure is outstanding

Issues:

- Effect of restructuring and addition of the leased assets on current rating agency treatment?
  - Best answer is an enhanced rating or no effect.
  - What is the likelihood of a reduction (or maybe that isn't possible)?
- Additional leverage from addition of leased assets? Business issue.
- Business purpose
  - Potential (but fairly unlikely) agreement by guaranteed payment investor to reduce guaranteed return to which it is otherwise entitled
  - Potential to eliminate the expensive structured derivative contracts in the current structure if lease has a "hell or high water" provision causing the investor to hold a quasi-debt instrument.
  - Potential to leverage up structure with additional collateral?
  - Others? Business people can potentially help here.

EC 000850800

- Assumption of risk of enactment of Reg. section 1.337(d)-3 if assets are appreciated
  - Worst case scenario is immediate gain recognition
  - Acceptance of risk represents a judgment call for company.
  - Use of full cost property (as opposed to built-in gain/fully depreciated property) avoids risk but may not have such property.
  - Mitigants include current NOL posture. AMT? Capital gain management?
  - Not an active regulatory project. Not expected to be enacted because other provisions prevent the result the IRS sought to achieve.
- Other deals:
  - D&T has two deals ongoing, one for a pharmaceutical company and one for a "conservative" oil and gas company. One is a $500M transaction and one $1B transaction.
  - Only a handful planned
  - Not aware of anyone else with the technology although bits and pieces are in deals he has seen.
- Clinton Administration Fiscal 2000 Budget Proposals
  - Corporate tax shelter and partnership provisions
  - Bill Archer
  - Concern over how Treasury wields broad powers granted to it
- Effect on current structure
  - Reduces exposure to Notice 94-48
  - Potentially eliminates need for expensive derivatives in system – insurance contract backstopped by S&P put and underperformance put. [Is this cost incorporated into the guaranteed payment made by Whitewing each calendar quarter?]
  - [Nighthawk's right to liquidate the partnership in 3 ½ years is not a good fact. We believe Citibank won't penalize us too much but what about Harch Capital Management?]
  - [Management rights given to Nighthawk for purposes of deconsolidation may also pose a problem if Whitewing holds an operating asset]

VIII. PROJECT TAMMY I

Project Tammy I

Deal Basics

Business Purpose – Raise $500 million of minority interest equity for general Enron purposes. The structure also permitted the recognition of certain financial accounting benefits partially based on tax planning strategies.

Primary Entities – Enron Corp.; Enron Finance Partners, LLC.; Enron Intermediate Holdings LLC; Enron Finance Management LLC; Enron Capital Investment Corp.; Enron Asset Holdings, LLC; Smith Street Land Company; Enron Global Exploration & Production, Inc.; Boreas Holdings Corp.; Enron Caribbean Basin LLC.

Dates Closed – May through December 2000

Principal Assets – Current assets include EOGR shares (proceeds from monetization); EREC; EOGIL; East Coast Power (proceeds from monetization); Ecoelectrica; various intercompany obligations

Transaction Size – $2 billion in assets contributed and $1.9 billion of related debt; anticipated earnings of up to $400 million over the life of the structure

Net Income Impact – No *direct* book earnings have been recorded for this structure. However, Enron's use of the structure indirectly supported the Company's reported tax rate for the 2001 interim periods (approximately $200 million net income effect). Minority interest treatment characterization in the Enron financial statements.

Primary Tax Return Effect – The deconsolidation of EREC. Forgone interest expense deductions on $500 million of minority interest equity. Capital gains on asset dispositions are reported in the EFP partnership but would have been reported by Enron absent Tammy.

Current Status – In litigation/settlement discussions with Zephyrus over defaults in payment related to minority interest investment. Multiple groups are actively scrutinizing the project in connection with certain EAH asset sales. Issues are to be presented to the Creditor Committee in the near future.

Counterparties

Counterparty – Zephyrus Investments, LLC

Size of Investment – $500 million

Litigation Status – In litigation

Control Rights – Right to take over management of EFP

Indemnities – Various

Advisory History

Principal Advisors

- Akin, Gump – Tax counsel
- Vinson & Elkins – Corporate and tax counsel
- Deloitte & Touche – Tax structuring assistance
- Arthur Andersen – Accounting and financial statement issues

Primary Opinions

- Tax opinion on partnership formation, funding and operational issues – V&E
- SAS 50 letter by AA addressed to Enron Corp.

Confidentiality Agreement – No

Widely Marketed Deal – No

Financial Model and Deal Memo – Model created internally; V&E support memo

Current Counsel – None (V&E was counsel until 2-7-02)

Lackey, Shelly

From: Goodrow, Alicia
Sent: Wednesday, October 24, 2001 10:36 AM
To: Lackey, Shelly; 'eosterberg@velaw.com'; 'jblissard@velaw.com'
Subject: 84-53 Tammy leakage

Shelly:

Let's discuss - this was my intuitive sense after my Monday review of the model. I suspect your total liquidation example will bring this out more clearly.

ALG
-----Original Message-----
From: Klig, Steve (US - Washington D.C.) [mailto:sklig@deloitte.com]
Sent: Tuesday, October 23, 2001 7:57 PM
To: Goodrow, Alicia
Subject: FW: Tammy example

-----Original Message-----
From: 8773110241@skytel.com [mailto:8773110241@skytel.com]
Sent: Tuesday, October 23, 2001 7:56 PM
To: Sklig
Subject: Tammy example

Alicia:

You are correct in concluding that there is some leakage due to 84-53. It can generally be considered to be the fmv of the interest transferred to ECIC. Here are some examples.

Example 1:

Property gross fmv = 1 billion
Tax basis= 0
Debt assumed = 900 million
Interest transferred = 95%

Because of 84-53, an interest with a 95 million fmv is transferred w/ zero basis. When the built-in gain is triggered, 950 million is allocated to ECIC. Only 855 million of that gain is phantom income. The other 95 million brings the basis of the interest transferred up to fmv.

Example 2:

Same facts as example 1 except that property has tax basis of 500 million.

ECIC still takes no basis in interest transferred under 84-53.

When property is sold, 95% of 500 miilion built in gain (475 million) is allocated to ECIC. Again the first 95 millon of the

built-in gain is gain necessary to get basis up to fmv.

THE MORAL OF THE STORY IS THAT THE HIGHER THE BASIS OF THE BUILT-IN GAIN PROPERTY TRANSFERRED TO THE PARTNERSHIP, THE SMALLER THE SHIFT IN BUILT-IN GAIN AS A PERCENTAGE OF TOTAL BUILT-IN GAIN.

STEVE

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IX. PROJECT TAMMY II

Project Tammy II

Deal Basics

Business Purpose – Intended to raise $500 million of minority interest equity for general Enron purposes, but the interests were never placed. The structure also permitted the recognition of certain financial accounting benefits partially based on tax planning strategies.

Primary Entities – Enron Corp. (bankruptcy filer); Enron Finance Management, LLC; Enron Property & Services Corp. (probable bankruptcy filer); Enron Northwest Finance, LLC; Enron Northwest Intermediate, LLC; Enron Northwest Assets, LLC.

Date Closed – May 2001

Principal Assets – Option to purchase PGE stock; EOTT stock; derivative interest in Hanover Compressor stock.

Transaction Size - $2.1 billion asset value on contribution and $1.9 billion of debt. Anticipated earnings of up to $350 million over the life of the structures (following sale of principal asset and placement of minority interest equity).

Net Income Impact – No current or prior earnings recorded for Tammy II (and no other financial statement impact).

Tax Return Effect – This structure has not altered any prior Enron tax returns; however, it has resulted in the deconsolidation of PGE.

Current Status – Actively scrutinized and under examination by multiple groups retained by Enron in connection with the sale of PGE and management of Enron Corp.'s debt position.

Counterparties

Counterparty – None

Advisory History

Principal Advisors

- Vinson & Elkins – Corporate and tax counsel
- Deloitte Touche – Tax structuring and related consultation

Primary Opinions – None

Confidentiality Agreement – No

Widely Marketed Deal – No

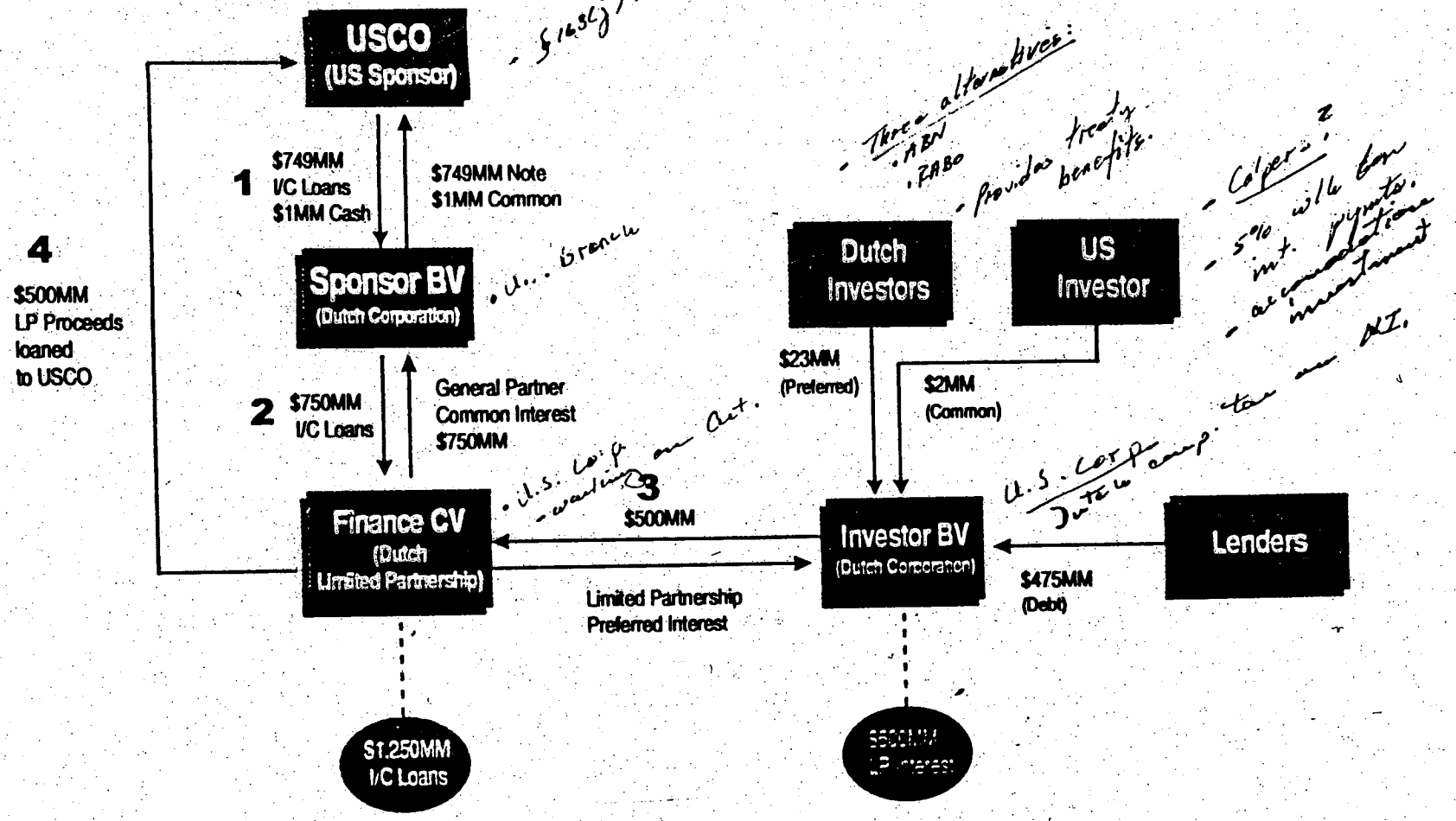
Financial Model and Deal Memo – Internal model created

Current Counsel – Vinson & Elkins (until their effective resignation last week)

X. PROJECT APACHE

FINANCE COMPANY PREFERRED STOCK

Summary Transaction



XI. PROJECT NOLy

Interoffice Memorandum

To: Robert J. Herman

From: Stephen H. Douglas

Department: ENA Tax

Subject: Synthetic Mark-to-Market Program (Project NOLly)

Date: August 29, 2001

Summarized below are the steps set forth on the attached diagram (the results of such steps referred to as the "Transaction") and the general tax consequences thereof. In short, the Transaction permits ENA to economically segregate the "in-the-money" portion (that is, the gain portion) of its financially settled trading contracts (i.e., futures, swaps and options) entered into in connection with its commodities trading business ("Financial Contracts") and to monitor the performance of such trading position (and, derivatively, the performance of the trading groups that effected such position). The segregation of the in-the-money portion of the Financial Contracts in the manner described will result in ENA's recognition of considerable taxable income during the 2000 tax year, which income will be offset by taxable loss in subsequent tax years upon the liquidation of the Chiricahua entities (described below). The amount of taxable income resulting from the Transaction will approximate that which would result if ENA had affirmatively elected mark-to-market treatment for tax purposes for the portion of its Financial Contracts involved in the Transaction. The Transaction will not result in negative accounting consequences for ENA because the tax gain resulting at the outset of the transaction will be offset with subsequently recognized tax losses in an equal amount (described in greater detail below).

Initially, and by way of background, ENA transacts a significant amount of physically settled commodities transactions and hedges such transactions as necessary by entering into Financial Contracts with unrelated parties based on commodities of the type traded by ENA ("3rd Party Financial Contracts"). The economic position underpinning 3rd Party Financial Contracts is, in turn, aggregated in Risk Management & Trading Corp., a wholly owned Delaware incorporated subsidiary of ENA ("RMT"), pursuant to a monthly master swap contract (the "Monthly Swap") where such positions are aggregated with similar Financial Contracts written by RMT to Enron affiliates ("Affiliate Financial Contracts"). The Monthly Swap conveys to RMT all of the economic consequences related to ENA's 3rd Party Financial Contracts with the exception of the credit risk of the ENA counterparty (that is, ENA remits to RMT that which ENA's counterparty is required to pay to ENA regardless of whether such counterparty makes payment to ENA).[1] Alternatively, RMT generally enters into Affiliate Financial Contracts directly with Enron affiliates rather than having such contracts entered into by ENA and subsequently placed in RMT (as is done with 3rd Party Financial Contracts) in order to eliminate the need to have such contracts then placed in RMT under the Monthly Swap. Ultimately, the above described arrangements result in an efficient manner to aggregate ENA's Financial Contracts for state franchise tax purposes (a topic beyond the scope of this memorandum) and permits the efficient monitoring of ENA's aggregate Financial Contract trading position (i.e., the aggregation of all Financial Contracts in a single entity permits easy calculation of a net trading position that would be much more difficult to effect were such positions entered into separately by the

[1] ENA is not required to notify its counterparties of the economic transfer of their positions to RMT because of the retention of credit risk.

many Enron affiliates). As described, however, the 3rd Party Financial Contracts and Affiliate Financial Contracts are aggregated and the performance of 3rd Party Financial Contracts is difficult to discern separately from the performance of Affiliate Financial Contracts. The Transaction is designed to segregate the performance of a portion (i.e., that portion which is in-the-money) of the 3rd Party Financial Contracts and permit easy monitoring of such position by ENA.

STEP ONE: As previously described, ENA transacts a significant volume of 3rd Party Financial Contracts each month and economically places such positions in RMT via the Monthly Swap. For tax purposes, this results in a reduction (or increase, depending on the directionality of the net trading position transferred under the Monthly Swap) of ENA's income (or loss) and an increase in RMT's loss (or income), respectively. The Monthly Swap does not, however, result in a transfer of the 3rd Party Financial Contracts to RMT for tax purposes.

STEP TWO: To segregate the in-the-money portion of the 3rd Party Financial Contracts from the broader pool of Financial Contracts held in RMT, RMT will enter into a separate Financial Contract (the "RMT Financial Contract") with Chiricahua LLC, a newly formed wholly-owned by RMT (directly and indirectly) Delaware limited liability company ("Chiricahua") characterized as a partnership for tax purposes. The RMT Financial Contract will be "off-market" (or, otherwise said, it will be in-the-money) in favor of Chiricahua because it will aggregate in Chiricahua the in-the-money portion of RMT's 3rd Party Financial Contracts. The creation of the RMT Financial Contract will be recharacterized for tax purposes as RMT entering into an at-market swap with Chiricahua (that is, a swap that is not in-the-money to Chiricahua) and a contribution to Chiricahua by RMT of an RMT debt obligation in an amount equal to the in-the-money portion of the RMT Financial Contract (such RMT debt referred to as the "Tax Loan"). Consequently, RMT will possess an interest in Chiricahua with no tax basis (by application of the rule that a partner does not receive tax basis for the contribution of a note to a partnership until such time as payments are made on the note) and will otherwise be obligated to contribute an amount to Chiricahua equal to the balance of the Tax Loan. RMT will acquire basis in its interest in Chiricahua as payments on the Tax Loan are made (or deemed made, as the case may be).

STEP THREE: Finally, to facilitate monitoring the performance of the RMT Financial Contract (and, derivatively, the in-the-money portion of the 3rd Party Financial Contracts), RMT will enter into a total return swap (the "TRS") with Tularosa LLC, a newly formed wholly-owned by ENA (directly and indirectly) Delaware limited liability company ("Tularosa") characterized as a partnership for tax purposes, whereby Tularosa will pay (at a mutually agreed upon time) RMT the in-the-money amount inherent in the RMT Financial Contract on the day it is entered into and in return for which RMT will pay (upon conclusion of the TRS) Tularosa the total return associated with its interest in RMT Newco. The TRS is net settled by RMT and Tularosa on the settlement date of the TRS. In this manner, ENA will be able to monitor the performance of the in-the-money portion of its 3rd Party Financial Contracts since such performance will be reflected in the amount of net payment ultimately paid (if the performance is negative) or received (if such performance is positive) by ENA (through Tularosa) in settlement of the TRS. As a consequence of RMT entering into the TRS, RMT will recognize for tax purposes the entire in-the-money amount of the RMT Financial Contract and will acquire tax basis in its interest in Chiricahua in such amount. Finally, as RMT settles its position with Chiricahua under the RMT Financial Contract, RMT will be treated as making payments on the Tax Loan and will acquire additional tax basis in its Chiricahua interest (essentially, assuming that the RMT Financial Contract ultimately settles for an amount equal to the in-the-money portion of such contract on the day such contract is written, RMT will possess tax basis in its Chiricahua interest that is approximately twice the amount of gain recognized upon RMT entering into the TRS). As discussed in greater detail in Step Four, upon liquidation of Chiricahua by RMT, RMT will recognize a tax loss

EC2 000038208

equal to the amount by which its tax basis in Chiricahua exceeds the payments made by RMT on the Tax Loan (in essence, RMT will recognize a tax loss equal to the amount of gain recognized upon entering into the TRS).

STEP FOUR: The liquidation of Chiricahua, as described in Step Three, will, without more, result in the recognition of a tax loss by RMT equal to the positive difference between the tax basis that RMT possesses in its Chiricahua interest and the amount of money received from Chiricahua by RMT upon such liquidation. The amount of such recognized loss will equal the amount of income recognized in Step Three upon execution of the TRS. This results under the general rule that a partner only recognizes tax loss upon the liquidation of a partnership in the event that such partner only receives money, certain accounts receivables or inventory (which property is hereby referred to as "qualified property") upon liquidation and the value of qualified property received is less than such partner's tax basis in its partnership interest. Alternatively, if property other than qualified property ("nonqualified property") is distributed in liquidation of a partnership, tax loss is preserved in the distributed nonqualified property by allocating tax basis not otherwise allocable to qualified property to the distributed nonqualified property despite the tax basis allocated to nonqualified property exceeding such property's fair market value. In the instant case, Chiricahua's sole asset will, without more, consist of money received from settlements under the RMT Financial Contract. In turn, RMT will possess tax basis in its Chiricahua interest equal to the amount recognized as a result of the TRS (described in Step Three) plus settlement amounts paid under the RMT Financial Contract during the term of such contract (such settlement amounts increasing RMT's basis in Chiricahua because they are viewed as payments on the Tax Loan by RMT to Chiricahua). RMT will thus possess a tax basis in Chiricahua that exceeds the amount of cash received by Chiricahua upon settlement under the RMT Financial Contract (which cash will constitute, without more, Chiricahua's sole asset upon liquidation) equal to the amount of income recognized upon execution of the TRS. Accordingly, liquidation of Chiricahua by RMT will result in the recognition of a tax loss by RMT equal to the amount of income recognized upon execution of the TRS since RMT will receive money from Chiricahua that is less than RMT's tax basis in Chiricahua in an amount equal to the income recognized by RMT upon execution of the TRS. Finally, without more, the loss resulting from liquidation of RMT Newco in this fashion will constitute capital loss. Alternatively, however, in the event that Chiricahua distributes nonqualified property in liquidation, such property would be allocated tax basis in accordance with the fair market value of all such distributed nonqualified property in an amount equal to the difference between RMT's tax basis in Chiricahua and the value of qualified property received (i.e., an amount equal to the income recognized upon execution of the TRS). In this manner, the tax loss otherwise recognized by RMT upon liquidation of Chiricahua would be preserved in the nonqualified property distributed upon liquidation. In turn, upon disposition of the nonqualified property by RMT, RMT would recognize a tax loss equal to the amount received from such disposition and the tax basis of such property, the character of which loss would be determined by the character of the nonqualified property disposed of in the hands of RMT (i.e., ordinary if such property were ordinary to RMT).

XII. PROJECT RENEGADE

DISCUSSION MATERIAL FOR

Project Renegade

December 17, 1998

December 17, 1998

EC2 000037527

Table of Contents

	Section
EXECUTIVE SUMMARY	I.
TRANSACTION STRUCTURE	II.
CLOSING CASH FLOWS	III.

Bankers Trust makes no representation as to the legal, tax, or accounting consequences of this discussion material. All parties should rely on their own counsel, accountants, and other similar advisors for legal, tax, accounting and other similar advice.

B-313

EC2 00037528

I. Executive Summary

The transaction (the "Transaction") involves the use of a special purpose vehicle owned by Enron Corp. ("Enron") and Bankers Trust Company ("BTCo") for the purpose of raising capital for Enron.

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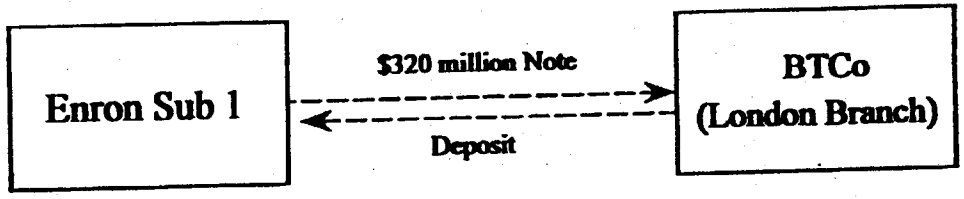
EC2 000037529

II. Transaction Structure

Dec. 23, 1998 - Step 1: Creation of Note



- BTCo (London Branch) loans $320 million to a wholly-owned subsidiary of Enron ("Enron Sub 1") in exchange for a note of Enron Sub 1 (the "Note"). The Note will be a 25 year $320 million bullet payment note that is entitled to cash flows which provide a [7.190%] yield payable semi-annually. Payments under the Note will be guaranteed by Enron. The Note will be specifically assignable to a special purpose limited liability company which elects to be treated as a financial asset securitization investment trust (the "FASIT") subject to the written consent of Enron Sub 1.
- Enron Sub 1 puts the $320 million Note proceeds on deposit with BTCo (London Branch). The deposit matures at close of business on December 31, 1998 and is not subject to withdrawal prior to the maturity date except for a transfer of funds to another Deposit Account for the benefit of another wholly-owned subsidiary of Enron ("Enron Sub 2"). Enron Sub 1 delivers instructions to BTCo (London Branch) instructing it to transfer approximately $320,000,000 to a Deposit Account in the name of Enron Sub 2 on December 30, 1998.

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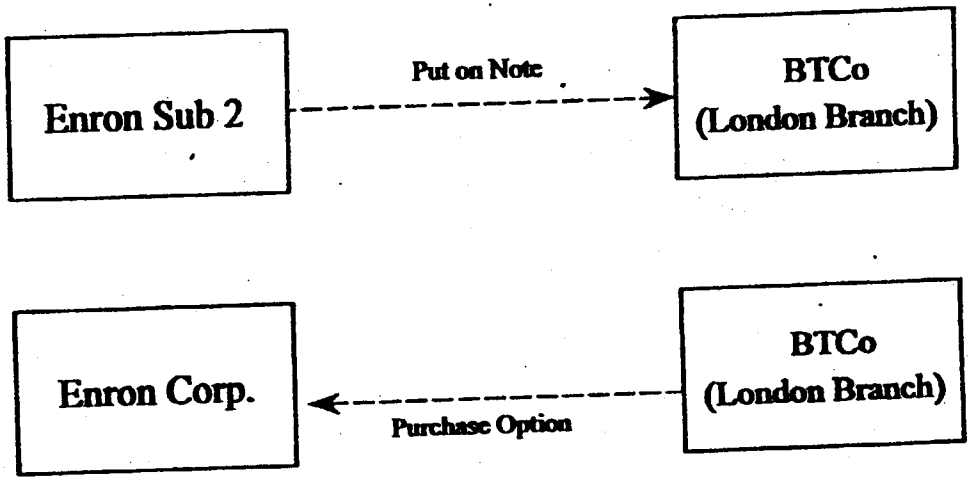
EC2 000037530

II. Transaction Structure

Dec. 23, 1998 - Step 2: Issuance of Put and Purchase Option



- Enron Sub 2 issues a put right (the "Put") to BTCo (London Branch) to put the Note to Enron Sub 2 on December 31, 1998 for cash equal to its principal amount plus accrued interest if such Note has not been assigned to the FASIT as of close of business on December 30, 1998.
- BTCo (London Branch) issues an option to purchase the Note (the "Purchase Option") to Enron Corp. which would require BTCo (London Branch) to sell the Note to Enron Corp. on December 31, 1998 for principal plus accrued interest if the Note has not been assigned to the FASIT as of close of business on December 30, 1998.

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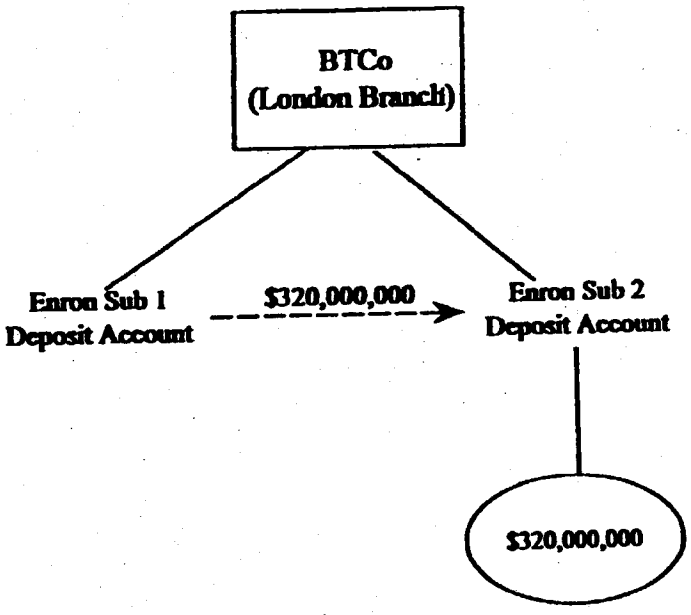
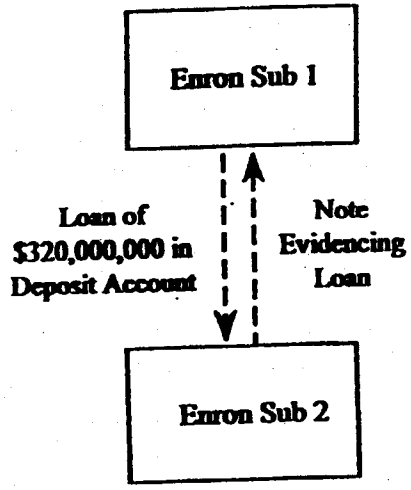
EC2 000037531

II. Transaction Structure

Dec. 30, 1998 - Step 1: Transfer of Funds between Enron Deposit Accounts





- BTCo (London Branch), pursuant to certain instructions delivered on Dec. 23, 1998, transfers $320,000,000 from the Enron Sub 1 Deposit Account to the Enron Sub 2 Deposit Account. Enron Sub 1 and Enron Sub 2 enter into a loan arrangement with respect to this transfer of funds between deposit accounts.

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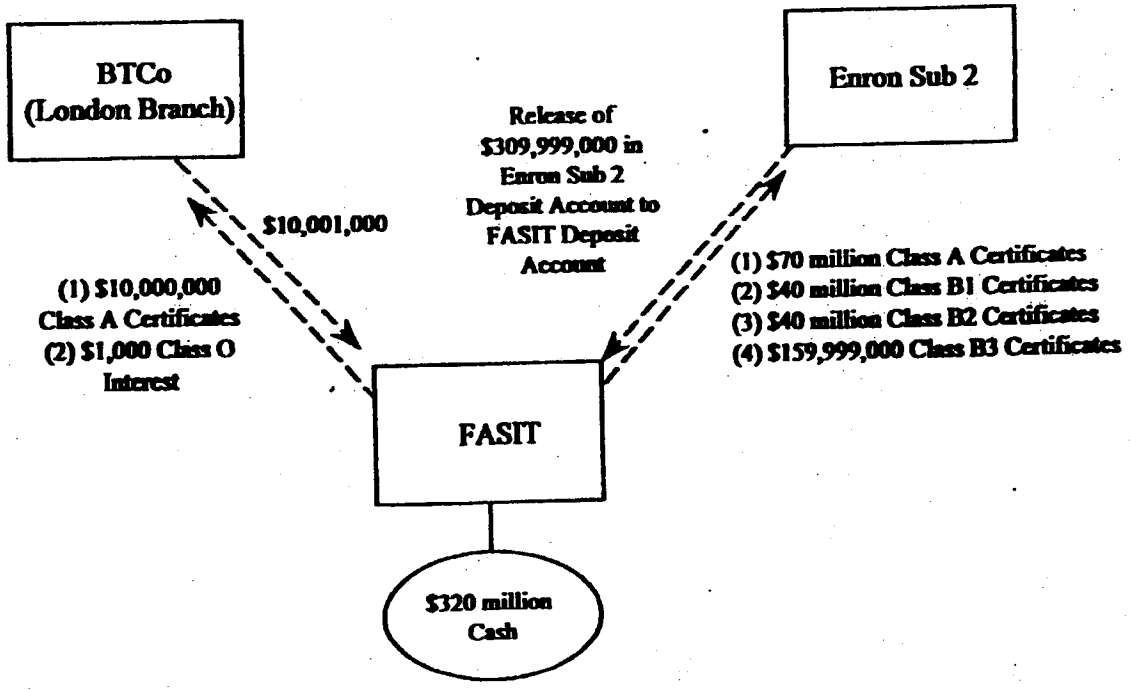
EC2 000037532

II. Transaction Structure

Dec. 30, 1998 - Step 2(a): Acquisition of FASIT Interests



- BTCo (London Branch) transfers $10,001,000 cash to the FASIT in exchange for (1) $10 million of Class A Certificates and a (2) $1,000 Class O Ownership Interest. Enron Sub 2 instructs BTCo (London Branch) to transfer $309,999,000 out of its Deposit Account to a Deposit Account of the FASIT in exchange for the transfer to Enron Sub 2 of (1) $70 million of Class A Certificates, (2) $40 million of Class B1 Certificates, (3) $40 million of Class B2 Certificates and (4) $159,999,000 of Class B3 Certificates.
- Enron Sub 2 also instructs BTCo (London Branch) to pay the remaining $10,001,000 cash in its Deposit Account back to Enron Sub 2 on December 31, 1998 (See page [11] below).

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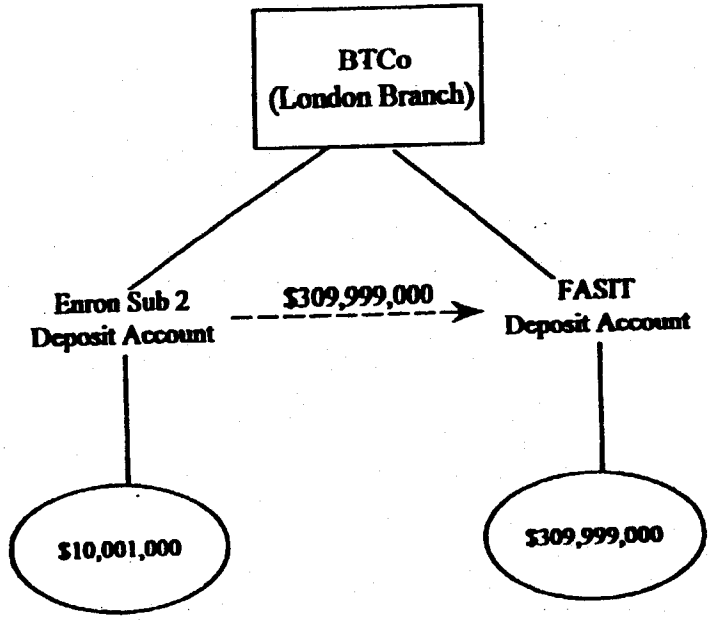
EC2 00003753

II. Transaction Structure

Dec. 30, 1998 - Step 2(a) Continued: Acquisition of FASIT Interests

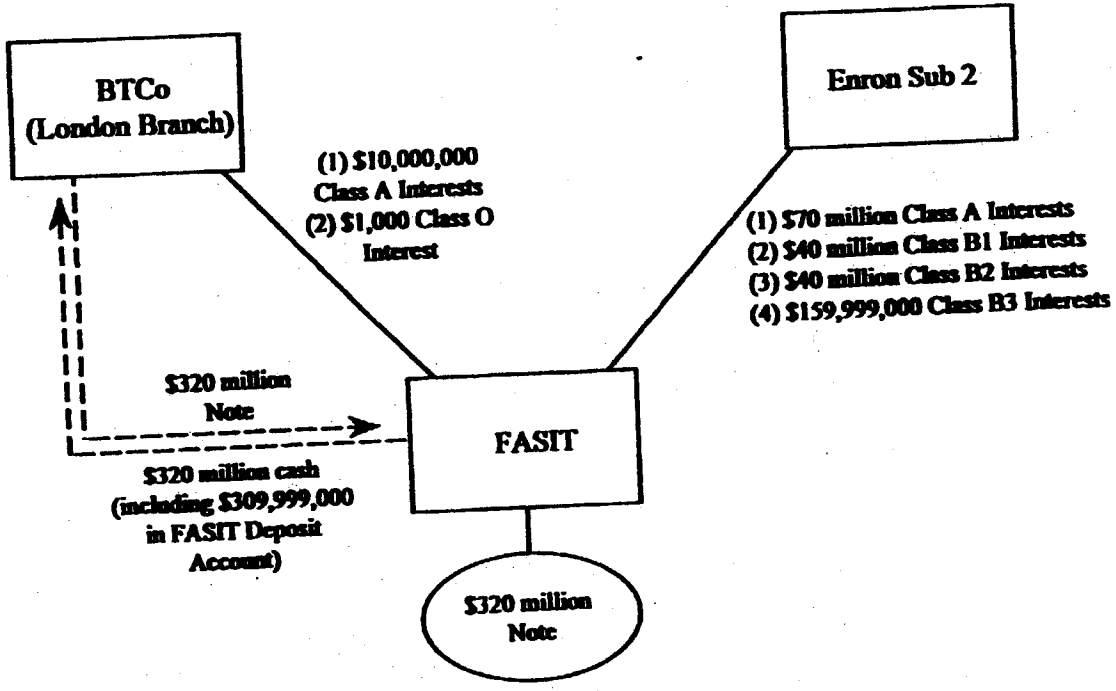


Dec. 30, 1998 - Step 2(a) Continued: Acquisition of FASIT Interests

- The Class A Certificates are entitled to cash flows which provide a __% yield based upon an $80 million fair market value (the "Class A Interest"). The Class A Interest is a "fast pay," self amortizing instrument;
- The Class B1 Certificates are entitled to cash flows which provide a __% yield based upon a $40 million fair market value (the "Class B1 Interest");
- The Class B2 Certificates are entitled to cash flows which provide a __% yield based upon a $40 million fair market value (the "Class B2 Interest");
- The Class B3 Certificates are entitled to cash flows which provide a __% yield based upon a $159,999,000 fair market value (the "Class B3 Interest"); [Note: During the period the Class A Interest is outstanding, there will be no interest or principal payments made on any other Certificate Interests. After all the Class A Interests are fully amortized, the Class B1, B2 and B3 Interests will be current coupon interests and have priority as described on page [15] below]; and
- The Class O Certificate with a fair market value of $1,000 is entitled to the residual cash flows of the LLC (the "Class O Interest").
- The Class B3 Interest holds the entire voting rights of the LLC.
- The FASIT may only hold assets and can only engage in activities which are "bank eligible" for purposes of bank regulatory requirements.

II. Transaction Structure

Dec. 30, 1998 - Step 2(b): Transfer of Note to FASIT



- BTCo (London Branch) transfers the $320 million Note to the FASIT in exchange for $320 million cash.

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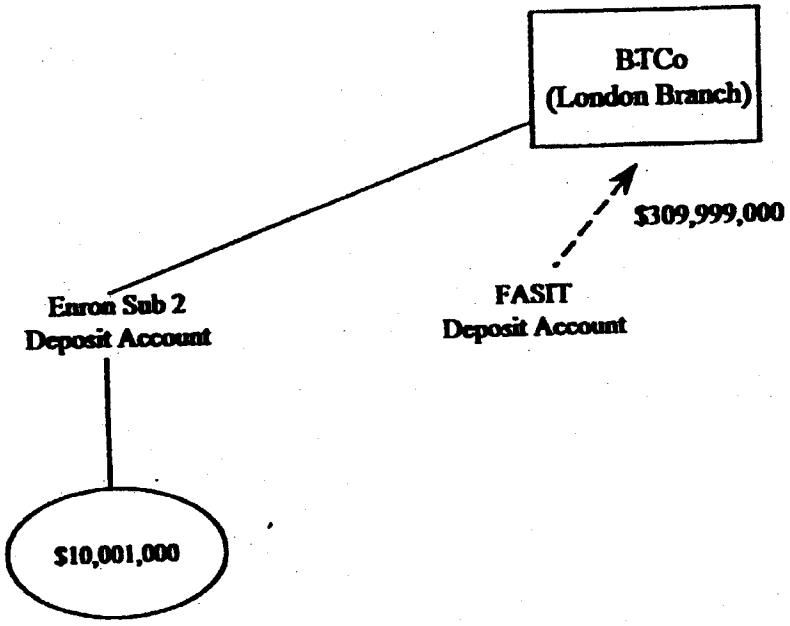
EC2 00037536

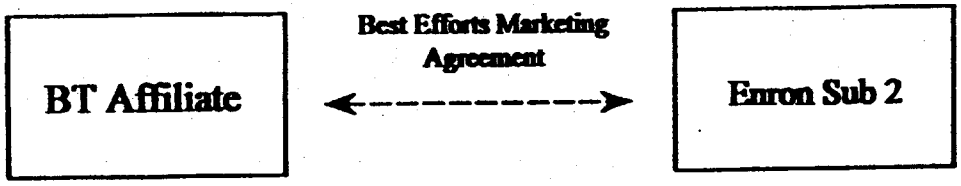
II. Transaction Structure

Dec. 30, 1998 - Step 2(b) (Continued): Transfer of Note to FASIT



II. Transaction Structure

Dec. 30, 1998 - Step 3: Best Efforts Agreement



- An affiliate of BTCo (London Branch) will enter into a best efforts marketing agreement with Enron Sub 2 to attempt to sell the Class A Certificates in the market on behalf of Enron Sub 2. Such an agreement will have a 3 month effective period.

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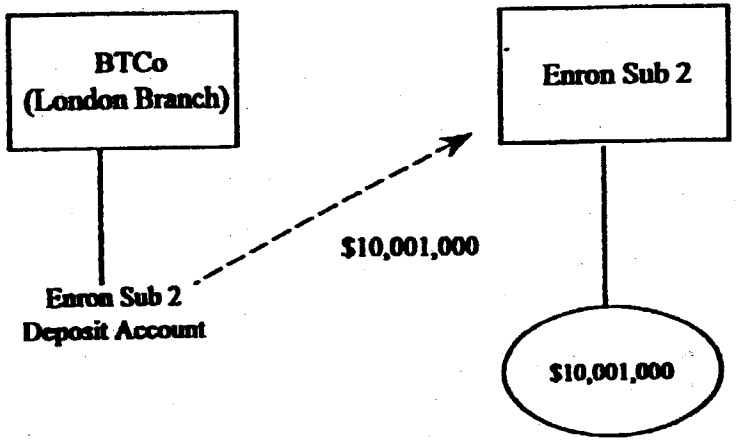
EC2 000037538

II. Transaction Structure

Dec. 31, 1998: Transfer of Enron Sub 2 Deposit Account



- BTCo (London Branch) transfers the remaining balance of approximately $10,001,000 in the Enron Sub 2 Deposit Account out to Enron Sub 2.

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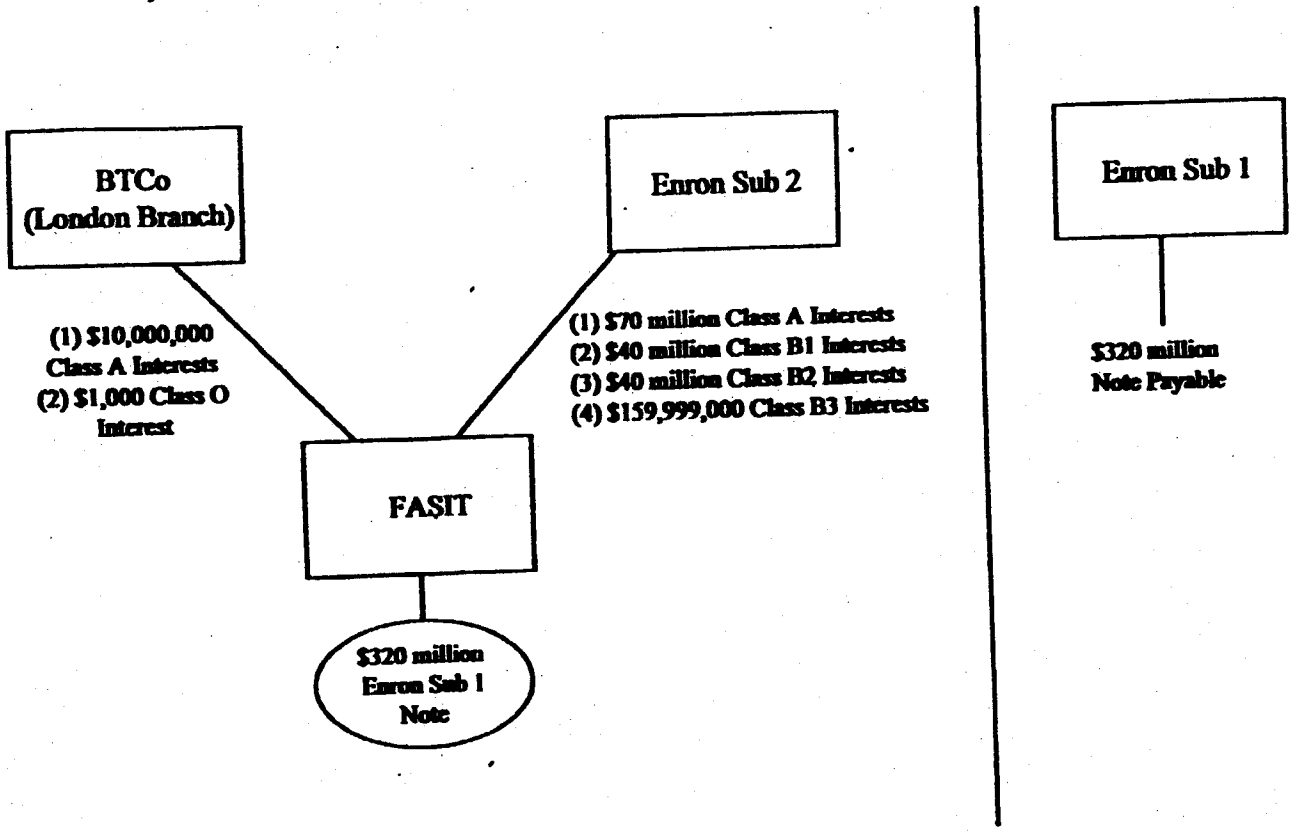
EC2 000037539

II. Transaction Structure

Dec. 31, 1998 - Resulting Structure



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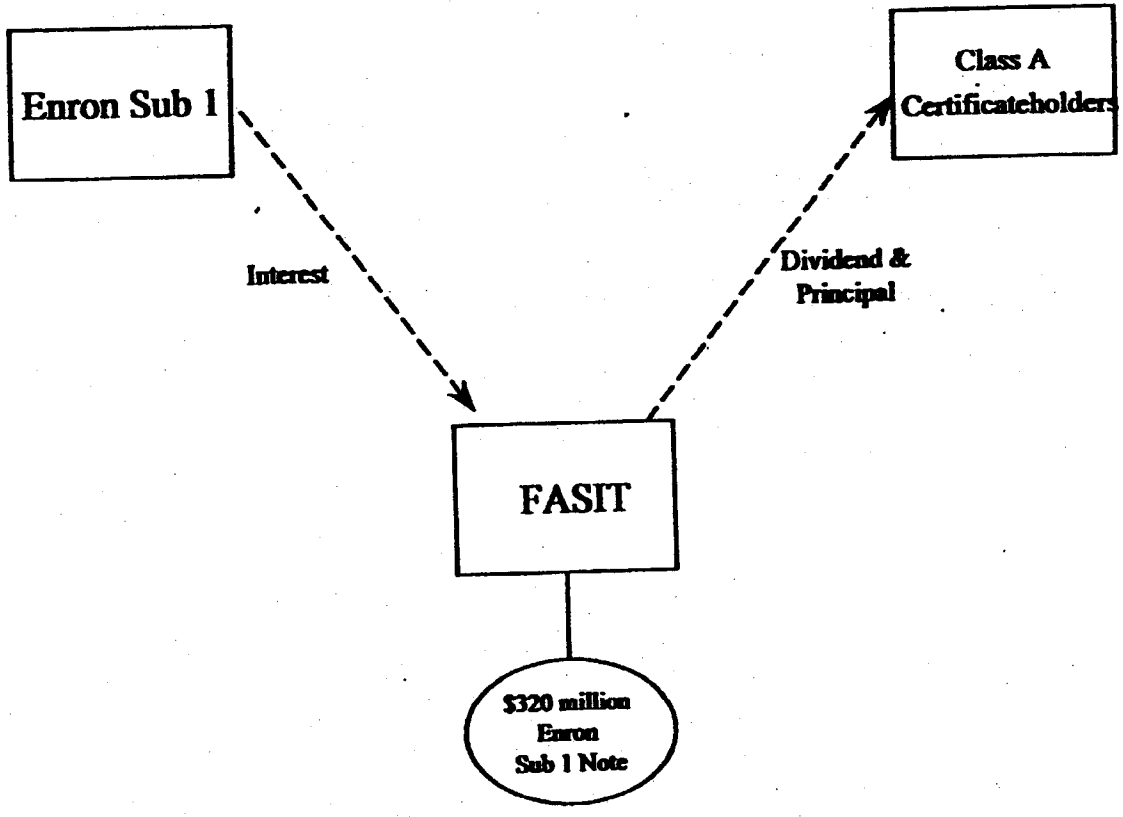
EC2 000037540

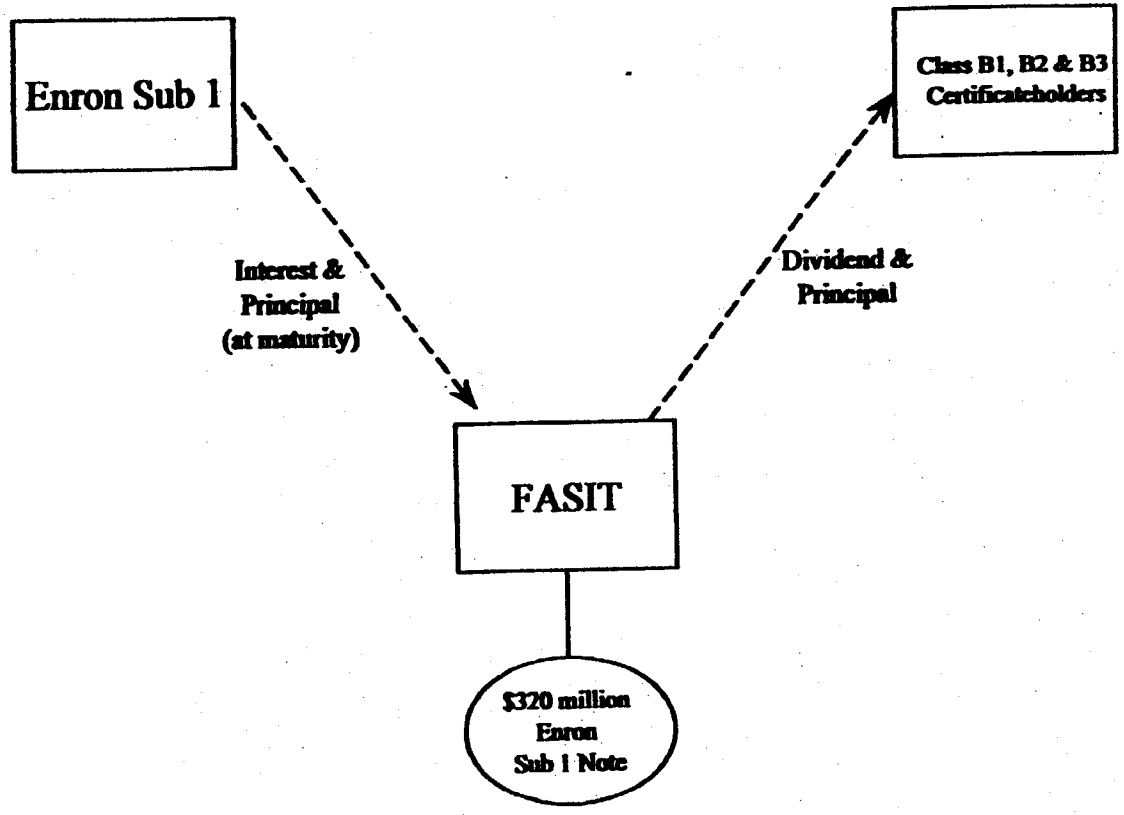
II. Transaction Structure

Operation of FASIT - During Existence of Class A Certificateholders



II. Transaction Structure

Operation of FASIT (Continued) - After all Class A Certificateholders are Fully Amortized



Operation of FASIT (continued)

- The cash flow generated by the FASIT from the interest on the Note during a semi-annual period and principal received at maturity will be used by the FASIT to fund the Certificate Interest Distribution Account of the Class A, B1, B2, B3 and O Interests in the following order:

  1) the Current Yield on the Class A Interests;
  2) the Principal Balance on the Class A Interests;
  3) the Current Yield on the Class B1 Interests;
  4) the Current Yield on the Class B2 Interests;
  5) the Current Yield on the Class B3 Interests;
  6) the Principal Balance on the Class B1 Interests;
  7) the Principal Balance on the Class B2 Interests;
  8) the Principal Balance on the Class B3 Interests; and
  9) the Class O Interest

- The Current Yield for a semi-annual period is the Principal Balance multiplied by [ ]%. In determining the Principal Balance for a semi-annual period for a particular class of Certificate Interests, the original principal amount is increased by the aggregate Yield in prior periods and decreased by any payments on such Certificate Interests in prior periods.
- The holder of the Class O Interest may not dispose of its interest if it has a material adverse affect on the then outstanding Class A and B Certificate holders without unanimous written consent of each Certificate holder who is materially affected. The Class B3 Certificate holder has a right of first refusal on any dispositions of the Class O Interest.

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EC2 00037543

III. Closing Cash Flows

	BTCo (LB)	FASIT (Combined) FASIT (Direct)	FASIT (Combined) FASIT Deposit Account	Enron Sub 1 (Combined) Enron Sub 1 (Direct)	Enron Sub 1 (Combined) Enron Sub 1 Deposit Account	Enron Sub 2 (Combined) Enron Sub 2 (Direct)	Enron Sub 2 (Combined) Enron Sub 2 Deposit Account	Total
12/23 - Step 1 Transfer into Enron Sub Deposit Account	(320,000,000)				320,000,000			0
12/30 - Step 1 Transfer between Enron Sub 1 to Enron Sub 2 Deposit Accounts					(320,000,000)		320,000,000	0
12/30 - Step 2(a) Transfer into FASIT Deposit Account from Enron Sub 2 Account and Purchase of Class A and Class O Interests by BTCo (LB)	(10,001,000)	10,001,000	309,999,000				(309,999,000)	0
12/30 - Step 2(b) Transfer of Enron Sub 1 Note to FASIT by BTCo (LB)	320,000,000	(10,001,000)	(309,999,000)					0
12/31 Transfer from Enron Sub 2 Deposit Account to Enron Sub 2						10,001,000	(10,001,000)	0
Total	(10,001,000)	0	0	0	0	10,001,0000	0	0

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EC2 000037544

TAX INDEMNITY AGREEMENT

THIS TAX INDEMNITY AGREEMENT, dated December 29, 1998 (this "*Indemnity Agreement*"), is between Bankers Trust Corporation, a New York corporation (together with its successors and assigns, "*BT Corp.*"), and Enron Finance Holdings Corp., a Delaware corporation (together with its successors and assigns, "*Enron*") BT Corp. and Enron are hereinafter collectively referred to as the "*Parties.*"

WITNESSETH:

WHEREAS, contemporaneously with the execution and delivery of this Agreement, Bankers Trust Company, acting through its branch office in London, England (the "*London Branch*"), and Enron are entering into the Limited Liability Company Agreement (the "*LLC Agreement*") of Wiltshire Financial Assets Company, LLC (the "*Company*"), dated December 29, 1998, by and among the London Branch, Enron and Bankers Trust International, P.L.C.;

WHEREAS, the Company has acquired a promissory note (the "*Underlying Security*") in the original principal amount of $320,000,000 dated December 23, 1998, issued by ECT Equity Corp. ("*Enron Issuer*") as its principal asset; and

WHEREAS, the Parties think that it is appropriate to apportion the risk of certain uncertainties in the tax law regarding the tax treatment under provisions of the Internal Revenue Code (the "*Code*") that have not been subject to substantial interpretation.

NOW, THEREFORE, as a further inducement to the Parties to enter into the transactions contemplated by or described in the Transaction Documents (as defined in the LLC Agreement) and in consideration thereof and of the mutual covenants and agreements contained herein and therein, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I.

DEFINITIONS

SECTION 1.1 Definitions. Any term not otherwise defined herein shall have the meaning assigned to such term in the LLC Agreement. For purposes of this Indemnity Agreement, the following terms shall have the following meanings:

(a) "*Assumptions*" shall have the meaning set forth in Section 2 hereof.

(b) "*Charter Documents*" means (i) in the case of a corporation, its articles or certificate of incorporation and its bylaws; (ii) in the case of a partnership, its partnership certificate and its partnership agreement; and (iii) in the case of any other person, its organizational and governing documents; in each case, as such documents have been amended or supplemented from time to time.

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(c) "*Governmental Authority*" means any Federal, state, county, municipal, regional, local, territorial and other governmental department, regulatory body, commission, board, bureau, agency, taxing authority or instrumentality, domestic, foreign or international.

(d) "*Knowledge*" of a party hereto shall be deemed to mean actual knowledge of the executive officer of such party who has active involvement in the negotiation of this Agreement or the transactions contemplated hereby, as of the date such representation or warranty is made or deemed to be made.

(e) "*Tax Jurisdiction*" shall mean all national, state, local, provincial, or municipal jurisdictions (or subdivisions or agencies thereof) that impose Taxes.

(f) "*Taxes*" shall mean any and all claims of any kind whatsoever that are in the nature of taxes or other governmental fees (including, without limitation, license and registration fees), assessments, levies, withholdings or charges of any nature (including, without limitation, income, gross receipts, franchise sales, rental, use, turnover, property (tangible and intangible), excise, and stamp taxes). "Taxes" shall not include any Taxes which are payable because of an action taken by Enron that increases the amount payable by BT Corp. under this Agreement, unless such action is taken in good faith and in pursuit of Enron's reasonable business needs.

ARTICLE II.

ASSUMPTIONS

SECTION 2.1 Assumptions. The Parties (and their Affiliates) have entered into the transactions contemplated by or described in the Transaction Documents based on the following assumptions (the "*Assumptions*"):

(a) Except to the extent that Enron Issuer takes any action with respect to the Underlying Security that causes interest accrued thereon to be capitalized or disallowed under relevant law in effect at the time of the action (not including any actions contemplated by the Transaction Documents), Enron Issuer (or any successor obligor) will be allowed an interest deduction from time-to-time equal to the periodic accruals of interest on the Underlying Security.

(b) With respect to the Class A Certificates and Class B Certificates held by Enron on the date hereof, Enron or any successor to such interests shall include in gross income during each Interest Accrual Period an amount of income, in the aggregate, no greater than the accruals of interest during such Interest Accrual Period on the respective Principal Balances of such Certificates pursuant to the terms of the LLC Agreement.

(c) The transfer of the Class O Certificate by the London Branch to any person will not result in income, gain or loss to Enron or to Enron Issuer, except, in the case of a transfer to Enron Issuer or a person related to Enron Issuer within the meaning of Section 108(e)(4) of the Code, to the extent of the excess of (i) the principal amount of the Underlying Security plus accrued but unpaid interest thereon for the Interest Accrual Period during which such transfer occurs over (ii) the aggregate of the Principal Balances of the Class A and Class B Certificates held by Enron plus accrued but unpaid interest thereon for the Interest Accrual Period during

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which such transfer occurs plus any cash paid by the transferee to acquire the Class O Certificate.

(d) If a unanimous consent is given by the members of the Company to dissolve the Company for any reason, and in connection therewith (i) the Underlying Security is prepaid for an amount equal to its principal balance and accrued and unpaid interest thereon (not included in the principal balance), and (ii) the proceeds are distributed to the outstanding Certificate Holders in accordance with their rights under the LLC Agreement, then Enron Issuer will recognize no gain or loss as a result of such steps and Enron Purchaser would recognize income, gain or loss only to the extent the cash proceeds received exceeded the sum of the principal balances and the accrued and unpaid interest (not included in the principal balances) of the Certificates held by it.

(e) No Taxes shall be imposed on the Company.

(f) None of Enron, Enron Issuer or any Affiliate thereof will realize or recognize income for U.S. federal income tax purposes upon the formation of the Company and the purchase by it of the Underlying Security.

(g) Enron's taxable gain (or loss), if any, on a sale or other disposition of the Class A or Class B Certificates held by Enron on the date hereof, will be no greater than (or less than) the taxable gain (or loss) that would be recognized if the Class A or Class B Certificates were not FASIT regular interests but instead were debt instruments with the same economic terms as the Class A or Class B Certificates.

(h) Prior to any purchase of the Class O Certificate by Enron or its Affiliates, none of Enron or its Affiliates shall be treated as the owner of an "ownership interest" within the meaning of the FASIT Provisions with respect to the Company.

(i) Except to the extent provided in the "except" clause in (c) above, the transfer of the Class O Certificate to an Affiliate of Enron will not result in income or gain to the transferee or Taxes being imposed on such transferee.

ARTICLE III.

REPRESENTATIONS OF THE PARTIES

SECTION 3.1 Representations of BT Corp.

(a) **Organization.** BT Corp. is a corporation validly existing and in good standing under the laws of the State of New York.

(b) **Due Authorization.** The execution, delivery, and performance by BT Corp. of this Indemnity Agreement:

i. has been duly authorized by all necessary internal action of BT Corp. and does not require any approval or consent of or notice to any trustee or holders of any indebtedness or obligations of BT Corp., except for those that have been or, on or before the date this Indemnity Agreement has

been entered into, will have been, duly made, given or accomplished and those, which if not obtained or made, would not have a material adverse effect on BT Corp. or BT Corp.'s ability to consummate the transactions contemplated by this Indemnity Agreement;

ii. does not conflict with or result in any violation of BT Corp.'s Charter Documents, any order or judgment applicable thereto or any law or regulation of the United States or the State of New York or conflict with, result in a violation of, or create a default under any agreement or instrument to which BT Corp. is a party or by which it or its properties or assets may be bound; and

iii. does not require the authorization, consent or approval of, the giving of notice to, the registration with, or the taking of any other action by or in respect of any Governmental Authority, except for those that have been or, on or before the date this Indemnity Agreement has been entered into, will have been, duly made, given or accomplished and those, which if not obtained or made, would not have a material adverse effect on BT Corp. or BT Corp.'s ability to consummate the transactions contemplated by this Indemnity Agreement.

(c) **Due Execution.** This Indemnity Agreement has been duly executed and delivered by an officer of BT Corp.

(d) **Legal, Valid and Binding Obligations.** This Indemnity Agreement constitutes the legal, valid and binding obligation of BT Corp., enforceable against it in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, moratorium and other laws affecting the rights of creditors generally and by general principles of equity.

(e) **No Litigation.** There is no pending or, to the Knowledge of BT Corp. threatened, action or proceeding before any court, governmental agency or arbitrator by or against, or involving BT Corp. or its Affiliates which questions or challenges the validity or enforceability of this Indemnity Agreement or any action taken or to be taken by BT Corp. pursuant to this Indemnity Agreement or in connection with the transactions contemplated hereby.

SECTION 3.2 Representations of Enron.

(a) **Organization.** Enron is a corporation validly existing and in good standing under the laws of the State of Oregon.

(b) **Due Authorization.** The execution, delivery, and performance by Enron of this Indemnity Agreement:

i. has been duly authorized by all necessary internal action of Enron and does not require any approval or consent of or notice to any trustee or holders of any indebtedness or obligations of Enron, except for those that have been or, on or before the date this Indemnity Agreement has been

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entered into, will have been, duly made, given or accomplished and those, which if not obtained or made, would not have a material adverse effect on Enron or Enron's ability to consummate the transactions contemplated by this Indemnity Agreement;

ii. does not conflict with or result in any violation of Enron's Charter Documents, any order or judgment applicable thereto or any law or regulation of the United States or the State of New York or conflict with, result in a violation of, or create a default under any agreement or instrument to which BT Corp. is a party or by which it or its properties or assets may be bound; and

iii. does not require the authorization, consent or approval of, the giving of notice to, the registration with, or the taking of any other action by or in respect of any Governmental Authority, except for those that have been or, on or before the date this Indemnity Agreement has been entered into, will have been, duly made, given or accomplished and those, which if not obtained or made, would not have a material adverse effect on BT Corp. or BT Corp.'s ability to consummate the transactions contemplated by this Indemnity Agreement.

(c) **Due Execution**. This Indemnity Agreement has been duly executed and delivered by an officer of Enron.

(d) **Legal, Valid and Binding Obligations**. This Indemnity Agreement constitutes the legal, valid and binding obligation of Enron, enforceable against it in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, moratorium and other laws affecting the rights of creditors generally and by general principles of equity.

(e) **No Litigation**. There is no pending or, to the Knowledge of Enron threatened, action or proceeding before any court, governmental agency or arbitrator by or against, or involving Enron or its Affiliates which questions or challenges the validity or enforceability of this Indemnity Agreement or any action taken or to be taken by Enron pursuant to this Indemnity Agreement or in connection with the transactions contemplated hereby.

(f) **Certain Tax Matters.**

(i) The balance sheet and income statement of Enron Issuer dated November 30, 1998, are true, correct and complete in all material respects;

(ii) Enron Issuer will treat the Underlying Security as debt of Enron Issuer for all tax, regulatory and accounting purposes;

(iii) Enron Purchaser will treat the Class A and Class B Certificates as debt for all federal income tax purposes; and

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(iv) While London Branch or any other Affiliate of BT Corp. holds the Class O Certificate, Enron will not hold itself out as owning the Class O Certificate issued by the Company.

ARTICLE IV.

TAXES INDEMNIFIED

SECTION 4.1 Assumption Indemnity. (a) BT Corp. will pay to Enron (and its Affiliates, including without limitation Enron Corp., an Oregon Corporation) (each an "***Indemnified Party***") the amount of Taxes deemed imposed by a Tax Jurisdiction on such Indemnified Party as a result of its participation in the transactions implemented pursuant to or the Transaction Documents or contemplated thereby, ("***Indemnified Tax***") including, without limitation, (i) the issuance, existence, transfer, and retirement of the Underlying Securities; (ii) the issuance, existence, transfer, and retirement of the Certificates; and (iii) the formation, existence, and dissolution of the Company, and its election to be treated as a FASIT and termination of such status, to the extent such Taxes are imposed on a basis that is inconsistent with the Assumptions. The amount of Taxes deemed imposed by a Tax Jurisdiction on a basis that is inconsistent with the Assumptions for any taxable year shall be determined (x) as if the relevant Indemnified Party (and any combined or consolidated group of which it is a member) were taxed at the highest marginal rate applicable to corporations in such jurisdiction (a "***Consolidated Basis***"), and (y) taking into account favorable variations from the Assumptions that would decrease the Taxes deemed imposed as a result of unfavorable variations from the Assumptions.

(b) BT Corp. will pay to the Company (also an Indemnified Party) the amount of Taxes actually imposed by a Tax Jurisdiction on such Indemnified Party.

SECTION 4.2 Penalties and Interest. (a) If penalties, additions to tax, and interest are actually imposed on an Indemnified Party (other than the Company), and the imposition of the penalties, additions to tax, or interest is attributable to a Tax that is imposed on a basis that is inconsistent with the Assumptions, BT Corp. will pay the Indemnified Party for the amount of penalties, additions to tax, and interest ("***Other Indemnified Amounts***") deemed to be imposed with respect to an Indemnified Tax under clause (x) above. The amount of penalties, additions to tax, and interest deemed to be imposed upon an Indemnified Party shall be determined on a Consolidated Basis. Other Indemnified Amounts shall not include any penalties, additions to tax, or interest due to Enron's failure to file any tax return required by law to be filed by Enron at the time such return is required to be filed.

(b) BT Corp. will pay the Company for the amount of penalties, additions to Tax and interest actually imposed on the Company (also "***Other Indemnified Amounts***").

SECTION 4.3 Amount of Payment, etc. BT Corp. will pay an Indemnified Party, with respect to the payment of Indemnified Taxes or Other Indemnified Amounts under this Indemnity Agreement, any amount necessary to hold the Indemnified Party harmless on an after-tax basis, after taking into account in the taxable year of payment any Taxes deemed payable by the Indemnified Party in respect of the receipt or accrual of such indemnification payment, and

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any tax benefits deemed realized by the Indemnified Party from all deemed Taxes required to be paid by the Indemnified Party with respect to such payment or indemnity under the laws of any Tax Jurisdiction. The amount of any deemed tax consequences, Indemnified Tax, and tax benefits shall be determined on a Consolidated Basis.

SECTION 4.4 Procedures. Any amounts payable to an Indemnified Party pursuant to this Agreement shall be paid after the related Tax has been paid by an Indemnified Party, (A) within 30 days of the receipt by BT Corp. of a written demand by an Indemnified Party, for the Indemnified Tax, that contains a reasonably detailed description of the calculation of the Indemnified Tax, the computation of the amount so payable and the date on which the Indemnified Party paid the Indemnified Tax or (B) in the case of indemnity amounts which are being contested by the Indemnified Party pursuant to this Indemnity Agreement, within 30 days after the time such contest is finally resolved. Within 15 days following the receipt by BT Corp. of the computation of the amount of the indemnity under either (A) or (B) in the preceding sentence, BT Corp. may request that one of the five largest national accounting firms (which may not be the accounting firm that regularly prepares BT Corp.'s certified financial statements) determine whether such computations of the Indemnified Party are mathematically accurate and based on reasonable assumptions and in conformity with the provisions of this Agreement. Such accounting firm shall be requested to make its determination within 30 days. If such accounting firm shall determine that such computations are inaccurate, then such firm shall determine what it believes to be the appropriate computations. If the Indemnified Party does not agree with such firm's determination, then another national accounting firm, to be selected jointly by the Indemnified Party and BT Corp., or if they cannot agree, by the American Arbitration Association, from among the five largest national accounting firms, shall determine the appropriate computation. Such accounting firm shall be requested to make its determination within 30 days. All fees and expenses payable under this Section 4.4 shall be borne by BT Corp. Notwithstanding anything herein to the contrary, an Indemnified Party may make more than one request for payment under this Agreement with respect to any Tax imposed by a Tax Jurisdiction to the extent the amount of such Indemnified Tax is adjusted or redetermined from time to time.

SECTION 4.5 Contests. (a) If a claim by a Tax Jurisdiction ("Claim") is made against an Indemnified Party that could affect the amount of deemed Indemnifiable Taxes with respect to which BT Corp. could be liable for payment of indemnity hereunder, or if, an Indemnified Party makes a determination ("Determination") that an Indemnifiable Tax is due for which BT Corp. could have an indemnity obligation hereunder, the Indemnified Party shall, within 30 days of the notice of the Claim or the Determination, give BT Corp. notice in writing of the estimated amount of Indemnifiable Tax that would be due under this Indemnity Agreement if the Claim or Determination were upheld by a court, the basis for the Claim or Determination, and the notice, if any, of the Claim.

(b) In the case of a written Determination notice, BT Corp. may require that the Indemnified Party provide an opinion (at BT Corp's expense) of its own nationally recognized tax counsel which supports the Determination that an Indemnified Tax "should" be due. BT Corp. shall then be entitled to seek the opinion of its own nationally recognized tax counsel (at BT Corp.'s expense) with respect to the Determination. If, such counsel is unable to render an opinion that the Indemnified Tax "should" be due, then the parties shall agree on a third nationally recognized tax counsel. If such counsel concludes that an Indemnified Tax "should"

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be due, then such conclusion shall be binding on BT Corp. If such counsel cannot conclude that an Indemnified Tax "should" be due, BT Corp. shall not be required to pay an amount under this agreement with respect to the Determination. The expenses of such tax counsel shall be paid by BT Corp. However, the total expenses of tax counsel attributable to the aggregate of expenses of the Indemnified Party's counsel or such third nationally recognized tax counsel with respect to rendering such opinions for which BT Corp. is liable shall not exceed $100,000. Such expenses in excess of that amount shall be borne equally by the parties.

(c) In the case of a written Claim notice, the Indemnified Party shall control the contest. The Indemnified Party shall pursue the Contest in good faith, shall consult with BT Corp. regarding the contest, will consider in good faith any suggestions made by BT Corp. with respect to the means and methods of pursuing the contest, and shall use its best efforts to permit BT Corp. to participate in any administrative or judicial proceedings relating to such contest (but only with respect to issues that could affect the amount of Indemnified Taxes or Other Indemnified Amounts). The Indemnified Party shall have the right to settle any Contest on any terms it deems appropriate; provided, however, that no Indemnified Taxes and Other Indemnified Amounts payment shall be due with respect to issues so settled under this Agreement pursuant to this section unless the procedures and conditions described in (d), below, are met.

(d) In the event the Indemnified Party desires to settle any Contest, it shall notify BT Corp. in writing of its intent to effect such settlement ("Settlement Notice"). Upon receipt of a Settlement Notice BT Corp. shall be entitled to seek the opinion of its own nationally recognized tax counsel (at BT Corp.'s expense) with respect to the Indemnified Taxes described in the Settlement Notice. If, in such counsel's opinion, the Indemnified Party "should" be able to prevail on the issue that is the subject of the Settlement Notice ("Issue") then the Indemnified Party shall continue to contest the assessment or imposition of any relevant Taxes, at BT Corp.'s expense, as described in the three last sentences of this section (and if it does not do so it shall not be entitled to payment of Indemnified Taxes or Other Indemnified Amounts with respect to such Issue), unless the Indemnified Party provides (at BT Corp.'s expense) an opinion of its own nationally recognized tax counsel that it cannot conclude that the Indemnified Party "should" prevail on the Issue. If the Indemnified Party provides such an opinion, then the parties shall agree on a third nationally recognized tax counsel. If such counsel cannot conclude that the Indemnified Party "should" prevail on the Issue, then the Indemnified Party shall have the right to settle the Issue. If such counsel concludes that the Indemnified Party "should" prevail on the Issue, then (i) the Indemnified Party shall, in good faith and at the request of BT Corp., continue to contest the assessment or imposition of any relevant Taxes, at BT Corp.'s expense, through all administrative and judicial levels until a final determination is made or (ii) if the Indemnified Party settles the Issue, it shall not be entitled to payment of Indemnified Taxes or Other Indemnification Amounts arising from such Issue. The expenses of the Indemnified Party's tax counsel and the third tax counsel in rendering such opinions shall be paid by BT Corp. However, the total expenses of such two counsel paid by BT Corp. with respect to rendering such opinions shall not exceed $100,000. Such expenses in excess of that amount shall be borne equally by the parties.

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ARTICLE V.

MISCELLANEOUS PROVISIONS

SECTION 5.1 Amendment and Modification. This Agreement may be amended, modified, or supplemented only by written agreement of both of the Parties hereto.

SECTION 5.2 Waiver of Compliance; Consents. Any failure of a party to comply with any obligation, covenant, agreement, or condition herein may be waived by the other party; provided, however, that any such waiver may be made only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement, or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Indemnity Agreement requires or permits consent by or on behalf of any party hereto, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section 5.2, with appropriate notice in accordance with Section 5.7 of this Agreement.

SECTION 5.3 Assignment. This Indemnity Agreement and all of the provisions hereof shall be binding upon the Parties hereto and their respective successors and permitted assigns. Nothing in this Indemnity Agreement, expressed or implied, is intended or shall be construed to confer upon any person other than the Parties hereto, and their respective successors and assigns any right, remedy, or claim under or by reason of this Indemnity Agreement or any provision herein contained. Enron has the right to assign (and each successive assignee may further assign) its rights under this Indemnity Agreement to any person or entity, which such person or entity by acceptance of such assignment shall be deemed to assume all liabilities, indebtedness and obligations included in the rights assigned.

SECTION 5.4 Limitation of Liability. Except as expressly provided to the contrary herein, BT Corp. shall not be liable for the payment of Indemnified Taxes or Other Indemnified Amounts accruing after the date on which the London Branch (or any if its Affiliates) no longer holds the Class O Certificate. However, the preceding sentence shall not diminish or terminate the liability of BT Corp. hereunder to pay Indemnified Taxes, Other Indemnified Amounts or gross-up payments under Section 4.3 (a) as a result of an inconsistency with the Assumptions listed as Sections 2.1(d) or 2.1(i) hereof arising within the first sixty (60) days after the London Branch (or any Affiliate of BT Corp.) has ceased to own the Class O Certificate and (b) as a result of an inconsistency with any Assumption occurring within sixty (60) days after the date upon which the Class A Certificates are no longer held by anyone other than Enron (or any Affiliate of Enron).

SECTION 5.5 Governing Law. This Indemnity Agreement shall be governed by and construed in accordance with the laws of the State of New York (without regard to its conflicts of law doctrines).

SECTION 5.6 Counterparts. This Indemnity Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall

constitute one and the same instrument and shall become a binding agreement when one or more of the counterparts have been signed by each of the Parties and delivered to the other party.

SECTION 5.7 Notices. All notices, requests, demands and other communications required or permitted to be given or made hereunder by any party hereto shall be in writing and shall be deemed to have been duly given on the date delivered if personally delivered or on the third day following transmission if transmitted by a nationally recognized air courier or on the date transmitted by facsimile if the sender receives electronic confirmation of receipt of such facsimile, to the party to whom it is to be given at the address or facsimile number of such party set forth below or to such other address or facsimile number for notice as such party shall provide in writing pursuant to this Section 5.7:

If to BT Corp.:

Bankers Trust Corporation
One Bankers Trust Plaza
130 Liberty Street, 34th Floor
New York, NY 10006
Attention: Mr. Brian J. McGuire
Tel: (212) 250-1011
Fax: (212) 669-1793

with a copy to (such copy not to constitute notice):

Brown & Wood LLP
One World Trade Center
New York, New York 10048-0557
Attention: Gail G. Watson, Esq.

If to Enron:

Enron Finance Holdings Corp.
c/o Enron Corp.
1400 Smith Street
Houston, Texas 77002
Attention: General Counsel

with a copy to (such copy not to constitute notice):

Akin, Gump, Strauss, Hauer & Feld, L.L.P.
1333 New Hampshire Avenue, N.W., Suite 400
Washington, D.C. 20036
Attention: Michael S. Mandel, Esq.
Tel: (202) 887-4196
Fax: (202) 887-4288

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SECTION 5.8 Headings. The article and section headings contained in this Indemnity Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Indemnity Agreement.

SECTION 5.9 Entire Agreement. This Indemnity Agreement embodies the entire agreement and understanding of the Parties hereto in respect of the subject matter contained herein. This Indemnity Agreement supersedes all prior agreements and understandings between the Parties with respect to such subject matter.

SECTION 5.10 Severability. If any one or more provisions contained in this Indemnity Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or, unenforceability shall not affect any other provision of this Indemnity Agreement, but this Indemnity Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

SECTION 5.11 Further Assurances. Each party to this Indemnity Agreement agrees to execute such documents or instruments, and to take such action, as the other party may reasonably request after the date hereof in order to effectuate and perfect the indemnification contemplated hereby.

SECTION 5.12 Third Party Beneficiary. The Company and the Affiliates of Enron are intended beneficiaries of this Indemnity Agreement.

SECTION 5.13 Controlling Agreement. To the extent there is any conflict between this Indemnity Agreement and the LLC Agreement, this Indemnity Agreement controls.

SECTION 5.14 No Duplicate Indemnity. To the extent an Indemnified Tax payable to the Company is otherwise actually indemnified by payment to the Company from the Common Member pursuant to the LLC Agreement, no duplicate payment shall be required hereunder of such amount received by the Company.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

BANKERS TRUST CORPORATION

By: _____
Name JOHN T. WADSWORTH
Title SENIOR VICE PRESIDENT

ENRON FINANCE HOLDINGS CORP.

By: _____
R. Davis Maxey
Vice President

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IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

BANKERS TRUST CORPORATION

By: _____
Name
Title

ENRON FINANCE HOLDINGS CORP.

By: R. D. Maxey
R. Davis Maxey
Vice President

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XIII. COLI/TOLI TRANSACTIONS

ATTACHMENT D

ENRON CORP.

1994 Deferral Plan

Plan Funding Conclusions and Recommendations

Prepared by:

Corporate Compensation
Corporate Treasury
Clark/Bardes, Inc.

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Background

In the latter part of 1993, Enron decided to offer a new deferred compensation plan to approximately 300 executives and key employees. The purpose of the plan was to provide a tax-planning vehicle with a certain level of security and flexible investment choices for executives. Deferral elections were made during the first two weeks of December, 1993. One hundred (100) persons elected to defer 1994 compensation from the following eligible sources.

1994 Salary	$ 784,923
1994 Bonus	$1,526,687
1994 Long term incentive	$ 731,000
Total deferrals	$3,042,610

We anticipate offering the same deferral opportunity for seven consecutive years, subject to further renewal after that time, according to the value of the plan.

To provide a level of security to executives and an asset to cover Enron's future payment liabilities, a Rabbi trust was approved for funding of the 1994 Deferral Plan. The use of "variable" life insurance products was also approved for investment of trust assets, because it provides tax-free buildup of earnings. During the first two years of the plan, while up front insurance fees and loads are being paid from cash values, the plan will credit a fixed 9%. Beginning in 1996, participants will be able to direct their accounts once each year among various investment choices within the life insurance product.

It was also approved that assets from the 1992 Deferral Plan, which currently credits deferrals with Enron's mid-term cost of capital, be included in the Rabbi trust, used to purchase life insurance, and that participants be allowed to direct their investments beginning in 1996.

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Product Selection

Life insurance allows Enron to pass tax-free earnings on to participants which reflect the investment choices participants have made. The policies are not only life insurance, they are also securities. There are both registered and private placement forms of these products. The private placement products are for large, sophisticated purchasers; they are priced better and deliver a better long term result than the registered versions, because the loads and insurance charges are set at lower levels. Therefore, we recommend that the trust assets be invested in a private placement product.

We evaluated the private placement products offered by the five carriers in the market. Prudential was eliminated because they require a minimum of $10 million in annual premiums. Massachusetts Mutual was eliminated as an option because they offered only three investment choices and they required a minimum $1 million deposit per fund.

The remaining three products, CIGNA, Hartford and Metropolitan were evaluated based on investment performance, policy performance, suitability to a deferral plan and diversity of fund options offered.

Corporate Treasury thoroughly evaluated the three products relative to investment performance, considering quality of money managers, management fees and historical performance of the managers. Metropolitan's active funds are managed by State Street Research & Management, and their indexed funds are managed by MetLife. Hartford funds are managed by Neuberger & Berman Investment Advisors. CIGNA's active funds are managed by Oppenheimer and their indexed funds are managed by Wells Fargo Nikko. All three products were deemed to be acceptable from an investment perspective.

Next, the policy performance and suitability to a deferral plan were evaluated. For deferral plan investments, it is more important that policies generate long term cash value rather than providing large death benefits. Metropolitan has higher loads than the other products. Therefore, the Metropolitan funds would have to consistently earn returns 50 basis points higher than the other funds to achieve comparable cash values within the

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policies. Such consistent outperformance was deemed unlikely to be achieved and Metropolitan was eliminated. CIGNA and Hartford had comparable cash values and death benefits, with the slight edge going to CIGNA.

One other factor which worked in CIGNA's favor was the low cost of borrowing within the policies. Because we expect to borrow in the future to provide cash flow for benefit payments, that cost is very important. With CIGNA it is a pass-through only of the carrier's mortality charges and expense cost, rather than a fixed and more expensive spread above policy crediting rates.

Hartford and CIGNA were then evaluated for the diversity of fund options offered. Hartford did not offer an international fund or any indexed funds.

Therefore, because of the superior policy performance and diversity of fund choices, it is recommended that CIGNA be selected as the product for trust investments. Once approved, Compensation will begin the process of purchasing life insurance policies by obtaining consent forms from participants.

Investment Choices and Asset Allocation

Starting in 1996, participants will make investment choices and their plan earnings will reflect the performance of the investment funds selected, less a basis point discount to cover insurance fees and administrative costs.

The discount off the gross fund return has not yet been decided, but is expected to be between 50 and 150 basis points. Setting the rate is subject to long-term modeling and payout assumptions and to decisions about the timing of when the insurance and administrative costs should be recovered. The decision on the discount does not have to be made until late 1995, prior to deferral and investment elections for 1996. Corporate Compensation will work with Clark/Bardes on the modeling required to make this decision and have a recommendation in the second half of 1995.

It is recommended that the following six fund choices, which are available within the CIGNA product, be offered to participants.

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- Equity Fund - Actively managed for long-term capital appreciation by investing in equity securities of companies deemed to be undervalued.

- Global Equity Fund - Actively managed global investment strategy primarily involving equity securities.

- Balanced Fund - Objective is growth of capital over time by investing in common stocks, bonds and cash equivalents.

- Standard & Poors' 500 Index Fund - Designed to track the returns of the S&P 500.

- Fixed Income Fund - An actively managed portfolio of corporate bonds, U.S. government securities and/or mortgage backed debt securities.

- Money Market Fund - Investing in high quality money market instruments and corporate obligations.

These funds were chosen to provide investment flexibility to participants, based on their financial objectives and risk orientation. The active funds will generally mirror Oppenheimer funds quoted in the Wall Street Journal, and participants will be instructed on tracking the performance of their fund choices. Any new funds which may become available under the product prior to 1996 will be evaluated for possible addition or substitution for an existing fund.

Until 1996, Enron will need to allocate the assets in the insurance product, since the commitment is to credit a fixed rate of 9% through 1995. Corporate Compensation and Corporate Treasury will establish asset allocation procedures, including how often to review fund performance, the preferred level of risk, approval authority, etc.

Beginning in 1996, a decision which Enron will want to address periodically is whether the company will invest precisely according to the fund choices made by participants. Enron is not committed to invest deferrals according to participant fund selections, only to pay benefits according to the performance of those selections. The company could take some investment risk

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and try to generate earnings greater than the liability commitments to participants, earnings which Enron could retain. For example, if participants elect to invest 75% of their deferrals in a fixed income fund, Enron could choose to invest the assets entirely in equities. This choice would be made with the belief that, over time, the returns on the Enron investment allocation would exceed the return on the participants' choices.

Trust/COLI Funding Strategy

The funding which is acquired needs to take into account both the 1992 and 1994 Plans, since they will both be on the same earnings basis after 1995. Also, insurance policies should be purchased which have annual premiums that can be sustained with actual deferrals for the required seven years.

We recommend purchasing COLI policies with an annual premium of $4 million. This is based on a combination of 1994 deferrals of approximately $3 million and 1992 deferral money in $1 million increments in 1994, 1995 and 1996 ($3 million total). We are comfortable that this premium level can be sustained with actual deferrals for the required seven years. Only 100 of approximately 300 eligible participants deferred in 1994. However, a substantial percentage of the group that did not defer into the 1994 Plan currently participate in prior deferral plans that will expire during the next two years.

Even if actual deferrals fluctuate, we have selected policies which allow for varying annual premium payments, ranging from approximately $3 million to as high as $6 million, without being required to purchase new policies and incur the up-front loads and fees.

EC 000768257

Summary done in 199 by Clark/Bardes on Great West & Connecticut Mutual policies. Pam

ENRON CORPORATION
EXECUTIVE SUMMARY

BACKGROUND:

Between 1983 and 1986, Enron Corporation purchased life insurance policies from Connecticut Mutual Life (now Massachusetts Mutual) and the Great-West Life Assurance Company as informal funding for various corporate obligations, including Deferred Income Plans for Executives and Directors. Enron purchased two different Connecticut Mutual insurance products with two policy dates for each product. The first product purchased was the Econolife, (sometimes referred to as the "traditional"), product on March 1, 1983 (79 policies) and on March 1, 1984 (11 policies). On December 28, 1984 and on March 1, 1985 Enron purchased 139 and 51 policies respectively of the Executive Benefit Life (EBL) product. On June 1, 1986, Enron purchased 213 Life to 95 policies with a 10:1 X-Rider from the Great-West Life Assurance Company. Clark/Bardes administers these insurance policies and provides annual anniversary illustrations.

The CML "traditional" Econolife policies are straightforward dividend driven whole-life policies. Earnings within these policies are based upon the earnings of the insurance company.

The CML EBL product is a cash value intensive whole-life policy, meant to produce earnings based upon market rates; the rate for this product is set using the 30-Day Treasury Bill rate as a base. These policies, constructed to allow for leveraging, provide an incentive for the use of loans via higher crediting rates on borrowed funds.

Great-West's L95 product is also a cash value intensive whole–life policy, which allows the owner to dedicate a portion of premium (the X-Rider premium) directly to the build-up of cash value each year. This policy type was specifically designed to be maximum-leveraged; Great-West life guarantees a 150 basis point spread between the loan and crediting rate on borrowed funds. Maximum loans are calculated based on projected *end of year next* values, allowing the fullest use of premiums paid. Dividends, awarded at the end of each policy year, are a relatively insignificant portion of the cash value.

ANALYSIS PERFORMED:

We have used historical data and current market information to provide you with the attached illustrations, which show projected future results for the insurance that Enron Corporation has purchased. *It is important to note that values for future years provided in this illustration are dependent on rate conditions and mortality experience and should be used only for budgeting and forecasting purposes.* Please refer to actual value reports for any historical figure necessary for accounting purposes.

MORTALITY EXPERIENCE:

Overall, Enron has experienced very low mortality since plan inception. Since the last illustration, there has been one death in the December 28, 1984 policy group and four deaths in the June 1, 1986 policy group. For a plan this large such experience is below expectation. We have provided both non-mortality (death at age 80) schedules and mortality-adjusted schedules using 100% of the 1983 GAM table.

CORPORATE TAX RATE:

Enron has used tax deductions in the past and continues to be completely eligible for full deductions under current legislation. We have illustrated Enron emerging from AMT in 2000 and recapturing the full amount of lost deductions in one year.

EC 000768248

LOAN RATE HISTORY:

YEAR	ECONOLIFE 3/1/83	ECONOLIFE 3/1/84	EBL 12/28/84	EBL 3/1/85	GREAT-WEST 6/1/86
1983	8.00%	N/A	N/A	N/A	N/A
1984	8.00%	8.00%	8.00%	N/A	N/A
1985	10.40%	10.40%	11.75%	12.71%	N/A
1986	11.69%	11.69%	9.55%	10.86%	9.79%
1987	9.54%	9.54%	10.64%	9.20%	8.99%
1988	10.97%	10.97%	10.28%	10.56%	9.86%
1989	9.90%	9.90%	9.41%	10.03%	9.86%
1990	9.34%	9.34%	10.02%	9.30%	9.73%
1991	10.03%	10.03%	9.05%	9.30%	9.43%
1992	8.99%	8.99%	8.26%	8.75%	8.81%
1993	8.41%	8.41%	6.98%	8.35%	7.83%
1994	6.97%	6.97%	8.60%	7.26%	7.78%
1995	8.83%	8.83%	8.60%	8.73%	8.35%
1996	7.39%	7.39%	7.56%	7.11%	7.65%
1997	7.39%	7.39%	7.41%	7.11%	7.83%
1998	7.26%	7.26%	6.75%	7.03%	7.00%
1999	6.77%	6.77%	---	6.72%	7.07%
projected	6.77%	6.77%	6.75%	6.72%	7.07%

CONCLUSIONS:

The attached illustrations use current policy crediting rates as of the last anniversary, projected loan rates for each policy group and discount rates of 6%, 7% and 8%. The mortality has been illustrated conservatively with the later of death at age 80 or five years from current year , and 100% of the 1983 GAM table. If the company is to ~~be in~~ AMT for the foreseeable future, it may be beneficial to look at strategies for at least partial loan repayments. If Enron emerges from AMT, a maximum loan strategy would be recommended to maximize the potential of these policies. Enron's policy blocks retain 100% loan interest deductibility under current legislation; this deductibility is a commodity that is no longer available in the insurance marketplace.

Prepared by: Patricia Larsen, Senior Plan Financial Analyst
Jeff Currie, Benefits Analyst
John Baergen, Account Manager

EC 000768249

ENRON

Interoffice Memorandum

DRAFT

To: File

From: J. Anthony Jarrett

Department: Corp. Tax Planning

Date: August 6, 2002

Subject: SALE OF PGE:
OPTIONS FOR TRUST OWNED LIFE INSURANCE

Confidential & Privileged Attorney/Client Communication

I. BACKGROUND

Portland General Electric Company ("PGE") sponsors several deferred compensation plans[1] for senior management and outside directors. These plans are funded with life insurance policies owned by rabbi trusts. The policies insure various PGE employees, with proceeds paid to the trust as beneficiary.

The following information was prepared by the plan administrator and Enron's Corporate Compensation group regarding the PGE trust assets:

Cash Surrender Value of Policies		
-Owned by PGE	$79M	
-Owned by Enron entities	59M[2]	$138M
Basis		
-Owned by PGE	$54M	
-Owned by Enron entities	43M	$97 M
Current Benefit Obligations		$130M
NPV of Death Benefits		$263M

Shortly before agreeing to sell PGE to Sierra Pacific Resources ("Sierra"), Enron's Corporate Development group expressed an interest in retaining as many of the trust assets as possible. A couple alternatives were considered, whereby PGE would either (i) withdraw proceeds from the policies and dividend the amount to Enron, or (ii) transfer the policies directly to Enron.

[1] One of these plans was frozen in 1996; the others will be frozen immediately prior to Enron's sale of PGE.
[2] This figure includes certain policies that were transferred in mid-1999 (without Enron's knowledge) from PGE to PGH. Estimates of the cash value and basis of such policies was $21M and $13M respectively.

For the reasons discussed below, Enron decided to receive the policies via a transfer from PGE.

II. ANALYSIS

A. Withdrawal of Basis

One alternative considered would involve PGE withdrawing an amount up to policy basis ($54M) and forwarding the amount to Enron as a dividend. As PGE's sole shareholder, Enron would receive this amount tax-free, while the policies would remain with PGE. Enron's basis in PGE would decrease by $54M.

While exploring this alternative, Enron was advised by the trustee (whose advice was reviewed by outside counsel) that plan assets generally may not be transferred unless the recipient also assumes corresponding benefit obligations. Two exceptions to this general rule apply. First, "excess assets"—assets exceeding 125 percent of the present value of benefit obligations—may be taken out of the trust prior to a change in control. Second, any assets remaining after all benefits are paid to participants may revert to the company.

Neither of these special rules applied to PGE's trust assets. Assets and liabilities were roughly equal ($138M to $130M); there were no excess assets to withdraw. Benefits will be paid over time under the terms of the plans (generally after termination of employment or retirement); therefore, the asset reversion rule is inapplicable.

Thus, if Enron were to attempt this approach, it would receive $54M in cash, leaving behind both the policies and the $25M cash value build-up. While the $54M could be redeployed into new policies or other investment alternatives, the company would start with less money to invest than under the policy-transfer scenario. In addition, counsel and the plan administrator were concerned whether a legal and feasible solution could be reached as to the transfer of corresponding benefit obligations to Enron.

B. Policy Transfer

Under the second alternative, PGE could transfer the policies to Enron. This would result in PGE realizing an intercompany gain equal to $25M[3] and recognizing such gain upon deconsolidation. PGE would expense $10M in taxes on the gain and would report a $10M receivable on its balance sheet. Enron's basis in PGE would increase by $15M,[4] thereby reducing the gain recognized on the sale of PGE by this same amount. The net tax expense of the transfer would be $4M.[5]

In addition to the front-end tax hit, there is another tax related to the transfer of life insurance policies that was analyzed. A policy transferred for valuable consideration may cause

[3] $79M (cash value) less $54M (basis) equals $25M.
[4] $25M (gain on transfer) less $10M (tax expense that flows to balance sheet) equals $15M.
[5] $10M (tax expense on policy transfer) less $6M (tax savings from increasing Enron's basis in PGE) equals $4M.

policy proceeds to become taxable *unless* the transfer is made to a corporation in which the insured is a shareholder or officer.[6] To resolve this potential problem, Enron and outside counsel determined that the company could provide one share of Enron common stock to insureds (mostly employees of PGE) shortly before policies were transferred, thereby satisfying the shareholder-exception to the transfer-for-value rules. These shares would be nontransferable until the sale of PGE was consummated.

Calculations prepared by the Corporate Development and Corporate Compensation groups indicate that transferring the policies would yield an after-tax benefit to Enron of $129M.[7] A decision was therefore made to transfer the remaining policies owned by PGE to Enron following regulatory approval of the proposed sale of PGE to Sierra.

jaj/rdm

cc: R. Davis Maxey
Greek L. Rice
Alicia Goodrow

[6] I.R.C. § 101(a)(2)(B).
[7] $263M (NPV death benefits) less $130M (benefit obligations) less $4M (net tax expense on the transfer) equals $129M.

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

In re	:	Chapter 11
Enron Corp.	:	Case No. 01-16034
Debtor.	:	Jointly Administered

AMENDED STATEMENT OF FINANCIAL AFFAIRS

This statement is to be completed by every debtor. Spouses filing a joint petition may file a single statement on which the information for both spouses is combined. If the case is filed under chapter 12 or chapter 13, a married debtor must furnish information for both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed. An individual debtor engaged in business as a sole proprietor, partner, family farmer, or self-employed professional, should provide the information requested on this statement concerning all such activities as well as the individual's personal affairs.

Questions 1 - 18 are to be completed by all debtors. Debtors that are or have been in business, as defined below, also must complete Questions 19 - 25. If additional space is needed for the answer to any question, use and attach a separate sheet properly identified with the case name, case number (if known), and the number of the question.

Note: This Amended Statement of Financial Affairs supercedes the Statement of Financial Affairs filed on June 17, 2002. The responses to Questions 3a, 3b, 4a and 24 were amended.

In re: Enron Corp.
Case No. 01-16034

Exhibit B-19

Contingent and non-contingent interests in estate of a decedent, death benefit plan, life insurance policy, or trust.

Policy Group	Contact	Plan	Number of Policies	Gross Cash Surrender Value	Loan Balance	Net Cash Surrender Value Excluding Interest Charges
COLI						
Mass. Mutual - 12/28/84	Clark/Bardes	1985 Deferral Plan	134	$37,895,715	$35,400,642	$2,495,073
Great Western Life - 06/01/86	Clark/Bardes	1985 Deferral Plan	201	$156,072,109	$160,686,393	($4,614,284)
Pacific Life	MCG/Silverstone Group	1985 Deferral Plan/Directors' Unfunded Deferred Income Plan	7	$5,301,294	$5,000,837	$300,457
Security Life of Denver	MCG/Silverstone Group	1985 Deferral Plan/Directors' Unfunded Deferred Income Plan	5	$2,600,345	$2,509,495	$90,850
Pacific Life	MCG/Silverstone Group	1985 Deferral Plan	150	$108,864,774	$101,392,867	$7,471,907
Security Life of Denver	MCG/Silverstone Group	1985 Deferral Plan	216	$85,917,753	$82,883,551	$3,034,202
		1985 Deferral Plan/Directors' Unfunded Deferred Income Plan Total	713	$396,651,991	$387,873,785	$8,778,206
Mass Mutual - 3/1/83-84	Clark/Bardes	Executive Supp. Benefit Plan	81	$31,292,170	$29,655,380	$1,636,790
Mass. Mutual - 03/01/85	Clark/Bardes	Executive Supp. Benefit Plan	51	$10,232,071	$9,598,093	$633,978
Pacific Life	MCG/Silverstone Group	Executive Supp. Benefit Plan	15	$2,392,347	$2,306,105	$86,242
Security Life of Denver	MCG/Silverstone Group	Executive Supp. Benefit Plan	55	$31,129,624	$0	$31,129,624
Security Life of Denver	MCG/Silverstone Group	Executive Supp. Benefit Plan	22	$2,221,247	$2,064,832	$156,415
		Executive Supp. Benefit Plan Total	224	$77,267,459	$43,624,409	$33,643,050
Pacific Life	MCG/Silverstone Group	Special Deferred Compensation Agreement	1	$991,138	$932,707	$58,431
Pacific Life	MCG/Silverstone Group	Survivor Benefit Plan	9	$1,527,853	$1,460,572	$67,281
Security Life of Denver	MCG/Silverstone Group	Survivor Benefit Plan	18	$3,762,303	$3,497,370	$264,933
		Survivor Benefit Plan Total	27	$5,290,157	$4,957,942	$332,214
Security Life of Denver	MCG/Silverstone Group	Officers' Post Retirement Life Plan	4	$1,636,204	$1,520,775	$115,430
		Total COLI	969	$481,836,949	$438,909,618	$42,927,331
TOLI						
CIGNA - 9/28/94	Clark/Bardes	TOLI/1994 Deferral Plan	78	$30,134,238	$0	$30,134,238
		Total TOLI	78	$30,134,238	$0	$30,134,238

In re: Enron Corp.
Case No. 01-16034

I declare under penalty of perjury that I have read the answers contained in the foregoing statement of financial affairs and any attachments thereto and that they are true and correct to the best of my knowledge, information and belief, subject to the global notes and various footnotes set forth therein.

Date: August 14, 2002

Signature /s/ RAYMOND M. BOWEN, JR.

Print Name Raymond M. Bowen, Jr.

Title Executive Vice President, Chief Financial Officer and Treasurer

Penalty for making a false statement: Fine of up to $500,000 or imprisonment for up to 5 years, or both. 18 U.S.C. § 152 and 3571.

In re: Enron Corp.
Case No. 01-16034

Schedule B - Personal Property

Type of Property	None	Description and Location of Property	Current Book Value of Debtor's Interest in Property, Without Deducting Any Secured Claim or Exemption
17. Other liquidated debts owing debtor including tax refunds. Give particulars.		Foreign Currency Swap Receivable Accounts Receivable - Other Federal Income Tax Refund Interest & Dividends Receivable Long-Term Notes Receivable Montana Income Tax Refund New Mexico Income Tax Refund North Dakota Income Tax Refund Notes Receivable - Trade Oklahoma Income Tax Refund Utah Income Tax Refund Total	$35,177,123 $26,536,099 63,170,865 1,398,126 10,443,567 323,186 188,373 142,760 46,804,489 500,000 136,341 $184,820,929
18. Equitable or future interests, life estates, and rights or powers exercisable for the benefit of the debtor other than those listed in Schedule of Real Property.	X		
19. Contingent and non-contingent interests in estate of a decedent, death benefit plan, life insurance policy, or trust.		Cash surrender value of Company owned life insurance (See Exhibit B-19) Cash surrender value of Trust owned life insurance (See Exhibit B-19) Two annuity contracts purchased from Kenneth Lay Total	$42,927,331 30,134,238 10,000,000 $83,061,569
20. Other contingent and unliquidated claims of every nature, including tax refunds, counterclaims of the debtor, and rights to setoff claims. Give estimated value of each.		Prior to the Petition Date, Bank of America, NA ("B of A") offset the aggregate amount of $123,187,674 on deposit in several accounts maintained by the Debtor at B of A. The Debtor believes that such offsets were improper and, thus, intends to seek recovery of the $123,187,674 from B of A. SEE NOTE BELOW	N/A

ITEM 11- ATTACHMENT A

ENRON CORPORATION - COLI/TOLI POLICIES

Carrier	Broker	Plan	Issue Date	Number of Executives Insured	Annual Premium	Comments
CIGNA/TOLI	Clark/Bardes	1994 Deferral Plan	9/28/1994	78	$3,394,653.00	Set up on 7 year premium payment schedule. Final premium payment made in 2000.
Great Western Life	Clark/Bardes	1985 Deferral Plan	6/1/1986	201	$5,811,972.00	
MassMutual	Clark/Bardes	Executive Supplemental Benefit Plan	3/1/1983	70	$1,103,465.78	Policies Surrendered
MassMutual	Clark/Bardes	Executive Supplemental Benefit Plan	3/1/1984	11	$110,332.70	Policies Surrendered
MassMutual	Clark/Bardes	1985 Deferral Plan	12/28/1984	134	$1,733,682.71	Policies Surrendered
MassMutual	Clark/Bardes	Executive Supplemental Benefit Plan	3/1/1985	51	$490,199.21	Policies Surrendered
Pacific Life	Silverstone Group	Directors' Unfunded Deferred Income Plan	8/1/1983	2	$89,093.45	Policies Surrendered
Pacific Life	Silverstone Group	Special Deferred Compensation Agreement	3/9/1984	1	$38,980.54	Policies Surrendered
Pacific Life	Silverstone Group	Executive Supplemental Benefit Plan	10/1/1984	10	$59,076.63	Policies Surrendered
Pacific Life	Silverstone Group	Survivor Benefit Plan	10/1/1984	9	$70,063.52	Policies Surrendered
Pacific Life	Silverstone Group	Directors' Unfunded Deferred Income Plan	3/1/1985	1	$45,924.90	Policies Surrendered
Pacific Life	Silverstone Group	Directors' Unfunded Deferred Income Plan	6/1/1985	2	$29,255.04	Policies Surrendered
Pacific Life	Silverstone Group	Executive Supplemental Benefit Plan	10/1/1985	5	$47,917.59	Policies Surrendered
Pacific Life	Silverstone Group	1985 Deferral Plan	1/1/1986	150	$4,411,630.57	Policies Surrendered
Pacific Life	Silverstone Group	Directors' Unfunded Deferred Income Plan	2/1/1986	2	$64,003.10	Policies Surrendered
Security Life of Denver	Silverstone Group	Survivor Benefit Plan	10/8/1981	9	$55,263.35	Policies Surrendered
Security Life of Denver	Silverstone Group	Executive Supplemental Benefit Plan	10/8/1981	10	$35,723.93	Policies Surrendered
Security Life of Denver	Silverstone Group	Officers' Post Retirement Life Plan	10/8/1981	2	$25,930.39	Policies Surrendered
Security Life of Denver	Silverstone Group	Survivor Benefit Plan	10/8/1982	9	$57,808.41	Policies Surrendered
Security Life of Denver	Silverstone Group	Officers' Post Retirement Life Plan	10/8/1982	2	$27,598.86	Policies Surrendered
Security Life of Denver	Silverstone Group	Executive Supplemental Benefit Plan	10/8/1982	10	$30,454.55	Policies Surrendered
Security Life of Denver	Silverstone Group	Directors' Unfunded Deferred Income Plan	8/1/1983	2	$40,378.40	Policies Surrendered
Security Life of Denver	Silverstone Group	Executive Supplemental Benefit Plan	10/8/1983	1	$885.76	Policies Surrendered
Security Life of Denver	Silverstone Group	Directors' Unfunded Deferred Income Plan	12/1/1983	1	$60,891.98	Policies Surrendered
Security Life of Denver	Silverstone Group	Executive Supplemental Benefit Plan	10/8/1984	1	$2,552.32	Policies Surrendered
Security Life of Denver	Silverstone Group	1985 Deferral Plan	1/1/1985	124	$2,014,217.55	Policies Surrendered
Security Life of Denver	Silverstone Group	1985 Deferral Plan	1/1/1986	92	$1,306,407.96	Policies Surrendered
Security Life of Denver	Silverstone Group	Directors' Unfunded Deferred Income Plan	5/1/1986	1	$41,159.88	Policies Surrendered
Security Life of Denver	Silverstone Group	Executive Supplemental Benefit Plan	1/1/1987	49	$577,857.20	Policies Surrendered
Security Life of Denver	Silverstone Group	Executive Supplemental Benefit Plan	1/1/1988	6	$126,403.39	Policies Surrendered
				1,046	$21,903,784.67	

Response to question #11(e) - JCT letter dated 1/27/03

Enron Corp.
COLI Policies Surrendered in 2002

	Security Life of Denver	Pacific Life	MassMutual	Great West Life	TOTAL
Gross Cash Surrender Value	$ 131,439,188.60	$ 123,494,951.43	$ 80,550,635.99	$ 161,030,081.11	$ 496,514,857.13
Loan Interest Payable by Enron	$ 1,842,530.94	$ 2,312,205.92	$ 2,929,023.88	$ 1,892,049.26	$ 8,975,810.00
Loan Principal Payable by Enron	$ 96,383,585.40	$ 117,956,274.07	$ 75,740,446.50	$ 160,686,392.96	$ 450,766,698.93
Net Cash Surrender Value	$ 33,213,072.26	$ 3,226,471.44	$ 1,881,165.61	$ -	$ 38,320,709.31
Date Surrender Value Received or Policy Surrender Effective	May 16, 2002	May 14, 2002	May 23, 2002 to June 7, 2002	N/A July 29, 2002	

XIV. STRUCTURED FINANCING TRANSACTIONS

DRAFT

MINUTES
MEETING OF THE BOARD OF DIRECTORS
ENRON CORP.
December 10, 1996

Minutes of a meeting of the Board of Directors of Enron Corp. ("Company"), held pursuant to due notice at 8:30 a.m., C.S.T., on December 10, 1996, in the Enron Building in Houston, Texas.

The following Directors were present, constituting a quorum:

Mr. Kenneth L. Lay, Chairman
Mr. Robert A. Belfer
Mr. Norman P. Blake, Jr.
Mr. John H. Duncan
Mr. Joe H. Foy
Dr. Wendy L. Gramm
Dr. Robert K. Jaedicke
Dr. Charles A. LeMaistre
Mr. John A. Urquhart
Dr. Charls E. Walker
Mr. Herbert S. Winokur, Jr.

Directors Ronnie C. Chan, Richard D. Kinder, and Lord John Wakeham were absent from the meeting.

The Chairman, Mr. Lay, presided at the meeting, and, excluding the executive session of the Board, the Secretary, Ms. Peggy B. Menchaca, recorded the proceedings.

Mr. Lay convened the meeting in executive session. During the executive session, Dr. LeMaistre reported on meetings held by the Compensation Committee on October 8, 1996 (jointly with independent members of the Executive Committee), and November 19, 1996 (with independent members of the Executive Committee invited to attend), primarily to consider extending contracts for the Chairman and the President of the Company, but also to review material related to the Company's visions and values, the results of the recent employee opinion survey, and issues related to succession planning. He stated that, in addition, a meeting was held on November 25, 1996, to approve the termination arrangement with Mr. Kinder, who had announced that he would resign from the Company

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effective February 16, 1997, involving termination of his duties as President effective December 31, 1996. Mr. Lay joined Dr. LeMaistre in the discussion and recommended that Mr. Jeffrey K. Skilling be elected President and Chief Operating Officer, in addition to his current duties as Chairman of Enron Capital & Trade Resources Corp. ("ECT"), effective January 1, 1997. The Board agreed with the recommendation, and the following resolution was adopted:

> RESOLVED, that Jeffrey K. Skilling be, and he hereby is, elected President and Chief Operating Officer of the Company, effective January 1, 1997, to serve at the pleasure of the Board of Directors during the ensuing year and until his successor is duly elected and qualified.

Mr. Lay stated that minutes of the meeting of the Board held on October 1, 1996, had been distributed to the Directors and were included in the meeting material. He called for additions, corrections, or comments. There being none, the Board approved the minutes of the meeting held on October 1, 1996, by consensus of those present.

Following the executive session at 9:20 a.m., Messrs. William D. Gathmann, Rodney L. Gray, Forrest E. Hoglund, Stanley C. Horton, Robert C. Kelly, Mark E. Koenig, Lou L. Pai, Edmund P. Segner, III, Jeffrey K. Skilling, Joseph W. Sutton, and Thomas E. White and Mesdames Rosalee Fleming, Rebecca P. Mark, Peggy B. Menchaca, and Elizabeth A. Tilney, all of the Company or affiliates thereof, and Mr. Kenny L. Harrison, of Portland General Corporation, joined the meeting.

Mr. Lay amended the order of the agenda in order to allow Dr. LeMaistre to finish the report of the Compensation Committee. Dr. LeMaistre stated that in addition to the meetings reported in executive session, the Compensation Committee had met on November 7, 1996, and on December 9, 1996. He stated that at the November 7 meeting, the Compensation Committee approved payouts to Enron Development Corp. ("EDC") employees on financial close of the Turkey project. He stated that at the December 9, 1996, meeting, the Compensation Committee heard an extensive report on ECT's compensation philosophy and approved recommendations with regard thereto. He noted that, in addition to general Compensation Committee matters handled at the December meeting, it had approved two items for recommendation to the Board. The first, he stated, was the amendment to the 1994 Deferral Plan to add deferral of stock option exercise proceeds and to address state source tax issues. The second recommendation to the Board related to amendments to the 1991 and 1994 Stock Plans to allow

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transferability of stock options, to expand provisions related to use of stock to satisfy tax withholding requirements, and, for the 1994 Stock Plan, to authorize additional shares. He moved approval of each item. Dr. LeMaistre's motion was duly seconded by Mr. Blake, carried, and the following resolutions were adopted:

Amendment to the 1994 Deferral Plan

WHEREAS, the Company has heretofore established the Enron Corp. 1994 Deferral Plan; and

WHEREAS, the Company desires to amend the Deferral Plan to provide that with respect to Participants who are employed in states which impose state income tax on Plan benefits, the Committee may determine the amount, manner, and/or time of payment of benefits under the Plan, and to provide for the establishment of a new Stock Option Deferral Account in which Participants, designated by the Committee, may elect to defer receipt of shares of Enron Corp. common stock from the exercise of a stock option granted under a stock plan sponsored by Enron Corp., when such exercise is made by means of a stock swap using shares owned by the Participant;

NOW, THEREFORE, IT IS RESOLVED, that the proper officers of the Company be, and they are, authorized and directed to prepare and execute such amendment to the Enron Corp. 1994 Deferral Plan on behalf of the Company;

RESOLVED FURTHER, that upon execution of such amendment prepared according to the above provisions, such amendment shall be deemed adopted by this Board and is hereby ratified and approved; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

EC 000045041

Amendment to the 1991 Stock Plan

WHEREAS, the Company has heretofore established the Enron Corp. 1991 Stock Plan, as amended and restated effective May 3, 1994 (the "Plan");

WHEREAS, the Company desires to amend the Plan;

NOW, THEREFORE, IT IS RESOLVED, that the proper officers of the Company be, and they hereby are, authorized and directed to prepare and execute an amendment to the Plan on behalf of the Company substantially in the form of amendment presented at this meeting;

RESOLVED FURTHER, that upon execution of such amendment prepared according to the above provisions, such amendment shall be deemed adopted by this Board and is hereby ratified and approved; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel are hereby authorized, empowered and directed to take all such further action, to amend, execute and deliver all such instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses, as in their judgment may be necessary, appropriate or advisable in order fully to carry into effect the purposes and intentions of this and each of the foregoing resolutions, including the execution of any further amendments, forms or documents recommended by counsel or required by any governmental agency, and to do anything necessary to effect compliance with applicable law or regulation.

Amendment to 1994 Stock Plan

WHEREAS, the Company has heretofore established the Enron Corp. 1994 Stock Plan (the "Plan"); and

WHEREAS, the Company desires to amend the Plan;

NOW, THEREFORE, IT IS RESOLVED, that the proper officers of the Company be, and they hereby are, authorized and

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directed to prepare and execute an amendment to the Plan on behalf of the Company substantially in the form of the amendment presented at this meeting;

RESOLVED FURTHER, that upon execution of such amendment prepared according to the above provisions, such amendment shall be deemed adopted by this Board and is hereby ratified and approved; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel are hereby authorized, empowered, and directed to take all such further action, to amend, execute, and deliver, all such instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses, as in their judgment may be necessary, appropriate, or advisable in order fully to carry into effect the purposes and intentions of this and each of the foregoing resolutions, including the execution of any further amendments, forms, or documents recommended by counsel or required by any governmental agency, and to do anything necessary to effect compliance with applicable law or regulation.

Dr. LeMaistre concluded his report by directing the attention of the Directors to the summary of Securities Exchange Act of 1934 Section 16 changes which was provided in the Board material, a copy of which is filed with the records of the meeting.

Mr. Duncan reported on meetings held by the Executive Committee since the last meeting of the Board. He stated that the Executive Committee had met three times: October 4, November 12, and November 20, 1996. He stated that at the October 4, 1996, meeting, the Committee approved the submission of a bid to build a power plant at Ilijan in the Philippines by EDC or an affiliate thereof.

Mr. Duncan reported that at the meeting of the Executive Committee on November 12, 1996, it approved (i) the Trust Originated Preferred Securities offering by Enron Capital Trust I, which was expected to result in proceeds of approximately $200 million which would be used for the payment of debt; (ii) the monetization of the Company's ownership of Enron Oil & Gas Company ("EOG") stock in the form of an economic equity swap which would entail the Company's sale of up to 13,000,000 shares of EOG; (iii) an ECT acquisition of a small privately-held energy information service company, OmniComp, Inc., for

approximately $10 million in value, using a combination of the Company's common stock and cash for the stock of OmniComp, Inc.; and (iv) a new Credit Agreement with Chase Manhattan Bank providing for borrowings by the Company of up to $1 billion which would replace and supersede the previous revolving credit agreement with Chase Manhattan Bank.

Mr. Duncan reported that at the November 20, 1996, meeting of the Executive Committee, it approved the submission of a bid by an EDC affiliate, jointly with an affiliate of Shell Oil Company, to acquire an equity position in the Yacimentos Petrolieferos Fiscales Bolivianos ("YPFB") pipeline in Bolivia, within certain parameters, and authorized Mr. Lay to approve the final bid before submission. He noted subsequent to the meeting that the EDC affiliate and its Shell partner had won the bid and had acquired a 50 percent stake in all of the transportation assets of YPFB for $263.5 million.

Mr. Duncan noted that minutes of the November 12 and 20, 1996, meetings of the Executive Committee had not been distributed to the Board because they had not yet been cleared by corporate counsel. He moved that the Board accept his report, approve the October 4, 1996, minutes, and ratify and approve all actions taken by the Committee at the meetings reported, including, but not limited to, the issuance of the Company's common stock for the acquisition by ECT, or its affiliate, of OmniComp, Inc. Mr. Duncan's motion was duly seconded by Mr. Blake and carried.

Mr. Winokur reported on the Finance Committee meeting held just prior to the Board meeting. He stated that the Committee had approved nine items for recommendation to the Board: (i) monetization of Enron Global Power & Pipelines L.L.C. ("EPP") common shares through a sale of up to three million of such shares combined with a total return equity swap; (ii) an amendment and extension to the JEDI bank revolver which would increase availability from $450 million to $750 million and would extend the maturity date from December 20, 1996, to June 15, 2001; (iii) an increase from $50 million to $75 million in the Company's guaranty of ECT's line of credit with Banque Paribas to finance margin calls, necessitated by increased trading volumes; (iv) a Company guaranty associated with the monetization of the Teesside Operating and Maintenance Agreement estimated at $26 million; (v) a bridge loan in the amount of $51 million to Hainan Holdings, the joint venturer with Singapore Power Corp. in the Hainan Island, China, power plant; (vi) new lease agreements for the Enron Building and the Omaha Building to replace current leases; (vii) new lease agreement for financing of the Cessna Citation 560's to replace the current lease which would expire at year-end 1996; (viii) amended hedging resolutions to limit authority of

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Company officers to enter into derivative transactions; (xi) an increase in the Company-provided credit facility to EOTT Energy Corp., general partner of EOTT Energy Partners, L.P.; and (x) a recommendation that management of the Company be authorized to sell assets up to a value of $10 million without the necessity of seeking Board approval. Mr. Winokur reviewed each of the items and moved approval of each item recommended by the Finance Committee. His motion was duly seconded by Mr. Urquhart, and the following resolutions were adopted:

Monitization of EPP Shares

RESOLVED, that the sale by the Company of up to an aggregate amount of 3,000,000 Common Shares of Enron Global Power & Pipelines L.L.C., a Delaware limited liability company and an affiliate of the Company (the "Shares"), from time to time from the date hereof through December 31, 1997 (whether one or more sales, the "Secondary Offering"), be, and hereby is, authorized;

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, and any Vice President (the "Authorized Officers") be, and each hereby is, authorized to (i) select any underwriters, dealers, agents, or other purchasers (the "Purchasers") to which the Shares may be sold by the Company pursuant to any Secondary Offering and (ii) approve, prepare, negotiate, execute, and deliver at any time and from time to time, one or more forms of underwriting agreements, purchase agreements, agency agreements, registration rights agreements, indemnification agreements, or other contracts in connection with the sale of the Shares (any such agreement being referred to herein as a "Shares Agreement") and other agreements such Authorized Officers may deem necessary or appropriate in connection with the arrangements for the sale of Shares to be sold pursuant to any Secondary Offering;

RESOLVED FURTHER, that pursuant to any Agreement, when the same shall be executed and delivered by all parties thereto, the Company shall sell the number of Shares in the amount, on the terms and conditions, and for the consideration provided for therein, and that the Authorized Officers be, and each hereby is, authorized in the name and on behalf of the Company to approve, prepare,

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negotiate, execute, and deliver such documents as may be required to evidence and consummate such sale of the Shares to the Purchasers;

RESOLVED FURTHER, that the purchase price to be paid to the Company by the Purchasers and, if appropriate, the initial price to the public for Shares sold pursuant to any Secondary Offering, shall be such price as shall be determined by the Authorized Officers, or any one of them, from time to time;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company related to or in connection with the transactions contemplated by these resolutions be, and hereby are, adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Amendment and Extension of the JEDI Revolver

RESOLVED, that the Chairman of the Board, the Vice Chairman of the Board, the President, and any Vice President be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone), for and in the name and on behalf of the Company, to negotiate, execute, deliver, and perform a parent performance agreement (the "Performance Agreement"), together with all such instruments, certificates, agreements, or other documents as are required in connection with the Performance Agreement, to support certain obligations of Enron Capital Management Limited Partnership and its successors and assigns ("ECM"), including but not limited to those obligations of ECM (1) to Joint Energy Development Investments Limited Partnership ("JEDI") with respect to a $50,000,000 committed revolving credit facility that will be made available to JEDI by ECM in connection with a revolving credit facility (as amended or modified from time to

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time) to be obtained by JEDI with the outstanding principal amount thereof not to exceed $750,000,000 at any time (the "JEDI Facility") and (2) under a General Partner Undertaking to be executed by ECM in connection with the JEDI Facility;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

ECT's Corporate Guaranty with Banque Paribas

WHEREAS, the Company made a guarantee (the "Guarantee") dated March 29, 1996 to Banque Paribas in consideration of Banque Paribas agreeing to advance funds for margin calls related to futures and options contracts (the "Advances") to Enron Capital & Trade Resources Corp. ("ECT"), a direct, wholly owned subsidiary of the Company;

WHEREAS, because of an increase in the volume of ECT's futures and options contracts, ECT needs to have additional Advances available and, as a condition to making such Advances available, Banque Paribas has requested that the Company amend the Guarantee to increase the maximum aggregate amount of ECT's obligations guaranteed from $50,000,000 to $75,000,000 (the "Amendment"); and

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WHEREAS, it would be in the best interests of the Company to provide, and the Company would benefit directly or indirectly from providing, the Amendment;

NOW, THEREFORE, IT IS RESOLVED, that the Company be, and hereby is, authorized to provide the Amendment;

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, any Vice President, the Treasurer, any Deputy Treasurer, or any Assistant Treasurer of the Company be, and each of them hereby is, authorized in the name and on behalf of the Company, under its corporate seal or otherwise, to negotiate, execute, deliver, amend, perform, and consummate the Amendment and such other agreements, instruments, or documents as such officer may deem necessary or desirable to carry out the purposes and intent of the foregoing resolutions, in such forms as shall be approved by the officer executing the same, such approval to be conclusively evidenced by the execution thereof by such officer;

RESOLVED FURTHER, that each such officer be, and each such officer hereby is, authorized in the name and on behalf of the Company to take or cause to be taken such action as such officer may deem necessary or desirable in connection with the performance by the Company of its obligations under any agreement, document, or instrument related to these transactions to which the Company is a party;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including, without limitation, the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to

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pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Guaranty Associated with Teesside Operating and Maintenance Agreement

RESOLVED, that the Chairman of the Board, the Vice Chairman of the Board, the President, and any Vice President be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone), for and in the name and on behalf of the Company, to negotiate, execute, and deliver a guaranty (the "Guaranty"), together with all such instruments, certificates, agreements, or other documents as are required in connection with the Guaranty, to support the obligations of Enron Power Operations Limited and Enron Power Operations Teesside in connection with the monetization of the operations and maintenance agreement associated with the Teesside power plant;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

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RESOLVED, that the guaranty required of the Company to secure a loan requested by Hainan Holdings Ltd. of US$51,000,000 from Credit Suisse for a term of three (3) months, be, and hereby is, approved;

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, and any Vice President of the Company be, and each of them hereby is, authorized in the name and on behalf of the Company, under its corporate seal or otherwise, to negotiate, execute, deliver, amend, perform, and consummate such agreements, instruments, certificates, resolutions, or documents as such officer may deem necessary or desirable to carry out the purpose and intent of the resolutions herein, including subject guaranty, in such forms as shall be approved by the officer executing the same, such approval be conclusively evidenced by the execution thereof by such officer;

RESOLVED FURTHER, that all actions heretofore taken by any such officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel are hereby authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, appropriate, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

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Enron Building Lease

RESOLVED, that it being in the best interest of Company, the Company is hereby authorized to:

(1) terminate its lease and purchase rights relating to the Enron Building, 1400 Smith Street, Houston, Texas (including the parcel(s) of land on which it is situated and any improvements thereon as well as certain related personal property (the "Houston Property"), pursuant to the Lease and Participation Agreement (and related agreements) dated as of March 15, 1994 between State Street Bank & Trust Company of Connecticut, National Association, as Trustee and Lessor, and the Company; and

(2) terminate its lease and purchase rights relating to Two Pacific Place, 1111 S. 103rd, Omaha, Nebraska (including the parcel(s) of land on which it is situated and any improvements thereon as well as certain related personal property (the "Omaha Property"), pursuant to the Lease and Participation Agreement (and related agreements) dated December 13, 1991 between State Street Bank & Trust Company of Connecticut, National Association, as Trustee and Lessor, and the Company (the Houston Property and the Omaha Property to be hereafter collectively referred to as the "Properties");

RESOLVED FURTHER, that in connection with the termination of its existing leases on the Properties, the Company and its subsidiaries are authorized to enter into a lease or leases and related financing agreements with such entity or trust, or other third party lessors, financial institutions, or other entities, as the Company and its subsidiaries may deem appropriate;

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, any Vice President, the Treasurer, or any Assistant Treasurer of the Company be, and each of them hereby is, authorized and empowered for and on behalf of the Company (and any of the Company's subsidiaries) to negotiate such terms and conditions for the above-described financing transactions as any of said officers may deem best, and to execute, deliver, and perform or otherwise acknowledge and consent to for and on behalf of the Company a participation agreements, credit agreements, lease agreements, guaranties, mortgages, security

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agreements, assignments of leases and rents, agreements to pay fees and facility fees, and such other instruments or written obligations of the Company as may be desired or required by lessors, financial institutions, or other entities in connection with the above-described lease financing transactions and containing such terms and conditions as may be acceptable or agreeable to any of said officers, such acceptance and agreement to be conclusively evidenced by any of said officers' execution and delivery thereof;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, in the name and on behalf of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Approval of Aircraft Lease

WHEREAS, the Company has previously entered into (1) an Aircraft Leasing Agreement dated as of January 12, 1992 with the Bank of Tokyo Trust Company, as amended by an amendment dated as of January 18, 1996 and as assigned in part to Enron Oil & Gas Company by an Assignment and Assumption Agreement dated as of January 18, 1996, relating to a Cessna Citation 560 aircraft with FAA Reg. No. N 5734 (the "First Cessna Citation") and (2) an Aircraft Lease Agreement dated as of March 2, 1992 with The Bank of Tokyo Trust Company relating to a Cessna Citation 560 aircraft with FAA Reg. No. N 5735 (the "Second Cessna Citation"); and

WHEREAS, it would be in the best interests of the Company to enter into new lease agreements with respect to the First Cessna Citation and the Second Cessna Citation;

NOW, THEREFORE, IT IS RESOLVED, that the Company be, and hereby is, authorized to enter into new lease agreements (the "Lease Agreements") with respect to the First Cessna Citation and the Second Cessna Citation;

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, any Vice President, the Treasurer, any Deputy Treasurer, or any Assistant Treasurer of the Company be, and each of them hereby is, authorized in the name and on behalf of the Company, under its corporate seal or otherwise, to negotiate, execute, deliver, amend, perform, and consummate the Lease Agreements and such other agreements, instruments, or documents as such officer may deem necessary or desirable to carry out the purposes and intent of the foregoing resolutions, in such forms as shall be approved by the officer executing the same, such approval to be conclusively evidenced by the execution thereof by such officer;

RESOLVED FURTHER, that each such officer be, and each such officer hereby is, authorized in the name and on behalf of the Company to take or cause to be taken such action as such officer may deem necessary or desirable in connection with the performance by the Company of its obligations under any agreement, document, or instrument related to these transactions to which the Company is a party;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such

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further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Amendment to Interest Rate Hedging Resolutions

WHEREAS, at a meeting held on October 1, 1996, the Board of Directors of the Company adopted four resolutions with respect to Hedging Instruments (the "Prior Resolutions);

WHEREAS, such resolutions authorized the Chairman of the Board, the President, or any Vice President designated by the Chairman of the Board or the President to take certain actions with respect to Hedging Instruments; and

WHEREAS, it is in the best interests of the Company to supersede and replace the Prior Resolutions for the sole purpose of limiting the officers who may take actions with respect to Hedging Instruments to the Chairman of the Board and Chief Executive Officer, the President and Chief Operating Officer, the Executive Vice President and Chief of Staff, the Senior Vice President, Finance, and the Vice President, Finance and Treasurer;

NOW, THEREFORE, IT IS RESOLVED, that the Prior Resolutions be, and they hereby are, superseded and replaced by the following resolutions:

RESOLVED, that the Company is hereby authorized to convert fixed rate obligations to floating rate obligations or to convert floating rate obligations to fixed rate obligations in an aggregate notional amount not to exceed $1,000,000,000.00 for a period not to exceed 12 years by entering into any of the following transactions with financial institutions approved by the Finance Committee of the Board or rated at least A- or A3 (the "Hedging Instruments"): (i) interest rate swap transactions, cap transactions, floor transactions, collar transactions, and forward rate transactions, which transactions described in this clause (i) may include embedded options such as reset, put, knock-out, or knock-in provisions; (ii) options on the transactions described in clause (i); (iii) basis swap

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transactions; (iv) currency swap transactions; (v) treasury futures; (vi) eurodollar futures; (vii) options on futures; and (viii) other similar transactions; *provided, however*, that the Company may not enter into any transaction described in clauses (i) through (viii) that: (x) requires an exchange of principal (except for any transaction entered into to convert an obligation from one currency to another); (y) is a leveraged transaction (the unbundled components of which have a notional principal that exceeds the notional principal of the transaction); or (z) that can not be priced internally or for which quotes from three approved counterparties cannot be obtained;

RESOLVED FURTHER, that the Chairman of the Board and Chief Executive Officer, the President and Chief Operating Officer, the Executive Vice President and Chief of Staff, the Senior Vice President, Finance, or the Vice President, Finance and Treasurer be, and each of them hereby is, authorized and empowered to negotiate, enter into, execute, and deliver on behalf of the Company any and all agreements and documentation required in connection with the Hedging Instruments with such counterparties on such additional terms as the officers executing such agreements shall approve, such approval to be conclusively evidenced by such execution;

RESOLVED FURTHER, that all actions heretofore taken by the Chairman of the Board and Chief Executive Officer, the President and Chief Operating Officer, the Executive Vice President and Chief of Staff, the Senior Vice President, Finance, or the Vice President, Finance and Treasurer, in the name and on behalf of the Company, related to or in connection with the transactions contemplated by these resolutions, including, without limitation, the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to execute and deliver all such further instruments and documents, for and in the name of and on behalf of the Company, under its corporate seal or otherwise, to pay all such expenses, and to do or cause to be done any and all such further things as may in their discretion appear to be necessary, proper, or

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advisable in order to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Asset Sales Procedures

RESOLVED, that management of the Company be, and hereby is, authorized to make asset sales of up to $10 million, and that all asset sales in excess of $10 million will be submitted to the Board of Directors for approval.

Mr. Segner began the presentation of the 1997-2001 Operating Plan (the "Plan"). He presented an overview, which included the current financial and earnings report. He discussed total return to shareholders for the periods from 1992 through third quarter 1996, 1989 to date, and 1996 year-to-date, compared to the S&P 500 and the Company's peer group. He reviewed net income by business unit, adjusted income from operations, earnings per share, and net income estimated for 1996 and projected for each year of the Plan.

Mr. Segner discussed Plan assumptions for oil and gas prices and for the merger with PGC. He reviewed other key operating assumptions and presented net income projections both on a consolidated and individual business unit basis. He reviewed capital expenditures and equity investments projected during each year of the Plan, compared to 1992-1996, and he discussed funds flow and debt-to-total capitalization ratios.

Mr. Segner next discussed the status of 1996 corporate objectives and explained variances from the 1996 Operating Plan ("1996 Plan"). He called upon Mr. Horton to begin the business unit presentation of the Plan on behalf of Enron Operations Corp. ("EOC").

Mr. Horton described major accomplishments in the pipelines and liquids operations in 1996. He was joined by Mr. White who discussed the accomplishments of the engineering and construction activities of EOC. Mr. White then listed the 1997 major objectives for the engineering and construction group, and Mr. Horton listed the 1997 objectives for the pipelines and liquids operations (which included the completion of the divestiture of all liquids assets).

Mr. Horton listed the 1997 major objectives of Enron Americas and described asset sales that were underway or planned and the expected results from such sales. He reported on the explosion which had occurred in Puerto Rico in the Huberto Vidal Building. He explained the extent of the tragedy and reported the

results of the ongoing investigation, noting that litigation had been filed as a result of the explosion. Mr. Lay stated that the Directors and management should treat the report with strict confidentiality in light of litigation which had been filed in the case. Mr. Foy joined in the discussion in support of Mr. Lay's statement.

Mr. Skilling began the presentation of the Plan on behalf of ECT. He reviewed performance on 1996 goals and other accomplishments. He presented ECT's strategies for the Plan years and challenges thereto by each of its business segments. He reviewed other business strategies and called upon Mr. Pai for a discussion of ECT's retail business ("Enron Energy Services") projected for the years 1997-2006.

Mr. Pai discussed assumptions used for a business plan overview for the years stated. He discussed the building of a retail organization and achieving a percentage of market share in the industry. He discussed required employees, regional locations, and estimated customers served. He noted total gas and electricity markets and estimated the value which could be realized by achieving a percentage of the market share. Mr. Pai discussed the potential for an initial public offering of the shares of Enron Energy Services and explained the rationale for that strategy. An extended discussion ensued, and Messrs. Skilling and Pai answered questions from the Directors. Mr. Pai stated that the Board would hear more about the retail business in ECT's extended report to be a part of the February Board meeting.

Mr. Hoglund next presented the Plan on behalf of Enron Oil & Gas Company ("EOG"). He reviewed the 1996 Plan strategic goals and discussed variances from said goals based on crude and natural gas price volatility and the current status of the industry. He discussed oil and gas prices, indicating that North American gas supplies could be tight through 1998. He described EOG's increasing production on a worldwide basis at lower operating and interest costs. He described the outlook for the industry during the Plan years and projected net income for each year of the Plan for the North American market and the international market.

Mr. Hoglund reviewed the status of the project in India in each of the fields where EOG has or is developing operations, and he noted that EOG had obtained partner support for a proposed $1 billion development plan in India. He discussed net margins projected per thousand cubic foot equivalent in India and Trinidad, international reserve growth, projected net income and natural gas, crude, and condensate volumes, and exploration expenditures and available cash for each year of the Plan. He reported EOG's debt-to-total capital ratio for each year of the Plan

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and discussed the stock price potential based on such results. He reviewed major 1997 challenges to the Plan and answered questions from the Directors.

Ms. Mark presented the Plan on behalf of EDC. She discussed 1996 goals and accomplishments. She updated the Board on the India project, noting that construction had restarted on Phase I and that financing was complete. She directed the attention of the Board to resolutions relating to a proposed increased equity loan to Dabhol Power Company ("DPC") of up to $500 million, which would require a corporate guaranty of the repayment of the Company's pro rata share of the increased equity loan. Following discussion, upon motion duly made by Mr. Blake, seconded by Mr. Winokur, and carried, the following resolutions were adopted:

> WHEREAS, this Board has previously approved resolutions on May 3, 1994, October 11, 1994, and May 7,1996 (the "Prior Resolutions"), related to the financing, development, construction, start-up, ownership, operation, and maintenance (collectively, the "Project Financing") by Dabhol Power Company, a private company with unlimited liability incorporated in India under the Companies Act, 1956 ("DPC") and an indirect, partially owned subsidiary of the Company, of an approximately 695-megawatt power plant together with certain ancillary facilities, including a fuel unloading and storage facility, near Dabhol in the State of Maharashtra, India, 170 km south of Bombay (the "Project") in order to implement Phase I (as defined in the Power Purchase Agreement, as hereinafter defined) pursuant to that certain Power Purchase Agreement, dated December 8, 1993 between DPC and the Maharashtra State Electricity Board (the "Power Purchase Agreement");
>
> WHEREAS, as the terms of the Project Financing have been modified since the Prior Resolutions were adopted, the Prior Resolutions need to be expanded to authorize the Company to perform its obligations in connection with the Project Financing, and it is appropriate to amend the Prior Resolutions;
>
> WHEREAS, DPC sought to obtain debt financing (the "Debt Financing") to fund approximately $650 million in project costs from certain lenders, which included the Export-Import Bank of the United States, the Overseas Private Investment Corporation, the Industrial Development Bank of India, and associated Indian financial institutions, and a group of commercial banks led by BA

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Asia Limited, as Agent and as Lead Arranger, and ABN AMRO Bank N.V., as Lead Arranger, and the institutions providing or arranging for such debt financing (the "Senior Lenders") required DPC (or its affiliates) to obtain (a) approximately $280 million in equity financing (the "Equity Financing"), (b) approximately $120 million in project completion support from creditworthy affiliates of DPC stockholders ("Project Sponsors"), and (c) additional credit enhancement from Project Sponsors;

WHEREAS, to facilitate the Equity Financing, the Company and the other shareholders of DPC, which other shareholders are affiliates of Bechtel Enterprises, Inc. (10%) and General Electric Capital Corporation (10%) ("GECC"), formed DPC Holdings C.V., a limited partnership (commanditaire vennootschap) formed under the laws of The Netherlands, which is indirectly owned 80% by the Company and which indirectly owns a non-voting 98.9% interest in DPC ("DPC Holdings");

WHEREAS, affiliates of the Company and GECC decided to fund their aggregate 90% equity by having DPC Holdings enter into a Credit Agreement dated as of January 25, 1995, with NationsBank of Texas, N.A., as Administrative Agent, Citibank, N.A., as Funding Agent, and the Banks named therein, to provide up to $252 million (90% of $280 million equity requirement) for the Equity Financing plus $63 million for interest, fees, and expenses related to the financing of the Project for a total of $315 million (the "Equity Loan");

WHEREAS, the Credit Agreement now needs to be amended to increase the amount of the Equity Loan to $500 million (the "Increased Equity Loan"); and

WHEREAS, it is a condition precedent to the making of the Increased Equity Loan that the Company provide a guarantee (the "Increased Equity Loan Guarantee") of the repayment of the Company's pro rata share (8/9) of the Increased Equity Loan;

NOW, THEREFORE, IT IS RESOLVED, that the Company be, and it hereby is, authorized to provide the Increased Equity Loan Guarantee to guarantee to the banks providing the Increased Equity

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Loan the repayment of up to the Company's pro rata share (approximately $445,000,000 million) of the Equity Loan;

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, and any Vice President of the Company be, and each of them hereby is, authorized in the name and on behalf of the Company, under its corporate seal or otherwise, to negotiate, execute, deliver, amend, perform, and consummate such agreements, instruments, certificates, resolutions, or documents as such officer may deem necessary or desirable to carry out the purpose and intent of the resolutions herein, including without limitation the increased Equity Loan Guarantee, in such forms as shall be approved by the officer executing the same, such approval to be conclusively evidenced by the execution thereof by such officer;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel are hereby authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, appropriate, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Ms. Mark continued with her report on 1996 Plan goals and accomplishments. She also reviewed other accomplishments achieved during 1996. She reviewed business strategies for the Plan years and specific goals for 1997. She presented a project timetable indicating the financial close and commercial start-up date for each of EDC's current projects.

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Mr. Gray presented the Plan on behalf of EPP. He discussed 1996 goals and accomplishments, and he presented projects he expected to be acquired by EPP during each year of the Plan and the resulting income.

Following Mr. Gray's presentation, Mr. Lay called for approval of the Plan. Upon motion duly made by Mr. Duncan, seconded by Dr. Walker, and carried, the 1997 Plan, a copy of which is filed with the records of the meeting, was approved as presented to and discussed at the meeting.

Mr. Horton recommended that a corporate guaranty of the indemnity obligations of the Company's affiliates, Enron Gas Processing Company and Enron Gas Liquids, Inc., under a purchase and sale agreement with TransCanada Pipelines, be approved. Following discussion, upon motion duly made by Mr. Blake, seconded by Mr. Foy, and carried, the following resolutions were adopted:

> WHEREAS, the Company owns indirectly all of the capital stock of Enron Gas Processing Company ("EGP") and Enron Gas Liquids, Inc. ("EGLI");
>
> WHEREAS, EGP owns all of the capital stock of Enron Louisiana Energy Company ("ELEC") and EGLI owns a wholesale propane marketing business;
>
> WHEREAS, EGP, EGLI, and the Company desire to enter into an agreement (the "Purchase and Sale Agreement") with TransCanada Energy USA, Inc. ("Buyer"), a wholly owned subsidiary of TransCanada PipeLines Limited ("TransCanada"), pursuant to which EGP will sell all of the outstanding capital stock of ELEC, and EGLI will sell its wholesale propane marketing assets, to TransCanada Energy Management Inc.;
>
> WHEREAS, TransCanada will enter into the a Guaranty and Indemnity Agreement in order to guaranty the indemnity obligations of TransCanada Energy Management Inc. thereunder;
>
> WHEREAS, in order to induce Buyer and TransCanada to enter into the Purchase and Sale Agreement and the Guaranty and Indemnity it is necessary for the Company to execute the Purchase and Sale Agreement for the limited purpose of performing certain tax covenants in Article 7 thereof and to execute a Guaranty and Indemnity Agreement in order to guaranty EGP's and EGLI's

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indemnity obligations, which are contained in Article 12 of the Purchase and Sale Agreement and to indemnify Buyer and TransCanada against certain liabilities that could arise out of a leveraged lease financing pertaining to ELEC's gas processing plant (the "Obligations"); and

WHEREAS, the Company is reasonably expected to benefit, directly or indirectly, from the consummation of the transactions contemplated by the Purchase and Sale Agreement and it is therefore in the best interests of the Company to enter into the Purchase and Sale Agreement and to guaranty and indemnify Buyer and TransCanada from and against the Obligations;

NOW, THEREFORE, IT IS RESOLVED, the Chairman and Chief Executive Officer, the President and Chief Operating Officer, or any Vice President of the Company be, and they hereby are, authorized to negotiate, execute, and deliver the Purchase and Sale Agreement and the Guaranty and Indemnity Agreement and the officers of the Company are hereby authorized to take any and all such further action necessary to consummate the transactions contemplated by the Purchase and Sale Agreement and the Guaranty and Indemnity Agreement; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and the foregoing resolution.

Mr. Kelly presented the business strategy and operating budget for Enron Renewable Energy Corp. ("EREC") during the Plan years and beyond. He presented an overview of EREC and described the world renewable energy market from 1990 through 2015. He discussed global energy demand, concern about carbon emissions and energy independence, improvements in technology, and expansion of EREC (through the acquisition of Zond Corporation) into wind energy. He stated that EREC would be an excellent candidate for a future initial public offering, and he estimated results of such an offering in 1998. He also

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updated the Board on the status of the solar energy partnership with Amoco, including development activities, market share, and return on solar investment.

Mr. Kelly reviewed in detail the proposed acquisition of Zond Corporation ("Zond"). He discussed Zond's financial highlights, business strategy, and operating projects. He reviewed the purchase price, which consisted of cash, common stock of the Company, an EREC note, and 21 percent of EREC stock. He also discussed transaction costs, working capital requirements, and a potential sale of certain Zond assets. He projected net income based on wind energy, coupled with a possible public offering. In requesting approval of the transaction, Mr. Kelly noted that the Company had the right and could elect to make loans or equity contributions to EREC for the purpose of permitting EREC to either (i) deliver cash at closing in lieu of the Notes (as defined in the transaction documents), or (ii) prepay such Notes following closing. Following discussion, upon motion duly made by Mr. Foy, seconded by Mr. Urquhart, and carried, the following resolutions were adopted:

> RESOLVED, that, it being in the best interests of the Company, the undertakings by the Company set forth in (i) that certain Purchase Agreement by and among the Company, Enron Renewable Energy Corp. ("EREC"), and certain stockholders of Zond Corporation, a California corporation ("Zond"), and (ii) that certain Credit Agreement by and between the Company and Zond, each of which is dated December 9, 1996, a copy of each of which was presented to and discussed at the meeting (respectively, the "Purchase Agreement" and the "Credit Agreement"), be, and hereby are, approved;
>
> RESOLVED FURTHER, that the execution and delivery of said Purchase Agreement by an officer of the Company, and the performance by the Company of its obligations thereunder, is hereby approved, adopted, ratified, and confirmed in all respects; which approval, adoption, ratification, and confirmation shall include all of the obligations of the Company contemplated by the Purchase Agreement, including, without limitation, (i) the acquisition by the Company of a portion of the issued and outstanding preferred and common stock of Zond (the "Zond Stock") in exchange for common stock of the Company, (ii) the filing by the Company with the Securities and Exchange Commission of a registration statement covering the resale of such common stock by the holders thereof (the "Resale Registration Statement"), (iii) the contribution of the Zond

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Stock to EREC in exchange for common stock of EREC, (iv) the guaranty by the Company of $40,000,000 of promissory notes to be issued by EREC (the "EREC Notes") to certain of the stockholders of Zond as partial consideration for the common and preferred stock of Zond owned by such stockholders, which guarantees shall be made pursuant to the forms of guarantees attached to the Purchase Agreement as exhibits, (v) the acquisition by the Company, pursuant to separate Option Exchange Agreements and Option Purchase Agreements in the forms attached to the Purchase Agreement as exhibits, of all of the issued and outstanding options to purchase common stock of Zond (the "Zond Options") in exchange for issuance by the Company of options to purchase common stock of the Company, (vi) the filing by the Company with the Securities and Exchange Commission of a registration statement on Form S-8 registering the offering and sale of Company common stock issued in connection with a stock option plan and stock options to purchase Company common stock delivered in exchange for the Zond Options (the "Employee Plan Registration Statement"), and (vii) the contribution of the Zond Options to EREC in exchange for common stock of EREC, in each case as more fully set forth in the Purchase Agreement;

RESOLVED FURTHER, that the execution and delivery of said Credit Agreement by an officer of the Company, which provides for the Company to make loans to Zond in an aggregate principal amount not to exceed $10,000,000, and the performance by the Company of its obligation thereunder, be, and hereby are, adopted, ratified, confirmed, and approved in all respects;

RESOLVED FURTHER, that the officers of the Company be, and each of them hereby is, authorized to prepare or cause to be prepared and/or filed such documents and instruments as may be necessary to (i) effect the filing of the Resale Registration Statement and the Employee Plan Registration Statement; (ii) cause the Resale Registration Statement and the Employee Plan Registration Statement to be declared effective by the Securities and Exchange Commission; (iii) effect any required listing applications to the New York Stock Exchange, Inc.; (iv) effect any state "Blue Sky" filings or applications; and (v) effect any other required regulatory filings;

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RESOLVED FURTHER, that the Chairman of the Board, the President, and any Vice President of the Company be, and each hereby is, authorized, empowered, and directed to take such further actions as such officer deems necessary and appropriate to carry into effect the transactions contemplated by the Purchase Agreement and the Credit Agreement;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company related to or in connection with the transactions contemplated by these resolutions be, and hereby are, adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Mr. Lay stated that it would be in order to approve the date, place, and time of the 1997 Annual Meeting of Stockholders and the record date to determine stockholders entitled to vote at such meeting. Upon motion duly made by Mr. Blake, seconded by Dr. Gramm, and carried, the following resolutions were adopted:

RESOLVED, that the meeting date, location, and time of the 1997 Annual Meeting of Stockholders be, and it hereby is, set for May 6, 1997, at the Doubletree Hotel at Allen Center, 400 Dallas Street, Houston, Texas, at 10:00 a.m., C.D.T.; and

RESOLVED FURTHER, that the close of business on March 10, 1997, be, and it hereby is, approved and fixed as the record date for determining stockholders entitled to vote at the 1997 Annual Meeting of Stockholders.

Mr. Segner recommended that the Bylaws be revised to provide for a "Deputy Corporate Treasurer," and that Ms. Susan Hodge be elected to such

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position. Upon motion duly made by Mr. Winokur, seconded by Mr. Duncan, and carried, the following resolutions were adopted:

RESOLVED, that Article V, Section 11 of the Bylaws is hereby amended by deleting same in its entirety and substituting the following therefor:

> Section 11. Deputy Treasurer and Assistant Treasurers. Each Deputy Treasurer and each Assistant Treasurer shall have the usual powers and duties pertaining to such offices, together with such other powers and duties as designated in these Bylaws and as from time to time may be assigned to a Deputy Treasurer or an Assistant Treasurer by the Board of Directors, the Chairman of the Board, the President, the Vice Chairman of the Board, or the Treasurer. Any Deputy Treasurer may exercise the powers of the Treasurer during that officer's absence or inability or refusal to act. During the absence or inability or refusal to act of the Treasurer and each Deputy Treasurer, any Assistant Treasurer may exercise the powers of the Treasurer. Each Deputy Treasurer shall have the power and authority on behalf of the Corporation to sign as an Assistant Treasurer any instrument that an Assistant Treasurer has authority to sign, and for such purposes each Deputy Treasurer shall be deemed to be an Assistant Treasurer of the Corporation; and

RESOLVED FURTHER, that Susan Hodge be, and she hereby is, elected the Deputy Treasurer, Corporate Finance of the Company, to serve in such capacity at the pleasure of the Board during the ensuing year and until her successor is duly elected and qualified, effective immediately.

Mr. Lay updated the Board on the *J-Block* litigation. He noted that the February Board meeting would be held in New York and would include a reception for bankers the evening before.

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There being no further business to come before the Board, the meeting was adjourned at 12:40 p.m., C.S.T.

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Secretary

APPROVED:

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Chairman

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MINUTES
MEETING OF THE EXECUTIVE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
DECEMBER 18, 1996

Minutes of a meeting of the Executive Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), held pursuant to due notice at 2:00 p.m., C.S.T., on December 18, 1996, at the Enron Building in Houston, Texas.

The following Committee members were present by telephone conference connection where each could hear the comments of the other meeting participants and join in the discussions:

Robert A. Belfer
Joe H. Foy
Kenneth L. Lay
Charles A. LeMaistre

Committee members John H. Duncan, Richard D. Kinder, and Herbert S. Winokur, Jr. were absent from the meeting. Messrs. James M. Bannentine, Joseph G. Kishkill, Edmund P. Segner, III, Jeffrey K. Skilling, Joseph W. Sutton, and Robert H. Walls and Mesdames Rebecca P. Mark and Peggy B. Menchaca, all of the Company or an affiliate thereof, also attended the meeting.

In the absence of Committee Chairman Duncan, Dr. LeMaistre presided at the meeting, with concurrence from the Committee, and the Secretary, Ms. Menchaca, recorded the proceedings.

Dr. LeMaistre called the meeting to order and called upon Mr. Lay to present the business of the meeting. Mr. Lay inquired and received confirmation that each Committee member had received the material for the meeting, a copy of which is filed with the records of the meeting. He stated that the meeting was called to consider bid proposals by Enron Development Corp. ("EDC"), or an affiliate thereof, for the hydroelectric power stations in Colombia known as the Betania and Chivor plants. He called upon Ms. Mark to present the details of the proposed bids.

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Ms. Mark referred the Committee members to the meeting material for a description of each plant and presented an overview of the transactions. She stated that the bid on the Chivor plant was due December 20, and that the bid on the Betania plant was due on December 19, hence the urgency of the meeting. She described the size and location of each plant and discussed the minimum bids required. She called on Mr. Sutton to present the details and strategy of the proposed transaction.

Mr. Sutton stated that Chilgener had asked EDC to join them as a partner in the acquisition and other projects in Latin America, and he provided background information on Chilgener. He described the immediate earnings and value to be created on purchase of the two plants. He discussed in detail the hydroelectric generation business in Colombia, energy trading potential, credit rating, and other background information. He stated that the plants would be jointly owned by Chilgener (60%) and EDC or its affiliate (40%), but noted that major decisions would be made on a 50-50 basis. He stated that Chilgener would provide the general manager for the plants and that EDC, or its affiliate, would provide the chief financial officer. He indicated that EDC had received firm financing authority from Bank of America for approximately 60% leverage of Chivor and Betania.

Mr. Sutton presented transaction assumptions, a summary of the economics (using the Betania plant as the example), and sensitivities. He discussed in detail the risks inherent in the proposed transactions. He led a discussion related to political risk insurance and stated that EDC would bring a recommendation to Messrs. Lay and Skilling related to whether or not to acquire such insurance for the plants, if the bids were successful. He indicated that the Chivor and Betania plants would cost an estimated $650 million and $430 million, respectively. He discussed the financing of the proposed transactions, which he stated would be accomplished through nonrecourse financing, with 80% of the principal financed in a 5-year balloon note with Bank of America.

Mr. Sutton requested that EDC or an affiliate thereof be authorized to participate 40% in bid bonds with Chilgener of $18 million for Betania and $65 million for Chivor. In response to a question, he explained that the bid bonds were based on 10% of the value of each plant, hence the difference in amounts. A thorough discussion ensued. Messrs. Skilling and Ms. Mark joined in the discussion. Mr. Skilling indicated that he thought the project was worthwhile particularly if immediate efforts were initiated to monetize the plants. In response to a query by Mr. Belfer, Mr. Sutton indicated that EDC would know the results of the bidding immediately. Mr. Lay pointed out and discussed Mr. Belfer's

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concerns about disproportionate asset allocations in certain regions. Following discussion, Mr. Belfer moved approval of the bid submission by EDC or its affiliate, subject to approval of the final bid formulation by Messrs. Lay and Skilling prior to submission, and provided that, if EDC's bids were accepted, management begin immediate efforts to monetize the acquisitions after financial close. Mr. Belfer's motion was duly seconded by Mr. Foy, the motion carried, and the following resolutions were approved:

> RESOLVED, that authority to submit bids for the hydroelectric power stations in Colombia known as the Betania and Chivor plants be, and it hereby is, granted to management of EDC, or an affiliate thereof, subject to final approval of the bids by Kenneth L. Lay and Jeffrey K. Skilling prior to submission; PROVIDED, HOWEVER, that management of EDC, or its affiliate, will make good faith efforts to monetize said acquisitions immediately after financial close;
>
> RESOLVED FURTHER, that the submission of a bid or bids by the Company's subsidiary, Enron Servicios de Electricidad Colombia Ltd., a Cayman Islands company, for the stock of Chivor S.A. E.S.P. and/or Central Hidroelectrica de Betania S.A. E.S.P. (the "Bids"), pursuant to that certain Information Memorandum dated October, 1996, prepared by CS First Boston, Inverlin, and Schroders and as amended or supplemented as of the date hereof (the "Tender Documents"), be, and hereby is, approved, subject to the restrictions set out in the above paragraph;
>
> RESOLVED FURTHER, that the Company be, and hereby is, authorized to provide security for Enron Servicios de Electricidad Colombia Ltd.'s obligations relating to its pro rata portion of the bid bonds required for the Bids, and the same be, and hereby is, authorized and approved; and
>
> RESOLVED FURTHER, that the directors and officers of Enron Servicios de Electricidad Colombia Ltd. be authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of Enron Servicios de Electricidad Colombia Ltd. (including, without limitation, all instruments and documents necessary, proper, or advisable to effectuate a joint bid with Energy Trade and Finance

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Company or an affiliate thereof), under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions, and that all actions heretofore taken by the Directors and officers of Enron Servicios de Electricidad Colombia Ltd. with respect to the transactions contemplated above be, and hereby are, in all respects, approved, confirmed, and ratified.

Mr. Segner stated that management requested authority to offer and sell up to $200 million of additional Trust Originated Preferred Securities, similar to an offering recently approved by the Board and undertaken by management. Ms. Menchaca noted that powers of attorney would be sent to each member of the Board authorizing certain officers to sign the required registration documentation. Following discussion, upon motion duly made by Mr. Foy, seconded by Dr. LeMaistre, and carried, the following resolutions were approved:

WHEREAS, the Executive Committee of the Board of Directors of Enron Corp. (the "Company") deems it advisable and in the best interests of the Company to take such actions as shall be required of it in order to enable a Delaware business trust to be created by the Company (the "Trust") to effect the offer and sale of up to $200 million Trust Originated Preferred Securities ("Trust Preferred Securities"), to be offered and sold pursuant to a Registration Statement on Form S-3 to be filed with the Securities and Exchange Commission (the "Commission") by the Company, such Trust, and a Delaware limited partnership to be formed (the "Partnership"), under the Securities Act of 1933, as amended (the "Securities Act");

NOW, THEREFORE, IT IS RESOLVED, that the actions of the officers of the Company in connection with the preparation, execution, and filing with the Commission of a Registration Statement are hereby ratified and approved, and the officers of the Company be, and each of them hereby is, authorized and directed to file such Registration Statement and amendments or supplements to the Registration Statement and to do or cause to be done any or all other things as may appear to them to be necessary or advisable in order to cause such Registration Statement, as amended, to become effective and otherwise to effect the registration under the Securities

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Act of the securities covered by the Registration Statement, as amended; and

RESOLVED FURTHER, that the designation of Rex R. Rogers as the agent for service of process in connection with the Registration Statement is hereby approved; and

RESOLVED FURTHER, that the actions of the officers of the Company in connection with the formation of the Trust and the Partnership are hereby ratified and approved, and that each of the Chairman of the Board, the Vice Chairman of the Board, the President, the Executive Vice President and Chief of Staff, and the Chief Financial Officer or the Vice President, Finance and Treasurer of the Company is hereby authorized to execute and deliver on behalf of the Company an Amended and Restated Declaration of Trust and an Amended and Restated Agreement of Limited Partnership of the Partnership conforming substantially to the description thereof in the Registration Statement with such changes as the officer executing the same shall approve; and

RESOLVED FURTHER, that, in connection with the offering of the Trust Preferred Securities, each of the Chairman of the Board, the Vice Chairman of the Board, the President, the Executive Vice President and Chief of Staff, the Chief Financial Officer, or the Vice President, Finance and Treasurer of the Company is hereby authorized to execute and deliver on behalf of the Company the Trust Guarantee, the Partnership Guarantee, and the Investment Guarantees (each as defined in the Registration Statement), on terms conforming substantially to the description thereof in the Registration Statement, with such changes as the officer executing the same shall approve; and

RESOLVED FURTHER, that, in connection with the offering of the Trust Preferred Securities, each of the Chairman of the Board, the Vice Chairman of the Board, the President, the Executive Vice President and Chief of Staff, the Chief Financial Officer or the Vice President, Finance and Treasurer of the Company is hereby authorized to execute and deliver on behalf of the Company an indenture to provide for the issuance of the Company Debenture (as defined in the Registration Statement), on terms conforming substantially to the description thereof in the Registration Statement,

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with such changes as the officer executing the same shall approve; and that any such officer is hereby authorized to execute and deliver the Company Debenture in an aggregate principal amount not to exceed $200 million; and

RESOLVED FURTHER, that, in connection with the offering of the Trust Preferred Securities, each of the Chairman of the Board, the Vice Chairman of the Board, the President, the Executive Vice President and Chief of Staff, the Chief Financial Officer, or the Vice President, Finance and Treasurer of the Company is hereby authorized to execute and deliver on behalf of the Company, as guarantor, indentures of two or more subsidiaries of the Company (the "Affiliate Indentures") on terms conforming substantially to the description thereof in the Registration Statement, with such changes as the officer executing the same shall approve, provided that the total amount guaranteed under all such Affiliate Indentures shall be limited to an aggregate principal amount not to exceed $200 million; and

RESOLVED, that each of the Chairman of the Board, the Vice Chairman of the Board, the President, the Executive Vice President and Chief of Staff, the Chief Financial Officer, or the Vice President, Finance and Treasurer of the Company is hereby authorized to execute and deliver on behalf of the Company (in its individual capacity, as the General Partner of the Partnership, and as the Sponsor of the Trust) a Purchase Agreement among the Company, the Trust, the Partnership, Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and other underwriters (the "Purchase Agreement"), in connection with the proposed offering of the Trust Preferred Securities, on such terms as the officer executing such Purchase Agreement shall deem necessary or appropriate (including any pricing terms therein);

RESOLVED FURTHER, that the actions of the officers of the Company in applying to the New York Stock Exchange, Inc. (the "NYSE") for the listing thereon of the Trust Preferred Securities are hereby ratified and approved, and the officers of the Company be, and each of them hereby is, authorized, empowered, and directed to execute and deliver to the NYSE such agreements, applications, and documents in such form as may be necessary to effect the aforesaid listing and to take any and all such actions and to do and cause to be

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done any or all such things as may appear to them to be necessary or desirable in order to effect such listing, including, without limitation, the filing of a Registration Statement on Form 8-A to effect the registration of the Trust Preferred Securities under the Securities Exchange Act of 1934, as amended;

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company (in its individual capacity, as General Partner of the Partnership, and as the Sponsor of the Trust), under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions; and

RESOLVED FURTHER, that any and all actions heretofore or hereafter taken by any officer of the Company consistent with the terms of the foregoing resolutions are hereby ratified and confirmed as the act and deed of the Company.

There being no further business to come before the Committee, the meeting was adjourned at 2:40 p.m., C.S.T.

Subsequent to adjournment, Messrs. Lay and Skilling reviewed and approved the bids to be submitted for the hydroelectric power stations in Colombia.

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Secretary

APPROVED:

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Chairman

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MINUTES
MEETING OF THE EXECUTIVE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
JUNE 5, 1997

Minutes of a meeting of the Executive Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), held pursuant to due notice at 10:00 a.m., C.D.T., on June 5, 1997, at the Enron Building in Houston, Texas.

All of the Committee members were present by telephone conference connection where each could hear the comments of the other meeting participants and join in the discussions, as follows:

John H. Duncan, Chairman
Robert A. Belfer
Joe H. Foy
Kenneth L. Lay
Charles A. LeMaistre
Jeffrey K. Skilling
Herbert S. Winokur, Jr.

Messrs. Andrew S. Fastow, William D. Gathmann, and Rex R. Rogers and Ms. Peggy B. Menchaca, all of the Company, also attended the meeting either in person or by telephone conference connection. Messrs. Guy Eastaugh, Jay L. Fitzgerald, Mark A. Frevert, Dan J. McCarty, John R. Sherriff, and Phil Stokes joined the meeting in progress as noted below.

The Chairman, Mr. Duncan, presided at the meeting, and the Secretary, Ms. Menchaca, recorded the proceedings.

Mr. Duncan called the meeting to order and asked Mr. Lay to present the business of the meeting. Mr. Lay stated that the meeting had been called to consider (i) an ECT Europe project, (ii) the offering and sale of up to $200 million in Adjustable-Rate Capital Trust Securities ("ACTS"), and (iii) an amendment of the stock repurchase authorization. Mr. Lay noted that the meeting participants from London had not yet joined the meeting and requested that the order of the agenda be amended to allow consideration of the other items.

Mr. Duncan amended the order of the agenda and called upon Mr. Gathmann to present the next item. Mr. Gathmann referred the Committee to the

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term sheet included in the meeting materials (a copy of which is filed with the records of the meeting), and he reviewed the terms of the proposed ACTS offering. He noted that it was similar to other trust security offerings previously issued by the Company. Upon motion duly made by Mr. Belfer, seconded by Mr. Winokur, and carried, the following resolutions were adopted:

> WHEREAS, the Executive Committee of the Board of Directors of Enron Corp. (the "Company") deems it advisable and in the best interests of the Company to take such actions as shall be required of it in order to enable a Delaware business trust to be created by the Company (the "Trust") to effect the offer and sale of up to $200 million Adjustable-Rate Capital Trust Securities ("Capital Securities"), to be offered and sold to "Qualified Institutional Buyers" pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act");
>
> NOW, THEREFORE, IT IS RESOLVED that the actions of the officers of the Company in connection with the preparation of the offering memorandum dated June 4, 1997 (the "Offering Memorandum") relating to the offering and sale of the Capital Securities are hereby ratified and approved;
>
> RESOLVED FURTHER, that the actions of the officers of the Company in connection with the formation of the Trust are hereby ratified and approved, and that each of the Chairman of the Board, the Vice Chairman of the Board, the President, the Executive Vice President and Chief of Staff, the Senior Vice President, Finance, the Vice President, Finance and Treasurer, and the Deputy Treasurer, Corporate Finance of the Company is hereby authorized to execute and deliver on behalf of the Company an Amended and Restated Declaration of Trust conforming substantially to the description thereof in the Offering Memorandum with such changes as the officer executing the same shall approve;
>
> RESOLVED FURTHER, that, in connection with the offering of the Capital Securities, each of the Chairman of the Board, the Vice Chairman of the Board, the President, the Executive Vice President and Chief of Staff, and the Senior Vice President, Finance or the Vice President, Finance and Treasurer of the Company is hereby authorized to execute and deliver on behalf of the Company the Guarantees (as defined in the Offering Memorandum), on terms conforming substantially to the descriptions thereof in the Offering

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Memorandum, with such changes as the officer executing the same shall approve;

RESOLVED FURTHER, that, in connection with the offering of the Capital Securities, each of the Chairman of the Board, the Vice Chairman of the Board, the President, the Executive Vice President and Chief of Staff, and the Senior Vice President, Finance or the Vice President, Finance and Treasurer of the Company is hereby authorized to execute and deliver on behalf of the Company an Indenture to provide for the issuance of the Debentures (as defined in the Offering Memorandum), on terms conforming substantially to the description thereof in the Offering Memorandum, with such changes as the officer executing the same shall approve, such approval to be conclusively evidenced by such execution; and that any such officer is hereby authorized to execute and deliver the Debentures pursuant to such Indenture in an aggregate principal amount not to exceed $207 million;

RESOLVED FURTHER, that each of the Chairman of the Board, the Vice Chairman of the Board, the President, the Executive Vice President and Chief of Staff, the Senior Vice President, Finance and the Vice President, Finance and Treasurer of the Company is hereby authorized to execute and deliver on behalf of the Company (in its individual capacity and as the Sponsor of the Trust) a Purchase Agreement among the Company, the Trust, Deutsche Morgan Grenfell, and other banks (the "Purchase Agreement"), in connection with the proposed offering of the Capital Securities, on such terms as the officer executing such Purchase Agreement shall deem necessary or appropriate (including any pricing terms therein);

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company (in its individual capacity and as Sponsor of the Trust), under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions; and

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RESOLVED FURTHER, that any and all actions heretofore or hereafter taken by any officer of the Company within the terms of the foregoing resolutions are hereby ratified and confirmed as the act and deed of the Company.

Mr. Gathmann next reviewed the current status of the share repurchase authorization previously granted by the Board and requested authority to increase the existing available capacity under the current authorization from 2.8 million shares to 10 million shares in order to give management the flexibility needed to manage the Company's capital structure. Following discussion, upon motion duly made by Mr. Foy, seconded by Dr. LeMaistre, and carried, the following resolutions were adopted:

WHEREAS, the appropriate officers of the Company as of this date are authorized to make purchases of the Company's Common Stock in the open market ("Open Market Purchases"), and it would be in the best interests of the Company to provide such officers with authority to make additional Open Market Purchases;

NOW, THEREFORE, IT IS RESOLVED, that all authority previously granted by the Board of Directors or the Executive Committee of the Board of Directors with respect to Open Market Purchases be, and it hereby is, superseded and replaced by the authority granted by the following resolutions;

RESOLVED FURTHER, that the appropriate officers of the Company be, and they hereby are, authorized to make Open Market Purchases in accordance with the issuer repurchase "safe-harbor" Rule 10b-18 under the Securities Exchange Act of 1934 of up to an amount of 10,000,000 shares of the Company's Common Stock; *provided that*, such authorized amount shall be:

(a) reduced by (i) the number of shares of the Company's Common Stock from time to time repurchased by the Company and (ii) the number of shares of the Company's Common Stock from time to time subject to outstanding put option agreements to which the Company and any person or entity other than Joint Energy Development Investments Limited Partnership are parties (the "Put Option Agreements"); and

(b) increased to an amount no greater than 5,000,000 at any one time by the number of treasury shares or newly issued Common

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Stock issued or sold by the Company and the number of shares of Common Stock sold by the Enron Corp. Flexible Equity Trust from time to time;

RESOLVED FURTHER, that the appropriate officers of the Company are authorized to take all actions that such officers deem necessary, appropriate, or desirable to effectuate the Open Market Purchases, including, without limitation, the following: (i) subject to the limitations described in the immediately preceding resolution, determining the number of shares of the Company's Common Stock to be purchased, (ii) determining the purchase prices at which such Common Stock shall be purchased, and (iii) engaging such investment banking, brokerage, or other firms as such officers shall deem appropriate to effect such Open Market Purchases; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to execute and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, to pay all such expenses, and to do or cause to be done any and all such further things as may in their discretion appear to be necessary, proper, or advisable in order to carry into effect the purposes and intentions of this and the foregoing resolutions.

Mr. Gathmann excused himself from the meeting following his presentation and Messrs. Eastaugh, Fitzgerald, Frevert, McCarty, Sheriff, and Stokes joined the meeting during Mr. Gathmann's presentation by telephone conference connection.

Mr. Duncan called upon Mr. Frevert to present the proposed ECT Europe project, known internally as "Project Cobra." Mr. Frevert referred the Committee to the material related to the project (a copy of which is filed with the records of the meeting), and he described the transaction. He stated that Project Cobra consisted of a 350-megawatt combined cycle gas turbine plant based in central England and owned by Corby Power Limited, a partnership jointly held by Dominion Resources, Inc. ("Dominion") (40%), Electricity Supply Board of Ireland ("ESBI") (20%), and BTR (a registered United Kingdom industrial conglomerate) (40%). He described the plant, which had become fully operational in February, 1994. He noted that Dominion and ESBI had preemption rights but stated that he did not expect that they would exercise them. He described the project economics and noted that East Midlands purchases substantially all of the

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power from the plant under a 20-year contract. He stated that the Board of Corby Power Limited consisted of five directors, one for each 20% of ownership. He projected $4.4 million of annual earnings and cash flow through the year 2013 and noted that Project Cobra would be a logical addition to ECT Europe's asset and earnings base. He stated that the approval requested by ECT Europe was to submit a bid of up to $56.3 million for the acquisition of BTR's 40% interest in Corby Power Limited, subject to Dominion and ESBI waiving their respective preemption rights. A discussion ensued and Mr. Frevert answered questions from the Committee related to the project. Following discussion, upon motion duly made by Mr. Lay, seconded by Mr. Foy, and carried, management of ECT Europe was authorized to proceed with the submission of a bid of up to $56.3 million for the acquisition of BTR's 40% interest in Corby Power Limited.

Messrs. Eastaugh, Fitzgerald, Frevert, McCarty, Sherriff, and Stokes excused themselves from the meeting following the vote on Project Cobra.

Mr. Lay led a discussion of the week's activities and updated the Committee on (i) the J-Block settlement; (ii) the CATS ruling; (iii) the announcement relative to the project in Italy with ENEL; (iv) the action by the Oregon Public Utility Commission approving the merger with Portland General Corporation; and (v) Project Beta.

There being no further business to come before the Committee, the meeting was adjourned at 10:37 a.m., C.D.T.

_____
Secretary

APPROVED:

_____
Chairman

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MINUTES
SPECIAL MEETING OF THE BOARD OF DIRECTORS
ENRON CORP.

SEPTEMBER 27, 1993

Minutes of a special meeting of the Board of Directors of Enron Corp. ("Company"), held pursuant to due notice at 4:00 p.m., C.D.T., on September 27, 1993, in the Boardroom of the Enron Building in Houston, Texas.

The following Directors, constituting a quorum, were present by telephone conference connection where each Director could hear the comments of the other meeting participants and join in the discussions:

Mr. Kenneth L. Lay, Chairman
Mr. Robert A. Belfer
Mr. John H. Duncan
Mr. Joe H. Foy
Dr. Wendy L. Gramm
Dr. Robert K. Jaedicke
Mr. Richard D. Kinder
Dr. Charles A. LeMaistre
Mr. John A. Urquhart
Mr. Herbert S. Winokur, Jr.

Directors William A. Anders, Norman P. Blake, Jr., and Charls E. Walker were absent from the meeting. Messrs. William V. Allison, James V. Derrick, Jr., Stanley C. Horton, Kurt S. Huneke, Edmund P. Segner, III, and Jack I. Tompkins, and Mesdames Nancy G. McNeil and Peggy B. Menchaca also attended the meeting.

The Chairman, Mr. Lay, presided at the meeting, and the Secretary, Ms. Menchaca, recorded the proceedings.

Mr. Lay called the meeting to order and stated that management had several items to present for Board consideration, but the primary reason for the meeting was to hear management's recommendations relating to the issuance of some form of perpetual preferred stock. He directed the attention of the Directors to the agenda and material supporting the items to be discussed, a copy of which is filed with the records of the meeting. He called upon Mr. Kinder to begin the presentation.

Mr. Kinder, for purposes of clarifying the record, noted that the reference to Series J Preferred Stock in the first item on the agenda for the meeting was in error. He then presented an overview of the perpetual preferred alternatives. He noted that the Company in continuing to grow and expand would continue to be a net user of cash. He stated that the rate of return on the Company's incremental investments had been excellent, but noted that, in order to maintain credit quality, a portion of the growth must be funded with equity. He indicated that reception in the market to perpetual preferred issues appeared to be high, and added that it appeared to be the least expensive alternative to bolster equity. He called upon Mr. Segner for a detailed discussion of the proposed issuance.

Mr. Segner stated that two options were presented in the supporting materials for the meeting: (i) a standard perpetual preferred stock issuance led by Merrill Lynch & Co.; and (ii) a tax-deductible perpetual preferred stock issuance led by Goldman Sachs & Co. He presented the details of both proposals and compared the economic impact of each to the Company. He stated that Arthur Andersen & Co. had indicated that the perpetual preferred stock issuance would not be considered debt in the accounting treatment, and meetings with four rating agencies produced the same indication. He also indicated that Sullivan and Cromwell had issued a letter confirming the tax deductibility of the option proposed by Goldman Sachs & Co., but noted that if future tax law changes negated the deduction, the Company would be in the same tax position as it is today with regard to the deduction of dividends. He responded to questions from the Board, and he was joined in the discussion by Messrs. Lay and Kinder. Mr. Segner stated that the approval sought would be for management flexibility to pursue either of the options presented, to include the issuance in the debt securities shelf registration filing approved by the Board at its August 10, 1993, meeting which filing had not been made as of the date of the meeting; and to appoint a special committee to determine the pricing and other terms of the issuance. Following a thorough discussion, upon motion duly made by Mr. Belfer, seconded by Mr. Winokur, and carried, the following resolutions were adopted:

> RESOLVED, that the Board of Directors hereby deems it advisable and in the best interests of the Company for the Company (or a special purpose company (the "SPC") to be incorporated in the Cayman Islands or the Turks and Caicos, to be 100% directly or indirectly owned by the Company) to issue and sell from time to time up to $250 million of fixed rate perpetual preferred stock (the "Preferred Stock"), at a price and with such terms and conditions to be agreed upon and established by the Preferred Stock Committee referred to below, and to be sold from time to time in public offerings;

RESOLVED, that the Company and/or the SPC enter into one or more underwriting agreements, or other agreements, however designated, together with all necessary agreement wires, confirmation letters, or terms agreements (collectively the "Agreements"), with such underwriting firm or firms or with such institutions or dealers as may, in the judgment of the Chairman of the Board, any Vice Chairman of the Board, the President, any Senior Vice President, or the Vice President and Treasurer of the Company, be necessary to effect the sale of the Preferred Stock; that the Chairman of the Board, any Vice Chairman of the Board, the President, any Executive or Senior Vice President, or the Vice President and Treasurer of the Company be, and each of them hereby is, authorized and directed to execute and deliver the Agreements, for and in the name and on behalf of the Company, in such forms as the officer executing such Agreements shall approve, such approval to be conclusively evidenced by such execution; and that the Company be, and it hereby is, authorized and directed to perform in full all of its obligations under the Agreements;

RESOLVED, in connection with the issuance and sale of the Preferred Stock by the Company or the SPC, that the officers of the Company be, and they hereby are, authorized, empowered, and directed to cause to be prepared, executed, and filed with the Securities and Exchange Commission (the "Commission") (i) a registration statement on Form S-3 or other appropriate form (as so filed, including any exhibits thereto, the "Registration Statement") and (ii) such amendments and post-effective amendments to the Registration Statement or supplements to the Prospectus constituting a part thereof, and to take all such further action, including the filing of final forms of the Prospectus, as may, in the judgment of such officers, be necessary, desirable, or appropriate to secure and thereafter to maintain the effectiveness of the Registration Statement;

RESOLVED, that the Registration Statement may, in the judgment of the officers of the Company, be an "omnibus" registration statement, which may include registration of the sale of the Preferred Stock (and registration of any required Company guarantee of certain SPC Preferred Stock payment obligations, or Company debt obligations to the SPC in connection with the Preferred Stock), or Depository Shares (defined below) representing fractional interests in the Preferred Stock, and registration of the sale

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of debt securities previously authorized for issuance and sale by this Board of Directors on August 10, 1993;

RESOLVED, that the Board of Directors of the Company, in accordance with Section 141 of the General Corporation Law of the State of Delaware and Article IV of the Bylaws of the Company, as amended, does hereby create a special preferred stock committee (the "Preferred Stock Committee") and designate Kenneth L. Lay and Richard D. Kinder as the members of the Preferred Stock Committee, and that the Preferred Stock Committee is hereby authorized and empowered to determine, for and in the name and on behalf of the Company and the SPC, the following terms:

(i) the maximum number of shares to constitute the series of Preferred Stock and the distinctive designation thereof;

(ii) the annual dividend rate, if any, on shares of the series, whether such rate is fixed or variable or both, the date or dates from which dividends will begin to accrue or accumulate and whether dividends will be cumulative;

(iii) whether the shares of the series will be redeemable and, if so, the price at and the terms and conditions on which the shares of the series may be redeemed, including, without limitation, the time during which shares of the series may be redeemed and any accumulated dividends thereon that the holders of shares of the series shall be entitled to receive upon the redemption thereof;

(iv) the liquidation preference, if any, applicable to shares of the series;

(v) whether the shares of the series will be subject to operation of a retirement or sinking fund and, if so, the extent and manner in which any such fund shall be applied to the purchase or redemption of the shares of the series for retirement or for other corporate purposes, and the terms and provisions relating to the operation of such fund;

(vi) the voting rights, if any, on the shares of the series;

(vii) whether fractional interests in shares of the series will be offered in the form of Depository Shares; and

(viii) any other preferences, participating, optional, or other special rights or qualifications, limitations, or restrictions thereof,

and any other term of any Agreement and all such other matters as may be determined by such Preferred Stock Committee consistent with Delaware law, the SPC's Charter and by-laws, the Company's Restated Certificate of Incorporation, the terms of any outstanding series of preferred stock, and these resolutions, such Preferred Stock Committee's approval of such terms and conditions to be conclusively determined by their inclusion in the executed copies of any Agreements; and that the Preferred Stock Committee is hereby authorized to take any and all action and to do or cause to be done any or all things which may appear to the Preferred Stock Committee to be necessary or advisable in order for the Company, or to cause the SPC, to offer, issue, and sell the Preferred Stock, to the full extent and with the same effect as the Board of Directors of the Company could take such action or do or cause such things to be done; and that a majority of the members of the Preferred Stock Committee shall constitute a quorum for the transaction of business; and that the Preferred Stock Committee shall keep a written record of its meetings, shall present such record to the meetings of the Preferred Stock Committee, and shall file a copy of such record in the corporate minutes of the Company;

RESOLVED, that in the event Preferred Stock is issued by the SPC, it may be in the best interests of the Company, and the Company is hereby authorized, to guarantee, on such terms as the Preferred Stock Committee deems appropriate, the liquidation value of the Preferred Stock to be issued by the SPC, as well as dividends on the Preferred Stock, if and when declared;

RESOLVED, that the Company is hereby authorized to elect to offer fractional interests in shares of the Preferred Stock, rather than full shares, in the form of Depository Shares evidenced by Depository Receipts; that the Preferred Stock Committee is hereby authorized to determine the fractional interest of a share of Preferred Stock represented by each Depository Share, and any other terms of the Depository Shares;

RESOLVED, that the Company is hereby authorized to deposit the Preferred Stock represented by the Depository Shares

under a deposit agreement ("Deposit Agreement") to be entered into between the Company and a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least $50,000,000 (the "Depository"); that the Chairman of the Board, any Vice Chairman of the Board, the President or any Vice President of the Company be, and each of them hereby is, authorized and directed to execute, acknowledge, and deliver the Deposit Agreement, for and in the name and on behalf of the Company, in such form as the officer executing such Deposit Agreement shall approve, such approval to be conclusively evidenced by such execution;

RESOLVED, that the Chairman of the Board, the President, or any Vice President and the Corporate Secretary, any Deputy Corporate Secretary, or any Assistant Secretary of the Company be, and each of them hereby is, authorized, empowered, and directed, for and in the name and on behalf of the Company, to take any and all action which they may deem necessary or advisable in order for the Company or the SPC to obtain a permit, to register, or to qualify part or all of the Preferred Stock or Depository Shares for issuance and sale or to request an exemption from registration of part or all of the Preferred Stock or Depository Shares or to register or obtain a license for the Company or the SPC as a dealer or broker under the securities laws of such of the states of the United States of America and of such foreign jurisdictions as such officers may deem advisable, and in connection with such registrations, permits, licenses, qualifications, and exemptions, to execute, acknowledge, verify, deliver, file, and publish all such applications, reports, resolutions, irrevocable consents to service of process, powers of attorney, and other papers and instruments as may be required under such laws, and to take any and all further action which they may deem necessary or advisable in order to maintain such registration in effect as long as they may deem it to be in the best interests of the Company;

RESOLVED, that the Company or the SPC make application to the New York Stock Exchange, Inc. and one or more other securities exchanges as the officer acting shall deem necessary or appropriate for the listing thereon of the Preferred Stock or Depository Shares; that the Chairman of the Board, the President, or any Vice President of the Company be, and each of them hereby is, authorized, empowered, and directed to execute and deliver, for and

in the name and on behalf of the Company, to the New York Stock Exchange, Inc. and all other securities exchanges on which the Preferred Stock or Depository Shares of the Company are to be listed, such agreements in such form as may be necessary to effect the aforesaid listing; and that the officers of the Company be, and they hereby are, authorized, empowered, and directed to execute and deliver any applications, documents, or agreements, to appear, if requested, before officials of any such exchanges, and to take any and all such actions, to appoint any banking institution as an agent of the Company or the SPC for any purpose, and to do or cause to be done any or all such things as may appear to them to be necessary or desirable in order to effect such listing, specifically including registration of the Preferred Stock or Depository Shares under Section 12 of the Securities Exchange Act of 1934, as amended;

RESOLVED, that the Preferred Stock Committee is hereby authorized to determine the form of stock certificate representing the Preferred Stock, and the form of certificate representing a Depository Share, with such changes thereto, consistent with these resolutions and any applicable resolutions of the Preferred Stock Committee, as the officers executing the same shall approve, such execution to be conclusive evidence of the approval of such officers and this Board of Directors or such Preferred Stock Committee;

RESOLVED, that the signature of the Chairman of the Board, any Vice Chairman of the Board, the President, or any Vice President of the Company or the SPC, as appropriate, the corporate seal of the Company, and the signature of the Corporate Secretary, any Deputy Corporate Secretary, or any Assistant Secretary of the Company or the SPC, as appropriate, on any or all of the certificates of Preferred Stock or Depository Shares may be facsimile, and that the Company hereby adopts and approves any such facsimile signatures and seal;

RESOLVED, that the facsimile signatures which appear upon any of the certificates of Preferred Stock or Depository Shares shall be valid regardless of whether such officer ceases to hold such office prior to the issuance of the Preferred Stock or Depository Shares; and

RESOLVED, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and

directed (any of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Mr. Kinder reviewed the Northern Border Master Limited Partnership ("MLP"), which had priced the previous week. He requested ratification and approval of the various transactions and agreements contemplated by the MLP. Upon motion duly made by Mr. Foy, seconded by Mr. Belfer, and carried, the following resolutions were adopted:

RESOLVED, that the transactions contemplated by (i) the registration statement of Northern Border Partners, L.P. (the "Partnership") filed with the Securities and Exchange Commission (the "Commission") on July 16, 1993 and Amendment Nos. 1 and 2 thereto filed with the Commission on August 25, 1993 and September 22, 1993, including, without limitation, the forms of preliminary prospectus contained therein (the "Registration Statement"), (ii) the form of Conveyance, Contribution and Assumption Agreement (the "Conveyance") among Northern Plains Natural Gas Company ("Northern Plains"), Pan Border Gas Company ("Pan Border"), Northwest Border Pipeline Company ("Northwest Border"), the Partnership, and Northern Border Intermediate Limited Partnership (the "ILP"), (iii) the form of Administrative Services Agreement among NBP Services Corporation, the Partnership, and the ILP, (iv) the form of Credit Agreement among the ILP, as Borrower, and Northern Plains, Pan Border, and Northwest Border, as Lenders, and (v) the form of Amended and Restated Partnership Agreement of the Partnership and the form of Amended and Restated Partnership Agreement of the ILP, be, and the same hereby are, authorized and approved; and (x) the transfer by Northern Plains of substantially all of its assets to the ILP pursuant to the Conveyance and (y) the sale by Northern Plains pursuant to the Registration Statement of up to 9,890,000 Common Units representing limited partner interests in the Partnership be, and the same hereby are, authorized and approved;

RESOLVED, that the execution on behalf of the Company of the Underwriting Agreement dated September 23, 1993, among the Company, the Partnership, the ILP, Northern Plains, Pan Border, Panhandle Eastern Corporation, and the Representatives of the Underwriters, relating to the sale of Common Units by Northern Plains and Pan Border pursuant to the Registration Statement, be, and it hereby is, ratified and approved; and that the Company be, and it hereby is, authorized and directed to perform in full all of its obligations under the Underwriting Agreement;

RESOLVED, that, on or prior to the closing of the offering pursuant to the Registration Statement, the Company is hereby authorized to make a capital contribution to Northern Plains in the form of a demand note in the amount contemplated by the Registration Statement; and the Chairman of the Board, the President or any Vice President of the Company be, and each hereby is, authorized to execute and deliver a demand promissory note in such form and in such amount as the officer executing the same shall approve, such approval to be conclusively evidenced by such execution; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Mr. Horton stated that Florida Gas Transmission Company ("FGT") had received the order from the Federal Energy Regulatory Commission approving its Phase III Expansion project. He indicated that during the preceding week, the boards of both Sonat, Inc., owner of one-half interest in Citrus Corp., the parent of FGT, and Citrus Corp. (at a meeting held earlier in the day) had each approved the project. He called upon Mr. Allison to present the details of the order and the project.

Mr. Allison discussed the economics of the project in each of the next five years and probable financing for the project. He indicated that the project would begin in February, 1994 and would add 860 miles of pipe and 1.45 billion cubic

feet of gas to the Florida market. He estimated completion of construction in 11 months at a cost of approximately $760 million. He noted that the project would require an agreement by the Company, as owner of one-half interest in Citrus Corp. and FGT, to make a capital contribution of between $130-$150 million. He answered questions from the Board, and a full discussion ensued. Following the discussion, upon motion duly made by Mr. Foy, seconded by Mr. Winokur, and carried, the following resolutions were approved:

RESOLVED, that the Company's jointly-owned indirect subsidiary, Florida Gas Transmission Company ("FGT"), its parent, Citrus Corp., or any affiliate thereof, be, and hereby are, authorized to accept the Certificate of Public Convenience and Necessity issued by the Federal Energy Regulatory Commission on September 15, 1993, and to proceed with the pipeline expansion project known as the "Phase III Expansion;"

RESOLVED FURTHER, that it being in the best interest of the joint owners, Sonat, Inc. and the Company, to each make a contribution of capital and to provide guarantees of indebtedness of Citrus Corp. and FGT to assist in the funding of the Phase III Expansion, the Company's equity contribution of up to seventeen and one-half percent (17.5%) of such capital requirements (approximately $130 to $150 million), is hereby approved;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, FGT, or Citrus Corp. related to or in connection with the transactions contemplated by the Phase III Expansion project, including, without limitation, the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

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Mr. Huneke presented the financial matters. He discussed the seasonal increase in the trade receivable purchase and sale agreement with Corporate Asset Funding Company, Inc., CIESCO L.P. and Asset Securitization Cooperative Corporation, and reviewed the terms of the agreement. Upon motion duly made by Mr. Duncan, seconded by Dr. Gramm, and carried, the following resolutions were adopted:

RESOLVED, that the Chairman of the Board, the Vice Chairman of the Board, the President, or any Vice President of the Company is hereby authorized (any one of them acting alone) to negotiate, execute, and deliver, for and in the name and on behalf of the Company, Amendments (the "Amendments") to the following Agreements, as appropriate:

(a) The Trade Receivables Purchase and Sale Agreement dated as of March 9, 1990, as amended, among the Company, Corporate Asset Funding Company, Inc., CIESCO L.P., Asset Securitization Cooperative Corporation, Citibank, N.A., Canadian Imperial Bank of Commerce, and Citicorp North America Inc. ("CNA"), individually and as Agent (the "Investor Agreement"), and

(b) the Trade Receivables Purchase and Sale Agreement dated as of March 9, 1990, as amended, among the Company, the Banks named therein, and CNA, individually and as Agent (such agreement together with the Investor Agreement being the "Agreements");

said Amendments providing for, among other things, the following:

(1) an increase in the Purchase Limit under and as defined in the Investor Agreement from $500,000,000 to $800,000,000, from September 30, 1993, through April 15, 1994;

(2) the payment of certain additional fees in connection with such Purchase Limit increase;

(3) the addition to Schedule I to each of the Agreements of any or all of Louisiana Gas Marketing Company, Enron Access Corporation, Transwestern Pipeline Company, and Enron Clean Fuels Company (a division of Enron Gas Liquids, Inc.), as new "Selling Subsidiaries" under the Agreements, and the

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addition of the "Receivables" owed from time to time to each such new Selling Subsidiary by "Designated Obligors" (in each case as defined in the Agreements) to the "Receivables Pool" under the Agreements; and

(4) purchase agreements ("Receivables Purchase Agreements") whereby the Company shall purchase from such new Selling Subsidiaries from time to time "Receivables" (as defined in the Agreements) existing on the date of such Receivables Purchase Agreements and thereafter arising from time to time, for amounts equal to the fair market value of such Receivables computed by subtracting from the face amounts of such Receivables a discount that reflects (among other things) the cost to the Company of owning such Receivables (including, without limitation, the Company's cost of funding its purchase of such Receivables) and the estimated costs (taking into account collection risks) of collections of such Receivables;

but with such changes, amendments, and modifications and in such form as the officer executing such Amendments shall approve, such approval to be conclusively evidenced by his or her execution of such Amendments;

RESOLVED FURTHER, that the Company is authorized and directed to observe and perform in full all of the obligations, conditions, covenants, and other terms set forth in or contemplated by the Amendments and the Agreements as amended thereby;

RESOLVED FURTHER, that the Company is authorized and directed to observe and perform in full all of the obligations, conditions, covenants, and other terms set forth in or contemplated by the Receivables Purchase Agreements;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel are hereby authorized, empowered and directed (any one of them acting alone) to take all such further action, to execute and deliver all such further agreements, certificates, instruments, and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise as such officer of the Company may deem (as evidenced by such execution and delivery) necessary, appropriate, or advisable in order to effectuate or carry out the purposes and intentions of this and the foregoing resolutions and to observe and perform the obligations, conditions, covenants, and other terms set forth in or contemplated by the Amendments and the Agreements as amended thereby and the Receivables Purchase Agreements.

Mr. Huneke reviewed a proposed receivable sales agreement with Citibank, N.A. or Citicorp North America, Inc. from Enron Power Philippines Corp., a wholly-owned indirect subsidiary of the Company, in connection with the Batangas power project of Batangas Power Corp., a joint venture company owned 50% by Enron Power Philippines Corp. and 50% by New Saga Power Corp. Upon motion duly made by Mr. Duncan, seconded by Dr. Gramm, and carried, the following resolutions were approved:

WHEREAS, Enron Power Philippines Corp., a corporation organized and existing under the laws of the Republic of the Philippines ("EPPC"), is entering into a purchase and repurchase agreement (the "Agreement") with Citibank, N.A. or any of its affiliates ("Citibank"), whereby EPPC will sell to Citibank receivables (the "Receivables") arising from advances made from EPPC to Batangas Power Corp. in the aggregate amount of up to $103,064,727 bearing interest at a rate of 9% per annum;

WHEREAS, EPPC is a wholly-owned subsidiary of the Company;

WHEREAS, it is a condition precedent to the sale of the Receivables to Citibank that the Company provide to Citibank a guaranty (the "Guaranty") of EPPC's obligations under the Agreement, which obligations include, but are not limited to, the obligation by EPPC to repurchase from Citibank the Receivables on or before December 15, 1993;

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WHEREAS, the undertaking of the obligations set forth in the immediately preceding paragraphs by the Company will benefit, directly or indirectly, the Company;

NOW, THEREFORE, BE IT RESOLVED, that the Company be, and it hereby is, authorized to provide the Guaranty;

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, any Vice President, the Treasurer, or any Assistant Treasurer of the Company be, and each of them hereby (acting alone) is, authorized in the name and on behalf of the Company, under its corporate seal or otherwise, to negotiate, execute, deliver, amend, perform, and consummate the Guaranty and such other agreements, instruments, or documents as such officer may deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions, in such forms as shall be approved by the officer executing the same, such approval to be conclusively evidenced by the execution thereof by such officer;

RESOLVED FURTHER, that each such officer be, and each such officer hereby is, authorized in the name and on behalf of the Company to take or cause to be taken such action as such officer may deem necessary or desirable in connection with the performance by the Company of its obligations under any agreement, document, or instrument related to these transactions to which the Company is a party;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary,

proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Mr. Huneke discussed a corporate guaranty of the obligations of its indirect subsidiary, Enron Gas Marketing, Inc., under a Master Firm Purchase/Sale Agreement with Equitrans, Inc. Upon motion duly made by Mr. Duncan, seconded by Dr. Gramm, and carried, the following resolutions were approved:

WHEREAS, Enron Gas Marketing, Inc., a Delaware corporation ("EGM"), is entering into a Master Firm Purchase/Sale Agreement (the "Agreement") with Equitrans, Inc., a Delaware corporation ("Equitrans");

WHEREAS, EGM is a wholly-owned subsidiary of the Company;

WHEREAS, it is a condition precedent to the effectiveness of the Agreement that the Company provide to Equitrans a guaranty (the "Guaranty") of the performance of EGM's obligations under the Agreement; and

WHEREAS, the undertaking of the obligations set forth in the immediately preceding paragraphs by the Company will benefit, directly or indirectly, the Company;

NOW, THEREFORE, BE IT RESOLVED, that the Company be, and it hereby is, authorized to provide the Guaranty;

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, any Vice President, the Treasurer, or any Assistant Treasurer of the Company be, and each of them hereby is, authorized in the name and on behalf of the Company, under its corporate seal or otherwise, to negotiate, execute, deliver, amend, perform, and consummate such agreements, instruments, or documents as such officer may deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions, in such forms as shall be approved by the officer executing the same, such approval to be conclusively evidenced by the execution thereof by such officer;

RESOLVED FURTHER, that each such officer be, and each such officer hereby is, authorized in the name and on behalf of the

Company to take or cause to be taken such action as such officer may deem necessary or desirable in connection with the performance by the Company of its obligations under any agreement, document, or instrument related to these transactions to which the Company is a party;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Mr. Lay informed the Board that in connection with the Government's change in corporate tax rates, under generally accepted accounting principles, the Company would be required to record the change in tax rates as an increased or deferred tax expense in the third quarter. He estimated that the economic impact to the Company would be $50 million in the third quarter.

There being no further business to come before the Board, the meeting was adjourned at 4:35 p.m., C.D.T.

Secretary

APPROVED:

Chairman

MINUTES
MEETING OF THE FINANCE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
OCTOBER 12, 1993

Minutes of a meeting of the Finance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), held pursuant to due notice at 3:00 p.m., E.D.T., on October 12, 1993, at the Willard InterContinental Hotel in Washington, D.C.

The following Committee members were present, constituting a quorum:

Mr. Herbert S. Winokur, Jr., Chairman
Mr. William A. Anders
Mr. Norman P. Blake, Jr.
Mr. John A. Urquhart

Committee member Robert K. Jaedicke joined the meeting in progress, as noted hereinbelow. Directors Kenneth L. Lay, and Richard D. Kinder, Messrs. Rodney L. Gray, Kurt S. Huneke, Edmund P. Segner, III, and Jack I. Tompkins, and Mesdames Nancy G. McNeil and Peggy B. Menchaca also attended the meeting.

The Chairman, Mr. Winokur, presided at the meeting, and the Secretary, Ms. Menchaca, recorded the proceedings.

Mr. Winokur noted that drafts of minutes of a meeting of the Committee held on May 3, 1993, had been distributed to members of the Committee and called for corrections or additions. There being none, upon motion duly made by Mr. Anders, seconded by Mr. Urquhart, and carried, the minutes of the meeting of the Committee held on May 3, 1993, were approved as distributed.

Mr. Segner distributed and discussed material related to the dividend to be paid in the fourth quarter, a copy of which is filed with the records of the meeting. He reviewed a comparison of dividends paid by classes of companies, such as the pipeline industry, S&P 500, producers, oil service, international oil, domestic oil, refiners, and distributors. He recommended that the Company's dividend be increased from $.70 annually to $.75 annually, resulting in a quarterly rate of $.1875. He noted that the percent increase would amount to 7.1%. Mr. Kinder stated that the increase would decrease cash flow by approximately $12 million.

Upon motion duly made by Mr. Urquhart, seconded by Mr. Anders, and carried, the increase in the dividend policy recommended by management was approved for recommendation to the Board of Directors.

Mr. Segner distributed and referred the Committee to a Debt Rating Study prepared by Merrill Lynch & Co. ("Merrill Lynch") and asked the Committee members to substitute it for the copy sent with each member's Committee materials. A copy of the substituted Debt Rating Study is filed with the records of the meeting. Mr. Segner reviewed the Debt Rating Study on a page-by-page basis. He also distributed and discussed an Enron Corp. summary of issues relating to the Debt Rating Study, a copy of which is filed with the records of the meeting. A discussion ensued related to the importance of achieving an "A" debt rating for the Company, particularly in its international and gas services businesses. Mr. Winokur observed that no action was required of the Committee but noted the Committee's consensus with the direction taken by the management of the Company with regard to seeking an "A" debt rating.

Mr. Huneke presented an update on the perpetual preferred stock issue and distributed material related thereto, a copy of which is filed with the records of the meeting. He noted that Texaco, Inc. had filed a registration statement with the Securities and Exchange Commission ("SEC") for a similar offering and would make its offering to the market just prior to that of the Company. He indicated that if there were no SEC review of the Company's registration statement, it could "go effective" during the first week of November if not earlier. He led a discussion related to the filing of an "omnibus" type shelf registration, from which issues of debt, preferred, or common securities could be made. He indicated that determination of the question of whether or not the preferred stock offering would be tax deductible was key to management's decision to proceed.

Mr. Segner reminded the Committee that the Board of Directors had approved a debt securities shelf registration at its meeting on August 10, 1993, and he proposed that the resolutions adopted at that time be restated to provide management the flexibility to proceed with the filing of an omnibus type registration statement with the SEC, from which issues of debt, preferred securities, or common securities could be made. Following discussion, the consensus of the Committee was to recommend to the Board of Directors of the Company the restatement of resolutions adopted at the Board's August 10, 1993 meeting to provide for offerings of up to $575 million if the structure of the perpetual preferred stock offerings were determined to be tax deductible and if the rating agencies would treat the issue as equity for purposes of debt rating, and offerings of up to $350 million if the structure of the offerings were determined not to be tax deductible.

Mr. Segner next presented a proposal related to the creation and funding of a "Flexitrust" program. A copy of Mr. Segner's report is filed with the records of the meeting. He stated that with regard to the Company's firm commitment to issue equity in the future, the Flexitrust would offer a vehicle through which to issue the equity and not incur a penalty in the equity market for having done so. He indicated that using a Flexitrust had advantages over other equity products in that it would allow the Company to avoid immediate dilution to earnings per share; avoid payment of dividends on newly-issued shares; and retain future appreciation on newly-issued shares. He and Mr. Huneke discussed the transaction structure and operation and described the benefit and compensation plans which would be covered. Mr. Segner recommended that a five-year $262.5 million Flexitrust program with a firm commitment to issue a prescribed amount of stock every two years be approved for recommendation to the Board. Following discussion, upon motion by Mr. Blake, seconded by Mr. Urquhart, and carried, the Flexitrust program was approved for recommendation to the Board.

Mr. Huneke presented proposed changes to the Company's Investment Policy, including expanded investment alternatives, replacing the approved institutions list with defined credit criteria, increasing the maximum investment maturity to one year, revising the investment limits to $50 million for AAA issuers (but remaining at current level of $25 million for AA and A issuers), and requiring custody for commercial paper only if the term of the investment were greater than 31 days. He noted that the revised policy would apply to all Company-owned affiliates unless exceptions were made by the Board. He stated that the amended policy would allow management more flexibility to optimize rates. A copy of Mr. Huneke's report is filed with the records of the meeting. Mr. Winokur called for questions or dissents to the proposed amended Investment Policy as presented and discussed. There being none, he declared the policy approved for recommendation to the Board. Mr. Winokur suggested that management report back to the Committee on an annual basis on how it had performed the previous year under the Investment Policy.

Mr. Tompkins presented the Capital Expenditure Approval Policy and Procedure indicating approval levels and procedures for making capital expenditures. He noted that there was no change in the approval levels. Mr. Winokur called for questions or dissents to the proposed policy and levels of approval for capital expenditures. There being none, Mr. Winokur declared the item approved for recommendation to the Board.

Mr. Huneke reported on the performance of the Company's Retirement Plan, indicating rates of return from December, 1986, to date on a prorata basis as between domestic equities, international equities, and fixed income funds.

Mr. Segner next distributed material related to the status of holders of the Company's $10.50 Cumulative Second Preferred Convertible Stock (the "Series J Stock"). He indicated that management was considering an amendment to be submitted to the Board and, if approved, to the shareholders of the Company at its Annual Shareholders Meeting in May, 1994, which would amend the dividend portion of the Certificate of Designation to allow Series J Stock holders to receive the higher of the original dividend ($10.50) or the equivalent dividend that would be paid if the Series J Stock were converted to the Company's common stock at the current conversion rate. Mr. Segner indicated that the item was informational only, and no action was requested at the instant meeting.

Mr. Segner next distributed and discussed a draft letter which would be sent to all holders of Series J Stock informing them of management's intent with regard to the proposed amendment to the Certificate of Designation in order that each holder would be fully advised before making a decision with regard to conversion of said Series J Stock. He also distributed a copy of an opinion from Lehman Brothers reflecting that the proposed amendment would not have a material adverse effect on the Company (or the Company's common stockholders). Draft copies of the letter to holders of Series J Stock and the Lehman Brothers opinion are filed with the records of the meeting. There were no dissenting comments from the Committee relative to the mailing of the letter to the holders of Series J Stock, and Mr. Winokur declared the matter approved for recommendation to the Board.

Mr. Winokur informed the Committee that the Company was now considering selling at least half of EOTT Energy Corp. through a master limited partnership structure, as opposed to spinning it off to the Company's common shareholders. He noted the successful financial turn-around of the Company under its new management.

Mr. Huneke reviewed the guaranties proposed for Board approval, including (i) a guaranty required as security for transactions by the Company's indirect subsidiaries, EOTT Energy Corp. and Enron Products Marketing Company, with Exxon Corporation for the sale or exchange of petroleum products; and (ii) a guaranty of obligations of the Company's indirect subsidiary, Enron Industrial Natural Gas Company, under a Gas Purchase Agreement with Exxon Company U.S.A. He also discussed an amendment increasing the Cactus III funding vehicle to $45 million.

In addition, Mr. Huneke reviewed four guaranties which were requested after the Board and Committee material had been prepared: (i) a guaranty of the obligations of the Company's indirect subsidiary, Enron Power Services, Inc., under a Gas Sales Agreement with Brooklyn Navy Yard Cogeneration Partners: (ii) a guaranty of the obligations of the Company's indirect subsidiary, Enron Power Services, Inc., under a Gas Sales Agreement with Auburdale Power Partners, L.P.; (iii) a guaranty of the obligations of the Company's jointly-owned subsidiary, Citrus Marketing, Inc., under a Gas Sales Agreement with Auburdale Power Partners, L.P., subject to approval by the Board of Directors of Sonat, Inc., joint owner of Citrus Marketing, Inc.; and (iv) a guaranty required by the Company's partially owned subsidiary, Subic Power Corp., in order to obtain financing of approximately $100 million for the development, construction, and startup of the Subic Bay project in the Philippines.

Mr. Winokur summarized the recommendations for approval of guaranties, and he suggested to management that in making future recommendations of this type it correlate the guarantee sought to the Company's Investment Policy, as well as the Foreign Exchange Policy, if appropriate, and make that representation to the Committee.

Mr. Tompkins next updated the Committee on the Electronic Data Systems ("EDS") registration rights granted by the Company's Board in a stock option effective January 1, 1993. He stated that EDS had announced that it intended to exercise the option and sell the shares immediately upon exercise. He stated that EDS had agreed that 90 percent of the funds received would be credited to the Company to lower the EDS contract costs and that any exercise would be contingent on successful resolution of all accounting and legal issues. He noted that the option was a one year option, and, if approved by the Company's Board, another option could be granted to EDS in January, 1994.

There being no further matters to be brought before the Committee, the meeting was adjourned at 4:30 p.m., E.D.T.

Secretary

APPROVED:

Chairman

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MINUTES
MEETING OF THE BOARD OF DIRECTORS
ENRON CORP.
OCTOBER 13, 1993

Minutes of a meeting of the Board of Directors of Enron Corp. ("Company"), held pursuant to due notice at 8:30 a.m., E.D.T., on October 13, 1993, at the Willard InterContinental Hotel in Washington, DC.

All of the Directors were present, constituting a quorum:

Mr. Kenneth L. Lay, Chairman
Mr. William A. Anders
Mr. Robert A. Belfer
Mr. Norman P. Blake, Jr.
Mr. John H. Duncan
Mr. Joe H. Foy
Dr. Wendy L. Gramm
Dr. Robert K. Jaedicke
Mr. Richard D. Kinder
Dr. Charles A LeMaistre
Mr. John A. Urquhart
Dr. Charls E. Walker
Mr. Herbert S. Winokur, Jr.

Messrs. Ronald J. Burns, James V. Derrick, Jr., Rodney L. Gray, Forrest E. Hoglund, Stanley C. Horton, Kurt S. Huneke, Edmund P. Segner, III, Jack I. Tompkins, and Thomas E. White, and Mesdames Rebecca C. Mark, Nancy G. McNeil, and Peggy B. Menchaca also attended the meeting.

The Chairman, Mr. Lay, presided at the meeting, and the Secretary, Ms. Menchaca, recorded the proceedings.

Mr. Lay called the meeting to order and noted that copies of minutes of meetings of the Board held on August 10, 1993, and September 27, 1993, had been distributed to the members of the Board. He called for additions, corrections, or comments; and there being none, upon motion duly made by Mr. Anders, seconded by Mr. Duncan, and carried, the minutes were approved as distributed.

Mr. Lay called on Mr. Winokur for a report on the meeting of the Finance Committee held the previous day. Mr. Winokur stated that the Committee had

heard a report on a Debt Rating Study prepared by Merrill Lynch relative to the Company's efforts in achieving an "A" debt rating. He indicated that the "A" rating was particularly important to the international and gas services operations, and he noted the Committee's approval of the direction taken by management.

Mr. Winokur stated that the Committee had heard an update on the perpetual preferred stock issue. In that regard, he noted that the Committee had approved for recommendation to the Board a restatement of the shelf registration resolutions adopted by the Board at its September meeting to provide for an omnibus type shelf registration which would allow management flexibility with regard to this and future perpetual preferred stock offerings and debt securities offerings. He noted that the maximum aggregate amount of the perpetual preferred stock that could be offered would be $575 million, if the structure of the perpetual preferred offerings were determined to be tax deductible and if the rating agencies would treat the issue as equity for purposes of debt rating, and an additional maximum aggregate amount of $350 million if the structure of the perpetual preferred stock offerings were determined not to be tax deductible. He moved approval of the restatement. Mr. Winokur's motion was seconded by Mr. Blake, carried, and the following resolutions were approved:

> WHEREAS, on August 10, 1993, this Board of Directors authorized (the "Previous Debt Securities Authorization") the issuance and sale of up to $600,000,000 aggregate principal amount of the Company's unsecured debentures, notes, or other debt obligations (the "Debt Securities");
>
> WHEREAS, on September 27, 1993, this Board of Directors authorized (the "Previous Preferred Stock Authorization") the issuance and sale from time to time of up to $250,000,000 of fixed rate perpetual preferred stock (the "Preferred Stock") by the Company or a special purpose company (the "SPC") to be incorporated in the Cayman Islands or the Turks and Caicos Islands, at a price and with such terms and conditions to be agreed upon and established by the Preferred Stock Committee created by this Board at such meeting;
>
> WHEREAS, this Board of Directors desires to authorize the issuance and sale of additional amounts of Preferred Stock by the Company or an SPC, such that: (i) up to $575,000,000 of Preferred Stock may be issued and sold, as hereinafter provided, provided that the issuer is an SPC organized in the Cayman Islands or the Turks and Caicos Islands, or another subsidiary of the Company that is

treated as a partnership for U.S. federal income tax purposes; and (ii) up to an additional $350,000,000 of Preferred Stock may be issued and sold, as hereinafter provided, if the issuer is not an SPC organized in the Cayman Islands or the Turks and Caicos Islands, or another subsidiary of the Company that is treated as a partnership for U.S. federal income tax purposes; and this Board desires to provide for the issuance and sale of the Debt Securities and the Preferred Stock by restating and, to the extent the following resolutions are inconsistent with the Previous Debt Securities Authorization and the Previous Preferred Stock Authorization, amending such previous authorizations.

RESOLVED, that the Board of Directors hereby deems it advisable and in the best interests of the Company for the Company (or one or more special purpose companies (the "SPC") to be incorporated in the Cayman Islands or the Turks and Caicos Islands, to be 100% directly or indirectly owned by the Company) to issue and sell from time to time (i) up to $575 million of fixed rate perpetual preferred stock if the issuer is an SPC organized in the Cayman Islands or the Turks and Caicos Islands, or another subsidiary of the Company that is treated as a partnership for U.S. federal income tax purposes, and (ii) up to an additional $350 million of fixed rate perpetual preferred stock if the issuer is the Company and not an SPC organized in the Cayman Islands or the Turks and Caicos Islands, or another subsidiary of the Company that is treated as a partnership for U.S. federal income tax purposes (the preferred stock referred to in (i) and (ii) above to be referred to herein as the "Preferred Stock"), at prices and with such terms and conditions to be agreed upon and established by the Preferred Stock Committee referred to below, and to be sold from time to time in public offerings;

RESOLVED, that the Company and/or the SPC enter into one or more underwriting agreements, or other agreements, however designated, together with all necessary agreement wires, confirmation letters, or terms agreements (collectively the "Agreements"), with such underwriting firm or firms or with such institutions or dealers as may, in the judgment of the Chairman of the Board, any Vice Chairman of the Board, the President, any Executive or Senior Vice President, or the Vice President and Treasurer of the Company, be necessary to effect the sale of the Preferred Stock; that the Chairman of the Board, any Vice Chairman

of the Board, the President, any Executive or Senior Vice President, or the Vice President and Treasurer of the Company be, and each of them hereby is, authorized and directed to execute and deliver the Agreements, for and in the name and on behalf of the Company or the SPC, in such forms as the officer executing such Agreements shall approve, such approval to be conclusively evidenced by such execution; and that the Company be, and it hereby is, authorized and directed to perform in full all of its obligations under the Agreements;

RESOLVED, in connection with the issuance and sale of the Preferred Stock by the Company or the SPC, that the officers of the Company be, and they hereby are, authorized, empowered, and directed to cause to be prepared, executed, and filed with the Securities and Exchange Commission (the "Commission") (i) a registration statement on Form S-3 or other appropriate form (as so filed, including any exhibits thereto, the "Registration Statement") and (ii) such amendments and post-effective amendments to the Registration Statement or supplements to the Prospectus constituting a part thereof, and to take all such further action, including the filing of final forms of the Prospectus, as may, in the judgment of such officers, be necessary, desirable, or appropriate to secure and thereafter to maintain the effectiveness of the Registration Statement;

RESOLVED, that the Registration Statement may, in the judgment of the officers of the Company, be an "omnibus" registration statement, which may include registration of the sale of (i) the Preferred Stock (and registration of any required Company guarantee of certain SPC Preferred Stock payment obligations, or Company debt obligations to the SPC in connection with the Preferred Stock), and (ii) Depository Shares (defined below) representing fractional interests in the Preferred Stock, and (iii) registration of the sale of Debt Securities previously authorized for issuance and sale by this Board of Directors on August 10, 1993;

RESOLVED, that the Board of Directors of the Company, in accordance with Section 141 of the General Corporation Law of the State of Delaware and Article IV of the Bylaws of the Company, as amended, does hereby create a special preferred stock committee (the "Preferred Stock Committee") and designate Kenneth L. Lay and Richard D. Kinder as the members of the Preferred Stock Committee, and that the Preferred Stock Committee is hereby

authorized and empowered to determine, for and in the name and on behalf of the Company and the SPC, the following terms:

(i) the maximum number of shares to constitute the series of Preferred Stock and the distinctive designation thereof;

(ii) the annual dividend rate, if any, on shares of the series, whether such rate is fixed or variable or both, the date or dates from which dividends will begin to accrue or accumulate, and whether dividends will be cumulative;

(iii) whether the shares of the series will be redeemable and, if so, the price at and the terms and conditions on which the shares of the series may be redeemed, including, without limitation, the time during which shares of the series may be redeemed and any accumulated dividends thereon that the holders of shares of the series shall be entitled to receive upon the redemption thereof;

(iv) the liquidation preference, if any, applicable to shares of the series;

(v) whether the shares of the series will be subject to operation of a retirement or sinking fund and, if so, the extent and manner in which any such fund shall be applied to the purchase or redemption of the shares of the series for retirement or for other corporate purposes, and the terms and provisions relating to the operation of such fund;

(vi) the voting rights, if any, on the shares of the series;

(vii) whether fractional interests in shares of the series will be offered in the form of Depository Shares; and

(viii) any other preferences, participating, optional, or other special rights or qualifications, limitations, or restrictions thereof, and any other term of any Agreement and all such other matters as may be determined by such Preferred Stock Committee consistent with Delaware law, the SPC's Charter and by-laws, the Company's Restated Certificate of Incorporation, the terms of any outstanding series of preferred stock, and these resolutions, such Preferred Stock Committee's approval of such terms and conditions to be

conclusively determined by their inclusion in the executed copies of any Agreements;

and that the Preferred Stock Committee is hereby authorized to take any and all action and to do or cause to be done any or all things which may appear to the Preferred Stock Committee to be necessary or advisable in order for the Company, or to cause the SPC, to offer, issue, and sell the Preferred Stock, to the full extent and with the same effect as the Board of Directors of the Company could take such action or do or cause such things to be done; and that a majority of the members of the Preferred Stock Committee shall constitute a quorum for the transaction of business; and that the Preferred Stock Committee shall keep a written record of its meetings, shall present such record to the meetings of the Preferred Stock Committee, and shall file a copy of such record in the corporate minutes of the Company;

RESOLVED, that in the event Preferred Stock is issued by the SPC, it may be in the best interests of the Company, and the Company is hereby authorized, to guarantee, on such terms as the Preferred Stock Committee deems appropriate, the liquidation value of the Preferred Stock to be issued by the SPC, as well as dividends on the Preferred Stock, if and when declared, and to enter into any loan agreement or other agreements as may be determined by the Preferred Stock Committee to be necessary or advisable in order to cause the SPC to offer, issue, and sell the Preferred Stock;

RESOLVED, that the Company is hereby authorized to elect to offer fractional interests in shares of the Preferred Stock, rather than full shares, in the form of Depository Shares evidenced by Depository Receipts; and that the Preferred Stock Committee is hereby authorized to determine the fractional interest of a share of Preferred Stock represented by each Depository Share and any other terms of the Depository Shares;

RESOLVED, that the Company is hereby authorized to deposit the Preferred Stock represented by the Depository Shares under a deposit agreement ("Deposit Agreement") to be entered into between the Company and a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least $50,000,000 (the "Depository"); that the Chairman of the Board, any Vice Chairman of the Board, the

President or any Vice President of the Company be, and each of them hereby is, authorized and directed to execute, acknowledge, and deliver the Deposit Agreement, for and in the name and on behalf of the Company, in such form as the officer executing such Deposit Agreement shall approve, such approval to be conclusively evidenced by such execution;

RESOLVED, that the Chairman of the Board, the President, or any Vice President and the Corporate Secretary, any Deputy Corporate Secretary, or any Assistant Secretary of the Company be, and each of them hereby is, authorized, empowered, and directed, for and in the name and on behalf of the Company, to take any and all action which they may deem necessary or advisable in order for the Company or the SPC to obtain a permit, to register, or to qualify part or all of the Preferred Stock or Depository Shares for issuance and sale or to request an exemption from registration of part or all of the Preferred Stock or Depository Shares or to register or obtain a license for the Company or the SPC as a dealer or broker under the securities laws of such of the states of the United States of America and of such foreign jurisdictions as such officers may deem advisable, and in connection with such registrations, permits, licenses, qualifications, and exemptions, to execute, acknowledge, verify, deliver, file, and publish all such applications, reports, resolutions, irrevocable consents to service of process, powers of attorney, and other papers and instruments as may be required under such laws, and to take any and all further action which they may deem necessary or advisable in order to maintain such registration in effect as long as they may deem it to be in the best interests of the Company;

RESOLVED, that the Company or the SPC make application to the New York Stock Exchange, Inc. and one or more other securities exchanges as the officer acting shall deem necessary or appropriate for the listing thereon of the Preferred Stock or Depository Shares; that the Chairman of the Board, the President, or any Vice President of the Company be, and each of them hereby is, authorized, empowered, and directed to execute and deliver, for and in the name and on behalf of the Company or the SPC, to the New York Stock Exchange, Inc. and all other securities exchanges on which the Preferred Stock or Depository Shares of the Company or the SPC are to be listed, such agreements in such form as may be necessary to effect the aforesaid listing; and that the officers of the

Company be, and they hereby are, authorized, empowered, and directed to execute and deliver any applications, documents, or agreements, to appear, if requested, before officials of any such exchanges, and to take any and all such actions, to appoint any banking institution as an agent of the Company or the SPC for any purpose, and to do or cause to be done any or all such things as may appear to them to be necessary or desirable in order to effect such listing, specifically including registration of the Preferred Stock or Depository Shares under Section 12 of the Securities Exchange Act of 1934, as amended;

RESOLVED, that the Preferred Stock Committee is hereby authorized to determine the form of stock certificate representing the Preferred Stock, and the form of certificate representing a Depository Share, with such changes thereto, consistent with these resolutions and any applicable resolutions of the Preferred Stock Committee, as the officers executing the same shall approve, such execution to be conclusive evidence of the approval of such officers and this Board of Directors or such Preferred Stock Committee;

RESOLVED, that the signature of the Chairman of the Board, any Vice Chairman of the Board, the President, or any Vice President of the Company or the SPC, as appropriate, the corporate seal of the Company or the SPC, and the signature of the Corporate Secretary, any Deputy Corporate Secretary, or any Assistant Secretary of the Company or the SPC, as appropriate, on any or all of the certificates of Preferred Stock or Depository Shares may be facsimile, and that the Company hereby adopts and approves any such facsimile signatures and seal;

RESOLVED, that the facsimile signatures which appear upon any of the certificates of Preferred Stock or Depository Shares shall be valid regardless of whether such officer ceases to hold such office prior to the issuance of the Preferred Stock or Depository Shares; and

RESOLVED, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company or the SPC, under the Company's or the SPC's corporate seal or

otherwise, as appropriate, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

Mr. Winokur stated that the Committee had heard a presentation on the proposed creation of a "Flexitrust" Program and approved it for recommendation to the Board. He explained that "Flexitrust" referred to a flexible employee benefit trust which would be created for the purpose of funding certain employee benefits. Upon motion duly made by Mr. Winokur, seconded by Mr. Blake, and carried, the following resolutions were adopted:

RESOLVED, that the Board of Directors hereby approves the creation of a flexible employee benefit trust (the "Flexitrust") for the purpose of funding certain employee benefits;

RESOLVED FURTHER, that the Chairman of the Board, any Vice Chairman of the Board, the President, any Executive Vice President, any Senior Vice President, or the Treasurer of the Company be, and each of them hereby is, authorized and empowered for and on behalf of the Company to negotiate such terms and conditions for the Flexitrust as any of said officers may deem best, and to execute, deliver, and perform for and on behalf of the Company such trust agreements, agreements to pay trustee fees, and such other instruments or written obligations (collectively, the "Agreements") of the Company as may be desired or required in connection with the Flexitrust and containing such terms and conditions as may be acceptable or agreeable to any of said officers, such acceptance and agreement to be conclusively evidenced by any of said officers' execution and delivery thereof; and that the Company be, and it hereby is, authorized and directed to perform in full all of its obligations under the Agreements;

RESOLVED FURTHER, that the Company is hereby authorized to sell to the Flexitrust, for good and valid consideration, up to 7.5 million shares of Common Stock, par value $.10 per share (such shares may be newly issued shares or treasury shares, or any combination thereof), at such prices and with such terms and conditions to be agreed upon and established by the Special Committee referred to below;

(713) 758-2192

November 4, 1993

Enron Corp.
1400 Smith Street
Houston, Texas 77002

Gentlemen:

You have requested our opinion concerning certain federal income tax consequences relative to the loans (the "Loans") to be made by Enron Capital LLC (the "Company") to Enron Corp. ("Enron") pursuant to that certain Loan Agreement to be entered into between the Company and Enron, as hereinafter described.

Based upon the facts, representations, assumptions, law and analysis all as set forth below, in our opinion for federal income tax purposes (i) the Company will be treated as a partnership, (ii) the Loans should be classified as indebtedness, and (iii) as such no tax will be required to be deducted and withheld by Enron pursuant to section 1441 of the Internal Revenue Code of 1986 (the "Code") from the interest payable to the Company in respect of the Loans.

FACTS

The Company is a limited life company organized under the laws of the Turks and Caicos Islands, and exists solely for the purpose of issuing its shares and lending the net proceeds thereof to Enron. The Company's current capitalization consists of 5,000 shares of $1 par value common stock (the "Common Shares"), of which 4,998 are issued and outstanding and owned by Enron. Prior to making the Loans to Enron, the Company's authorized capital will be increased by an additional class of 8,000,000 shares of $1 par value preferred stock (the "Preferred Shares"). Dividends on the Preferred Shares will (i) be cumulative, (ii) accrue from the date of original issue and (iii) be payable monthly in United States dollars at a rate on each Preferred Share of

8% of its stated liquidation preference of $25. Pursuant to an Underwriting Agreement,1 the Company will sell the Preferred Shares to several Underwriters for ultimate sale to the public.

After the sale of the Preferred Shares and pursuant to the terms of the Loan Agreement, the Company will loan to Enron an aggregate principal amount equal to the aggregate Liquidation Preference of the Preferred Shares issued and sold by the Company (approximately $200,000,000) plus the aggregate Common Share Payments (approximately $53,165,000). Enron is expected to use the proceeds of the Loans for general corporate purposes including the repayment of indebtedness. The Loan Agreement provides for fixed interest at an annual rate of 8%, with interest payable on the last day of each calendar month of each year commencing November 30, 1993, provided that Enron has the right to extend the interest payment period up to a maximum of 18 months so long as Enron is not in default in its payment of interest on the Loans. The entire principal amount of the Loans becomes due and payable, together with any accrued and unpaid interest thereon, on the earliest of (i) November 30, 2043, (ii) the date upon which Enron is dissolved or liquidated or (iii) the date upon which the Company is dissolved or liquidated.

The proceeds from any repayment of principal on the Loans will be applied to redeem the Preferred Shares at the Redemption Price, subject to the provision that any such amounts may be reloaned to Enron and not used for such redemption if, at the time of each such loan and as determined in the judgment of Enron, as Manager, and its financial advisor, (a) Enron is not in bankruptcy, (b) Enron is not in default on any Loan pertaining to the Preferred Shares, (c) Enron has made timely payments on the repaid Loan for the immediately preceding 18 months, (d) the Company is not in arrears on payments of dividends on the Preferred Shares, (e) Enron is expected to be able to make timely payment of principal and interest on such loan, (f) such loan is being made on terms, and under circumstances, that are consistent with those which a lender would require for a loan to an unrelated party, (g) such loan is being made at a rate sufficient to provide payments equal to or greater than the amount of dividends that accrue on the Preferred Shares, (h) the senior unsecured long-term debt of Enron is rated BBB- or better by Standard & Poor's Corporation or Baa3 or better by Moody's Investors Service, Inc. or the equivalent by any other nationally recognized statistical rating organization, (i) such loan is being made for a term that is consistent with market circumstances and Enron's financial condition and (j) the final maturity of such loan is not later than the 100th anniversary of the issuance of the Preferred Shares.

The Loan Agreement contains a mandatory prepayment provision whereby, if the Company redeems Preferred Shares, the Loans become due and payable in a principal amount equal to the aggregate stated liquidation preference of the Preferred Shares so redeemed plus all accrued interest. Optional prepayment provisions in the Loan Agreement give Enron the right to prepay the Loans without premium or penalty (i) in whole or in part, together with all accrued and unpaid interest and Additional Interest on the portion being prepaid at any time following November 30, 1998, and (ii) in whole

(or in part, provided such partial prepayment would not result in a delisting of the Preferred Shares) together with all accrued and unpaid interest and Additional Interest, at any time after Enron is or would be required to pay Additional Interest. However, Enron does not have the right to prepay the Loans based on (a) a technical obligation to pay Additional Interest because of a withholding obligation to the extent Enron would not incur any penalties, interest or tax under the Code or other applicable law if Enron did not withhold, or (b) a *de minimis* obligation to pay Additional Interest. For purposes of the foregoing, in the event that Enron is advised by independent legal counsel that more than an insubstantial risk exists that Enron will incur penalties, interest or tax under the Code or other applicable law if it does not withhold, Enron shall have the right to repay the Loans unless the obligation to pay Additional Interest if Enron does so withhold is a *de minimis* obligation.

The Loan Agreement provides that each of the Loans is subordinate and junior in right of payment to all Senior Indebtedness, which is defined as the principal, premium, if any, and interest on (i) all indebtedness of Enron, whether outstanding on the date of the Loan Agreement or thereafter created, incurred or assumed, which is for money borrowed or evidenced by a note or similar instrument given in connection with the acquisition of any business, properties or assets, (ii) any indebtedness of others of the kind described in the preceding clause for which Enron is responsible or liable as guarantor or otherwise, (iii) any indebtedness secured by a lien upon property owned by Enron and upon which indebtedness Enron customarily pays interest, even though Enron has not assumed or become liable for the payment of such indebtedness and (iv) amendments, renewals, extensions and refundings of any such indebtedness, unless in any instrument or instruments evidencing or securing such indebtedness or pursuant to which the same is outstanding, or in any such amendment, renewal, extension or refunding, it is expressly provided that such indebtedness is not superior in right of payment to the Loans. In the event that Enron defaults in the payment of any principal, premium or interest on any Senior Indebtedness or an Event of Default has occurred with respect to any Senior Indebtedness and written notice describing such Event of Default and requesting commencement of payment blockage on the Loans is given to Enron by the holders of Senior Indebtedness, the Loan Agreement prohibits Enron from making any direct or indirect payment with respect to the Loans until the default on the Senior Indebtedness has been cured or waived or ceases to exist. In the event of any insolvency, bankruptcy or other similar proceeding relating to Enron, all Senior Indebtedness must be paid in full before any payment or distribution on the Loans may be made.

The Loan Agreement provides for various Events of Default pursuant to which the Company has the right to declare all amounts payable under the Loan Agreement to be immediately due and payable and to enforce its other rights as a defaulted creditor with respect to the Loans. The Operative Documents further provide that (i) if the Company fails to pay dividends in full on the Preferred Shares for 18 consecutive monthly dividend periods (assuming that Enron has not exercised its right to extend the interest payment period), (ii) an Event of Default occurs and is continuing or (iii) Enron

breaches any of its obligations under the Guarantee (described below), then the holders of a majority in liquidation preference of the outstanding Preferred Shares may appoint a trustee to enforce the Company's creditor rights under the Loan Agreement, enforce the obligations of Enron under the Guarantee and the Expense Agreement, and declare and pay dividends on the Preferred Shares.

As part of these transactions, Enron will execute and deliver a guarantee (the "Guarantee") for the benefit of the holders of the Preferred Shares, which Guarantee will constitute a guarantee of payment and not of collection and will rank (i) subordinate to all liabilities of Enron, (ii) *pari passu* with the most senior preferred or preference stock now or hereafter issued by Enron and with any Enron guarantee now or hereafter entered into by Enron by respect of any preferred or preference stock of any Enron affiliate, and (iii) senior to Enron's common stock. Under the Guarantee, Enron is unconditionally obligated to pay the Guarantee Payments (except to the extent paid by the Company) in full to the holders of the Preferred Shares regardless of any defense, right of set off or counterclaim which the Company may have or assert. The following payments (to the extent not paid by the Company) constitute Guarantee Payments: (i) any accumulated and unpaid dividends declared on the Preferred Shares out of funds legally available therefor, (ii) the Redemption Price payable out of funds legally available therefor with respect to Preferred Shares called for redemption by the Company, (iii) upon a liquidation of the Company, the lesser of (a) the Liquidation Distribution and (b) the amount of assets of the Company available for distribution to Preferred Shareholders in liquidation of the Company, and (iv) any Additional Amounts payable by the Company in respect of the Preferred Shares.

As part of the Loan Agreement, Enron will covenant that, so long as any Preferred Shares remain outstanding, neither it nor any majority-owned subsidiary will declare or pay any dividend on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, or make any guarantee payments with respect to the foregoing (other than (i) payments under the Guarantee, (ii) dividends or guarantee payments to Enron, or (iii) dividends on common stock paid by Enron Oil & Gas Company) if at such time Enron is in default with respect to its payment or other obligations under the Guarantee or the Expense Agreement or there has occurred any event that, with the giving of notice or the lapse of time or both, would constitute an Event of Default under the Loan Agreement. Enron will also covenant that so long as any Preferred Shares remain outstanding (i) it will maintain direct or indirect 100% ownership of the Common Shares and any other shares of the Company other than the Preferred Shares, (ii) it will cause at least 21% of the total value of the Company and at least 21% of all interests in the capital, income, gain, loss, deduction and credit of the Company to be represented by Common Shares, (iii) it will not voluntarily dissolve, wind-up or liquidate the Company, (iv) it will remain the Manager of the Company and timely perform all of its duties as Manager of the Company (provided that any permitted successor of Enron under the Loan Agreement may succeed to Enron's duties as Manager), and (v) it will use reasonable efforts to cause the Company to remain a limited life company and otherwise continue to be treated as a partnership for United

States federal income tax purposes.

The Articles of Association of the Company (referred to therein and herein as "Regulations") provide, in Regulation 15, that a Common Shareholder ceases to be a Member of the Company if such Common Shareholder attempts to make a transfer of his share in breach of the provisions of the Regulations. Regulation 16 provides that the transfer of any Common Shares in the Company is prohibited absolutely. Regulation 34 provides that the Manager (which is defined in the Regulations to mean Enron, any permitted successor to Enron, or any other holder of the Common Shares) will cause at least 21 percent of the total value of the Company and at least 21 percent of all interests in the capital, income, gain, loss, deduction and credit of the Company to be represented by Common Shares.

Regulation 52 provides that the Company shall be in dissolution automatically and without requirement of any other act upon the bankruptcy, resignation, withdrawal, expulsion, termination, cessation or dissolution under U.S. law of the holder of a majority of the Common Shares. Regulation 56 provides that when the Company is in dissolution, the Manager shall serve as liquidator unless and until the majority of the former Common Shareholders who were Members immediately preceding the commencement of dissolution and winding up by majority vote appoint a liquidator to replace the Manager.

REPRESENTATIONS AND ASSUMPTIONS

In connection with your request that we furnish this opinion you have made and we have relied upon the following representations, and our opinion is conditioned upon the initial and continuing accuracy of these representations and upon the assumptions set forth below:

1. At the time the Loans are made, (a) Enron is expected to be able to make timely payment of all principal and interest on the Loans, (b) the Loans are being made on terms, and under circumstances, that are consistent with those which a lender would require with respect to a loan of similar tenor and subordination to an unrelated party, and (c) the Loans are being made for a term that is consistent with market circumstances and Enron's financial condition.

2. The Company will enforce its creditor rights against Enron as specified in the Operative Documents in the case of an Event of Default or any other event giving rise to such rights under the Operative Documents.

3. Enron expects to continue its corporate existence and substantial business operations at least for the term of the Loans.

4. At the time the Loans are made, Enron could have borrowed the amount

of the Loans on similar terms from unrelated independent lenders.

5. The Company has been organized and at all times will be operated in conformance with the provisions of the Regulations, all of which provisions are effective under applicable law to establish the rights and obligations of the holders of the Common Shares and the holders of the Preferred Shares among themselves and with the public at large.

6. At all times during the existence of the Company, the Common Shares will represent at least 21 percent of all interests in the capital, income, gain, loss, deduction and credit of the Company.

7. None of the Loans will be secured by an interest in real property.

8. At least 90 percent of the gross income of the Company for each taxable year will consist of interest on the Loans.

9. At no time will the Company be engaged in the conduct of a financial or insurance business.

10. Each of the Loans will be registered with Enron as to both principal and interest, and the transfer of each Loan may be effected only by surrender of the note evidencing such Loan and either the reissuance by Enron of the note to the new holder or the issuance by Enron of a new note to the new holder evidencing such Loan.

11. The Company will file timely and periodically with Enron a duly completed and executed Internal Revenue Service Form W-8 stating that the Company is the beneficial owner of the Loans and that it is not a United States person.

12. Enron will comply with its covenants in the Loan Agreement.

We have assumed that the holders of the Preferred Shares at no time will own (directly or through application of the attribution rules of section 318(a) as modified by section 871(h)(3)(C) of the Code) stock of Enron representing 10 percent or more of the total combined voting power of all classes of stock entitled to vote, and that the holders of the Preferred Shares will file such forms appropriate to, or will otherwise, establish their exemption from U.S. withholding tax with respect to distributions on the Preferred Shares.

LAW AND ANALYSIS

The Loans

Neither the Code nor the Treasury Regulations promulgated thereunder

specifically defines the characteristics which an interest must possess in order to be characterized for federal income tax purposes as indebtedness. Section 385, added to the Code in 1969, authorizes the Internal Revenue Service (the "Service") to prescribe regulations as necessary to determine whether an interest in a corporation is to be treated as debt or equity. Section 385(b) lists as factors to be addressed in those regulations: (1) whether there is a written unconditional promise to pay on demand or on a specified date a sum certain in money in return for adequate consideration in money or money's worth, and to pay a fixed rate of interest, (2) whether there is subordination to or preference over any other indebtedness of the corporation, (3) the ratio of debt to equity of the corporation, and (5) the relationship between holdings of stock in the corporation and holdings of the interest in question.

In the context of loans from a subsidiary to its parent corporation, the principal tax issue is whether the stockholder withdrawal is classified as a loan or as a constructive dividend. While the Supreme Court has not addressed the issue of characterization in the context of a subsidiary-to-parent loan, the Court has addressed the characterization of an instrument in the converse situation of advances by shareholders to their corporations. In *John Kelley Co. v. Commissioner*, 326 U.S. 521 (1946), the Supreme Court concluded that the characterization of an instrument as debt or equity for federal tax purposes depends on a facts and circumstances analysis in which, generally, no single factor is controlling. While this facts and circumstances analysis has resulted in outcomes which are frequently confusing and difficult to reconcile, a recent Tax Court decision enumerated many of the factors which courts have identified and used as aids in determining whether an instrument constitutes debt or equity (including a constructive dividend): (i) the name given the instrument evidencing the indebtedness, (ii) the presence or absence of a fixed maturity date, (iii) the source of payments, (iv) the right to enforce payments, (v) participation in management as a result of the advances, (vi) subordination to other creditors, (vi) intent of the parties to create debt, (viii) whether the purported creditors are also stockholders, (ix) the debt to equity ratio, (x) the ability of the debtor to otherwise obtain credit from outside sources, (xi) the use to which the advances will be put, (xii) the failure of the debtor to repay and (xiii) the risk involved in making the advances. *Dixie Dairies Corp. v. Commissioner*, 74 T.C. 476 (1980).

The Loan Agreement and Loans will have the form of a debt instrument and provide for (i) a market interest rate, (ii) a fixed date for maturity, (iii) the enforcement of the terms under certain conditions such as events of default and (iv) no participation in management of Enron as a result of the advances. These provisions evidence the clear intent of the parties to create indebtedness on the part of Enron to the Company. The fact that the maturity date of the Loans does not occur for 50 years (and that interest may be payable only every 18 months) is but one factor to be weighed in the debt determination. As the Tax Court noted in *Monon Railroad v. Commissioner*, 55 T.C. 345, 359 (1970), "[a]lthough 50 years might under some circumstances be considered as a long time for the principal of a debt to be outstanding, [the court] must take into consideration the substantial nature of the [taxpayer's] business and the fact

that it had been in corporate existence . . . [for] 61 years prior to the issuance of the debentures." The *Monon* court emphasized that the instruments at issue contained a definite maturity date without reservation or condition and concluded that, based on the facts and circumstances, a 50-year term was not unreasonable. *Id. See also Ruspyn Corp. v. Commissioner*, 18 T.C. 769 (1952) (debentures with 89-year term due 4 years after expiration of lease covering corporation's principal asset constituted debt); *Mayerson v. Commissioner*, 47 T.C. 340, 352 (1966) (purported mortgage with 99-year term held valid debt obligation as "definite contractual obligation was created which would have to be fulfilled by or before a definite date in the future"). In *Swoby Corp. v. Commissioner*, 9 T.C. 887 (1947), however, the Tax Court held that an "income debenture" with a 99-year maturity date issued by a new corporation whose principal asset was a building which had an anticipated life of less than 33 years represented equity. The Loans can be distinguished from the situation in *Swoby Corp.* because Enron (including its predecessors) has been in business for many years and is expected to continue its corporate existence and substantial business operations at least for the term of the Loans.

The absence of realistic creditor safeguards is indicative of an equity contribution rather than a loan. The Tax Court has stated that "[t]he right to enforce the payment of interest is one of the requisites of a genuine indebtedness." *Gokey Properties, Inc. v. Commissioner*, 34 T.C. 829, 835 (1960). The Loan Agreement provides protection for the Company pursuant to the enforcement provisions available in case of a continuing Event of Default. Moreover, neither the Operative Documents nor applicable law restricts payment on the Loans to the corporate earnings of Enron or otherwise makes Loan payments contingent on the success of Enron. *See* Rev. Rul. 73-122, 1973-1 C.B. 66 (payments not dependent on earnings or at discretion of the organization favors debt characterization); *Estate of Mixon v. United States*, 464 F.2d 394 (5th Cir. 1972) (when repayment is possible only out of corporate earnings transaction reflects equity contribution). These characteristics are reflective of indebtedness rather than an equity interest.

Subordination of a debt to claims of general creditors is an important indication that the debt is really equity. *Harlan v. United States*, 409 F.2d 907 (5th Cir. 1969). However, subordination *per se* is not a fatal impediment to establishing a bona fide indebtedness. The bonds in *John Kelley Co. v. Commissioner, supra*, were subordinated; however, the Supreme Court, after weighing all the facts, held that such bonds constituted valid debt. Generally, if the holders of the instruments in question have rights which take precedence over those of shareholders and there is substantial equity in the corporation, these circumstances suggest that the instruments are in fact debt even though the creditors' claims are subordinated to those of general business creditors. *Monon Railroad*, 55 T.C. at 360. In Rev. Rul. 68-54, 1968-1 C.B. 69, the Service noted that the subordination of registered debentures raised questions as to the true nature of the debentures, yet concluded that the instruments qualified as valid indebtedness on the basis of other factors, including the fact that the claims of the debenture holders had priority over the claims of all equity holders. *See also* Rev. Rul

73-122, *supra* (concluding that the presence of other factors, including the priority of all equity interests over the debentures, outweighed the subordination of the debentures at issue).

While the Fifth Circuit, in one case, appeared to place greater emphasis on the effects of subordination than the Tax Court, later cases have clarified that the Fifth Circuit now employs a facts and circumstances analysis in which no one factor is determinative. In *Tomlinson v. 1661 Corp.*, 377 F.2d 291 (5th Cir. 1967), the court stated that the fact that an instrument is subordinated to all other indebtedness of the corporation, whether already incurred or to be incurred in the future with no limitation on the amount of such indebtedness, would "weigh heavily" toward an equity participation and against the existence of a bona fide debtor-creditor relationship. *Id.* at 298, discussing *United States v. Snyder Bros. Co.*, 367 F.2d 980 (5th Cir. 1966). In subsequent cases, however, the Fifth Circuit recognized that the subordination of an obligation to the claims of other creditors does not necessarily indicate that the purported debt is in reality an equity contribution, particularly where the advance is given a superior status to that of other equity contributions. *Estate of Mixon v. United States*, 464 F.2d 394, 406 (5th Cir. 1972). Like the Tax Court, the Fifth Circuit views the subordination of an instrument to other creditors, but not equity holders, as merely a factor to be considered in the facts and circumstances analysis of characterizing an instrument.

In *Rose v. Commissioner*, 435 F.2d 149 (5th Cir. 1970), the Fifth Circuit addressed the risks assumed by the lender in making advances to the borrower, and concluded that "[t]he ultimate question presented here is whether the investment, analyzed in terms of economic reality, constitutes risk capital subject to the fortunes of the venture, or whether it represents a strict debtor-creditor relationship." The Loans will be made generally on terms similar to those on which Enron could have borrowed similar amounts from independent lenders, and do not entitle the Company to share in any of the potential appreciation in the value of Enron other than to the extent of repayment of principal and interest on the Loans. The fact that the Underwriters, representing the global securities markets, will purchase the newly issued Preferred Shares which depend on the loans for their value is indicative of Enron's sound financial condition. Therefore, the risks assumed by the Company comport with a characterization of the Loans as indebtedness.

The Revenue Reconciliation Act of 1993 added section 7701(l) to the Code effective August 10, 1993, which states as follows:

> *Regulations Relating to Conduit Arrangements.* -- The Secretary may prescribe regulations recharacterizing any multiple-party financing transaction as a transaction directly among any 2 or more of such parties where the Secretary determines that such recharacterization is appropriate to prevent avoidance of any tax imposed by this title.

The legislative history accompanying this provision indicates that it would be within the proper scope of the provision to issue regulations dealing with multiple-party transactions involving debt guarantees or equity investments. To date, no regulations have been proposed under section 7701(l), and accordingly we are unable to express an opinion on the effect of new section 7701(l) on the characterization of the Loans for federal income tax purposes. We do note, however, that the existing authorities cited in that legislative history dealt with situations in which an intermediary party was disregarded as a conduit for federal income tax purposes. In each case, a purported payment to the intermediary was treated as in substance a payment directly by the first party to the third party; in no case was the character of the first party's payment as interest questioned. Indeed, in Technical Advice Memorandum 9133004, a payment of interest by the first party to an intermediary party and a related payment of dividends by the intermediary party to a third party was treated as a payment of *interest* directly by the first party to the third party.

Based on the facts, representations, assumptions, law and analysis set forth above, in our opinion the Loans should be classified as indebtedness for federal income tax purposes.

Classification of the Company

Section 7701(a)(2) of the Code provides that the term "partnership" includes a syndicate, group, pool, joint venture or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and which is not a trust or estate or a corporation.

Section 301.7701-1(b) of the Treasury Regulations states that the Code prescribes certain categories or classes into which various organizations fall for purposes of taxation. These categories, or classes, include associations (which are taxable as corporations), partnerships, and trusts. The tests, or standards, which are to be applied in determining the classification of an organization are set forth in sections 301.7701-2 through 301.7701-4 of the Treasury Regulations.

Section 301.7701-2(a)(2) of the Treasury Regulations provides that the determination of whether an organization is to be treated as a partnership or as an association taxable as a corporation depends on whether there exists centralization of management, continuity of life, free transferability of interests, and limited liability. Section 301.7701-2(a)(3) of the Treasury Regulations provides that an unincorporated organization shall not be classified as an association unless such organization has more corporate characteristics than noncorporate characteristics.

Section 301.7701-2(b)(1) of the Treasury Regulations provides that if the death, insanity, bankruptcy, retirement, resignation, or expulsion of any member will cause a dissolution of the organization, continuity of life does not exist.

Section 301.7701-2(e)(1) of the Treasury Regulations provides that an organization has the corporate characteristic of free transferability of interests if each of the members or those members owning substantially all of the interests in the organization have the power, without the consent of other members, to substitute for themselves in the same organization a person who is not a member of the organization. In order for this power of substitution to exist in the corporate sense, the member must be able, without the consent of other members, to confer upon his substitute all the attributes of his interest in the organization. Thus, the characteristic of free transferability of interests does not exist in a case in which each member can, without the consent of other members, assign only his right to share in profits but cannot so assign his right to participate in the management of the organization.

An entity organized under foreign law is treated as an unincorporated organization and thus is classified for federal tax purposes on the basis of the characteristics set forth in the Treasury Regulations under section 7701 of the Code. Rev. Rul. 88-8, 1988-1 C.B. 403. However, it is the local law of the foreign jurisdiction that must be applied in determining the legal relationships of the members of the organization among themselves and with the public at large, as well as the interests of the members of the organization in its assets. Rev. Rul. 73-254, 1973-1 C.B. 613.

In Rev. Rul. 93-4, 1993-3 I.R.B. 5, the Service ruled that where the organic documents of a foreign entity require dissolution upon the bankruptcy of an interest holder, without further action, the entity lacks the corporate characteristic of continuity of life (regardless of the identity of the interest holders and their relationship to each other).

In Rev. Proc. 92-33, 1992-1 C.B. 782, the Service provided a "numerical interpretation" of the phrase "substantially all" as it appears in section 301.7701-2(e)(1) of the Treasury Regulations for purposes of ruling whether an organization has the corporate characteristic of free transferability of interests. The Service stated that generally it will rule that a partnership lacks free transferability of interests if, throughout the life of the partnership, the partnership agreement expressly restricts the transferability of partnership interests representing more than 20 percent of all interests in partnership capital, income, gain, loss, deduction and credit.

Under section 7701(i) of the Code, any entity (including a partnership) that constitutes a "taxable mortgage pool" will be taxable as a separate corporation which may not be treated as a member of a consolidated group of corporations for purposes of section 1501 of the Code. To be classified as a taxable mortgage pool, (i) substantially all of the assets of such entity must consist of "debt obligations (or interests therein)", and (ii) more than 50 percent of such debt obligations must consist of "real estate mortgages (or interests therein)".

Under section 7704 of the Code, a publicly traded partnership is generally treated

as a corporation. However, section 7704(c) provides that the treatment of a publicly traded partnership as a corporation shall not apply to any publicly traded partnership for any taxable year if 90 percent or more of the gross income of such partnership for such taxable year consists of "qualifying income", which section 7704(d) of the Code defines to include interest (other than interest derived in the conduct of a financial or insurance business or interest the determination of the amount of which depends in whole or in part on the income or profits of any person) and dividends.

Under the Regulations and as represented above, the Common Shares of the Company at all times will represent at least 21 percent of the total value of the Company and at least 21 percent of all interests in the capital, income, gain, loss, deduction and credit of the Company. The transfer of any Common Shares in the Company is prohibited absolutely, and if a Common Shareholder attempts to make a transfer of its shares in breach of the Regulations, the Common Shareholder ceases to be a Member of the Company. Accordingly, we conclude that the Company does not possess the corporate characteristic of free transferability of interests.

The Regulations provide that the Company shall be in dissolution automatically and without the requirement of any other act upon the bankruptcy, resignation, withdrawal, expulsion, termination, cessation, or dissolution of the holder of a majority of the Common Shares. Accordingly, we conclude that the Company lacks the corporate characteristic of continuity of life.

Because none of the Loans will be secured by an interest in real property, we conclude that the Company will not constitute a taxable mortgage pool under section 7701(i) of the Code. Because at least 90 percent of the gross income of the Company for each taxable year will consist of interest on the Loans, we also conclude that the Company will not be treated as a corporation pursuant to section 7704 of the Code.

Because we have concluded that the Company will not possess the corporate characteristics of continuity of life and free transferability of interests, we conclude that the Company will not have more corporate characteristics than noncorporate characteristics. We have also concluded that the Company will not constitute a taxable mortgage pool, or be treated as a corporation under section 7704 of the Code. Accordingly, in our opinion the Company will be treated as a partnership rather than as an association taxable as a corporation for federal income tax purposes.

Withholding Tax Under Section 1441

Section 1441 of the Code provides generally that all persons paying interest from sources within the United States to any nonresident alien individual or any foreign partnership shall withhold a tax equal to 30 percent thereof. Section 1441(c)(9) of the Code provides that no tax shall be required to be deducted and withheld from portfolio interest (within the meaning of section 871(h) of the Code) unless the person required to deduct and withhold tax from such interest knows, or has reason to know, that such

interest is not portfolio interest by reason of section 871(h)(3) of the Code.

Section 871(h)(2)(B) of the Code defines the term "portfolio interest" to include any interest (including original issue discount) which is paid on an obligation which is in registered form and with respect to which the United States person who would otherwise be required to deduct and withhold tax from such interest under section 1441 receives a statement (which meets the requirements of section 871(h)(5)) that the beneficial owner of the obligation is not a United States person.

Section 871(h)(7) of the Code provides that the term "registered form" has the same meaning given such term by section 163(f) of the Code. The Treasury Regulations under section 163(f) provide that an obligation is in registered form if the obligation is registered as to both principal and any stated interest with the issuer (or its agent) and the transfer of the obligation may be effected only by the surrender of the old instrument and either the reissuance by the issuer of the old instrument to the new holder or the issuance by the issuer of a new instrument to the new holder.

Section 871(h)(5) of the Code provides that the statement with respect to an obligation must be made by the beneficial owner of such obligation, or a securities clearing organization, a bank, or other financial institution that holds customers' securities in the ordinary course of its trade or business, provided the Secretary of the Treasury has not published a determination that any statement from such person (or any class including such person) does not meet the requirements of section 871(h)(5) of the Code at least one month before the payment of interest on the obligation.

Treasury Regulation § 35a.9999-5(b)A-9 provides that interest on a registered obligation may be treated as portfolio interest by a United States person otherwise required to deduct and withhold tax under section 1441 of the Code if that person receives a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is not a United States person, or in the case of an individual that he is neither a citizen nor a resident of the United States, and (iii) provides the name and address of the beneficial owner. This statement may be made, at the option of the person otherwise required to withhold, on a Form W-8 or a substitute form that is substantially similar to Form W-8 and must be prepared, renewed and retained in accordance with the procedures prescribed at Treasury Regulation § 1.6049-5(b)(2)(iv). Treasury Regulation § 35a.9999-5(d) provides that an information return on Form 1042S, accompanied by the statement or Form W-8, is required to be filed with the Internal Revenue Service for the calendar year in which the interest payment is made.

Section 871(h)(3) of the Code provides that "portfolio interest" shall not include any interest which is received by a 10-percent shareholder. A "10-percent shareholder" means, in the case of an obligation issued by a corporation, any person who owns 10 percent or more of the total combined voting power of all classes of stock of such corporation entitled to vote. For this purpose, the attribution rules of section 318(a) of

the Code, as modified by section 871(h)(3)(C) of the Code, apply.

The Loans are issued by a corporation (Enron) to a partnership (the Company) which does not directly own any of the voting stock of Enron. We have assumed that the holders of the Preferred Shares at no time will own (directly or through application of the attribution rules of section 318(a) as modified by section 871(h)(3)(C) of the Code) 10 percent or more of the voting stock of Enron. Further, it has been represented that each of the Loans will be registered as to both principal and interest and that the Company will file timely and periodically with Enron a duly completed and executed Form W-8 stating that the Company is the beneficial owner of the Loans and that it is not a United States person. Therefore, we conclude that interest paid on the Loans will qualify as portfolio interest within the meaning of section 1441(c)(9) of the Code. Accordingly, in our opinion Enron will not be required to deduct and withhold tax pursuant to section 1441 of the Code with respect to interest on the Loans paid to the Company.

We express no opinion as to the tax treatment of any of the transactions contemplated by the Operative Documents which is not specifically addressed in the foregoing opinion. Our opinion is based upon the existing provisions of the Code, regulations (and administrative pronouncements) promulgated or proposed thereunder, and interpretations thereof by the Internal Revenue Service and the courts, all as of the date hereof, all of which are subject to change with prospective or retroactive effect, and our opinion could be adversely affected or rendered obsolete by any such change. This opinion is given to you by us solely for your use and is not to be quoted or otherwise referred to or furnished to any governmental agency (other than the Internal Revenue Service in connection with an examination of Enron or the Company) or to other persons without our prior written consent.

Very truly yours,

VINSON & ELKINS L.L.P.

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December 17, 1993

PRIVILEGED ATTORNEY-CLIENT COMMUNICATION

Mr. Robert J. Hermann
Vice President - Tax
Enron Corp.
P. O. Box 1188
Houston, Texas 77251

Re: Enron Capital LLC

Dear Mr. Hermann:

In our opinion letter addressed to Enron Corp. dated November 4, 1993 (the "Tax Opinion"),[1] we concluded that the Loans from the Company to Enron should be classified as indebtedness for federal income tax purposes and that, accordingly, no tax would be required to be deducted and withheld by Enron pursuant to section 1441 of the Code from the interest payable to the Company in respect of the Loans.

You asked us to analyze the applicability of interest, penalties and other additions to tax arising from Enron's failure to so withhold in the event the Service recharacterized the Loans as an equity interest in Enron and treated such payments of interest as the payment of dividends from Enron either to the Company or to the holders of the Preferred Shares.

Based on the discussion below, we believe that (i) Enron should not be liable for penalties or additions to tax by reason of any failure to withhold in respect of a payment on the Loans, (ii) Enron would be liable for interest on any tax that should have been withheld during any calendar year, but such interest should not start to accrue until March 15 of the following year and should cease to accrue upon payment of the tax against which such withholding tax may be credited by the holders of the Preferred Shares (which may be as early as April 15 of such following year), and (iii) Enron would be liable for any

[1] Capitalized terms used but not defined herein have the meanings ascribed to them in the Tax Opinion.

tax that should have been withheld to the extent such tax is not paid by the holders of the Preferred Shares.

DISCUSSION

Section 1441(a) of the Code[2] provides generally that all persons having the control, receipt, custody, disposal or payment of any interest, dividends, or other fixed or determinable annual or periodical income (to the extent that any of such items constitutes gross income from sources within the United States) of any nonresident alien individual or any foreign partnership shall deduct and withhold therefrom a tax equal to 30 percent thereof.[3]

Withholding agents are required to deposit withheld tax on a quarter-monthly, monthly or annual basis into an authorized financial institution. The frequency of deposits depends on the amount of tax withheld. Quarter-monthly deposits of tax are required if, at the end of any quarter-monthly period, total undeposited tax is $2,000 or more. Treas. Reg. §1.6302-2(a)(1). If tax withheld has not been deposited or paid as prescribed, it must be paid by the withholding agent when filing Form 1042 (discussed below) for the year. Treas. Reg. §1.1461-3(a)(2).

In addition to the requirements to withhold and deposit tax with respect to payments to nonresident aliens, foreign partnerships and foreign corporations, the payor of income subject to withholding under section 1441 or 1442 is required to file Forms 1042 (Annual Withholding Tax Return for U.S. Source Income of Foreign Persons) and 1042S (Foreign Person's U.S. Source Income Subject to Withholding).[4] Section 1461 makes the payor of section 1441 or 1442 items of income personally liable for the withholding tax, but section 1463 provides that a person who fails to deduct and withhold the requisite tax under section 1441 or 1442 (the "Withholding Agent") will not be liable for such withholding tax to the extent that the tax against which the withholding tax may be credited (the "Underlying Tax")

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[2] Unless otherwise indicated, all subsequent section references are to the Code.

[3] Section 1442 imposes a similar withholding obligation with respect to foreign corporations.

[4] Form 1042 is due on or before March 15 of the year following the calendar year in which the tax was required to be withheld and must be filed even though no tax was required to be withheld. Treas. Reg. § 1.1461-2(b). Likewise, a withholding agent must file Form 1042S on or before March 15 for various types of income, including interest subject to the portfolio interest exception. Treas. Reg. § 1.1461-2(c).

is subsequently paid by the recipient of the income.[5] Section 1463 further provides, however, that the Withholding Agent remains liable for interest or any penalties or additions to the tax otherwise applicable due to the failure to deduct and withhold.

If the Service were to recharacterize the Loans made by the Company to Enron as an equity interest in Enron owned by the Company, the interest payments on such Loans would be treated as dividends (to the extent of Enron's earnings and profits) from Enron to the Company. In such case, the dividends would be subject to the withholding requirements of section 1441 and Enron would face a withholding obligation for all such dividends paid to the Company. Assuming (as the Tax Opinion concludes) that the Company is treated as a partnership for federal income tax purposes, it would not pay any income tax on the dividends such that section 1463 would relieve Enron of its withholding liability. As a partnership, however, dividends paid by Enron to the Company would flow through the Company to the holders of Preferred Shares ("Preferred Shareholders").[6] We understand that the vast majority of the Preferred Shareholders are expected to be United States persons, and not nonresident aliens, foreign partnerships or foreign corporations,[7] and as such, the U.S. Preferred Shareholders would be subject to U.S. income taxation on the dividends received from the Company.[8] Therefore, pursuant to section 1463, Enron would not be liable for the 30 percent withholding tax on dividends paid to the Company for which the U.S. Preferred Shareholders subsequently paid the Underlying Tax.

If the Service were to recharacterize payments in respect of the Loans as interest or dividends paid by Enron to the Preferred Shareholders on the basis of a conduit analysis (*e.g.*, under regulations promulgated pursuant to section 7701(l)), the Company would be disregarded and Enron's withholding obligations under sections 1441 and 1442 would depend on the identity of the Preferred Shareholders as there would be no section 1441 or 1442 withholding obligations for payments made to U.S. Preferred Shareholders. Interest

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[5] Section 33 provides that there shall be allowed as a credit against the income taxes imposed by Subtitle A the amount of tax withheld at the source pursuant to sections 1441-1446. Likewise, section 1462 provides that income on which any tax is required to be withheld at the source under Chapter 3 shall be included in the recipient's return of such income, but that any amount of tax so withheld shall be credited against the amount of income tax as computed in such return.

[6] Partners are required to take into account their distributive shares of the partnership's separately stated items and nonseparately computed income. IRC § 702(a). *See also* IRC § 1441(b) and Treas. Reg. § 1.1441-3(f) (providing for withholding on a foreign partner's distributive share of a domestic partnership's section 1441 income, regardless of whether such income is distributed).

[7] Furthermore, based on the size and offering price of the Preferred Shares, a majority of Preferred Shareholders may be U.S. individuals.

[8] In the case of U.S. tax-exempt Preferred Shareholders not required to treat distributions from the Company as unrelated business taxable income, no tax would be due.

or dividends paid to nonresident aliens, foreign partnerships or foreign corporations generally would be subject to withholding by Enron. However, if treatment as indebtedness rather than equity prevailed, treatment of the interest as portfolio interest should exempt any interest payments made to foreign Preferred Shareholders from withholding pursuant to sections 1441 and 1442.[9] If the Enron payments were treated as dividends to the Preferred Shareholders, Enron would only be liable for section 1441 or 1442 withholding on payments made to foreign Preferred Shareholders.

To summarize, if the Company were disregarded under a conduit analysis, Enron's section 1441 or 1442 withholding obligations would apply only to Preferred Shareholders which are foreign persons, and then only with respect to payments recharacterized as dividends. In contrast, if the Company were respected as an entity but the Loans were recharacterized as Enron equity, section 1441 withholding would apply to all payments to the Company. Therefore, the greatest risk to Enron for liability in respect of a failure to withhold lies in the Service's reclassifying the Loans as an equity interest owned by the Company.

In the event of a recharacterization of the Loan transactions by the Service, Enron would not be liable for any withholding tax due pursuant to sections 1441 through 1464 for which the Preferred Shareholder subsequently pays the Underlying Tax.[10] The task of demonstrating that the Preferred Shareholders have subsequently paid the Underlying Tax on payments made either directly or indirectly to the Preferred Shareholders for purposes of section 1463 could prove difficult. As discussed in footnote 9, *supra* foreign Preferred Shareholders presumably would have Forms W-8 on file with the Company. Likewise, noncorporate U.S. Preferred Shareholders presumably would have Forms W-9 on file with the Company for backup withholding purposes. With access to the Forms W-8 and W-9 providing information on the foreign Preferred Shareholders and U.S. noncorporate Preferred Shareholders, Enron would only need to ascertain the identity of Preferred Shareholders which are U.S. corporations. With the names and tax identification numbers

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[9] We have assumed the filing of (i) Forms W-8 (Certificate of Foreign Status) or substitute forms which are substantially similar to Form W-8 by the foreign Preferred Shareholders as required to qualify for the portfolio interest exemption and (ii) Forms W-9 (Request for Taxpayer Identification Number and Certification) by noncorporate U.S. Preferred Shareholders to avoid backup withholding. This assumption is based on our belief that the foreign Preferred Shareholders will have filed Forms W-8 (or substitute Forms) and the noncorporate U.S. Preferred Shareholders will have filed Forms W-9 with the Company pursuant to the discussion regarding the tax treatment of United States Alien Holders on pages S-20 and S-21 of the Prospectus Supplement.

[10] In TAM 7827006 (no date given), the employer-taxpayer obtained and presented Forms 4669 (Statement of Payments Received) to the Service showing that the withholding tax at issue had been paid by the employees. In *Jones v. United States*, 79-1 USTC ¶9120 (E.D. Tex. 1978), the employer introduced income tax returns to establish that the independent contractor had paid his own withholding tax.

of the Preferred Shareholders, Enron could obtain information concerning the payment of Underlying Tax by the Preferred Shareholders from the Service pursuant to Form 4669 (Statement of Payments Received). *See* footnote 10, *supra*.

Section 6601(a) provides that interest is payable where the amount of any tax is not paid on or before the last date prescribed for its payment. Section 6601(b) provides that "the last date prescribed for payment" of a tax is determined under Chapter 62 or sections 6151-6167. Section 6151(a) provides the general rule that tax is due at the time and place fixed for filing the return. Thus, interest generally runs from the original due date for filing the tax return reporting the tax to the date payment is received and accrues during periods for which an extension has been granted.

In the case of any addition to tax for failure to file a return, for failure to pay stamp tax or for the accuracy-related and fraud penalties, interest is imposed on such penalties for the period beginning on the due date of the return (including extensions) and ending on the date the addition to tax is paid. Section 6601(e)(2)(B).

In a recent case involving the interest portion of the negligence penalty, the Tax Court was squarely presented with determining "the last date prescribed for payment" of the withholding tax imposed by sections 1442 and 1461. *Orban Co. v. Commissioner*, 90 T.C. 275 (1988). The Tax Court reasoned that a quarterly tax deposit made pursuant to section 6302 is not automatically equated with payment as the Treasury Regulations provide that deposits of tax withheld on income paid to nonresident aliens and foreign corporations "shall be considered as paid on the last day prescribed for filing the return (Form 1042) in respect of such tax (determined without regard to any extension of time for filing such return), or at the time deposited, whichever is later." Treas. Reg. § 1.6302-2(b)(5). Thus, the Tax Court concluded that "the last date prescribed for payment" of the 30 percent withholding tax imposed by sections 1442 and 1461[11] is the due date for filing the required return, Form 1042, *i.e.*, March 15, even though the taxes were required to be deposited during the preceding calendar year.

In Rev. Rul. 58-577, 1958-2 C.B. 74, as modified by Rev. Rul. 66-113, 1966-1 C.B. 244, as modified by Rev. Rul. 86-10, 1986-1 C.B. 358, an employer did not deduct and withhold any tax from the earnings of an individual which the employer considered to be an independent contractor. Upon subsequently determining that the individual was an employee, the employer filed the necessary supplemental returns and was assessed for the

[11] The same result would obtain in the case of a withholding tax imposed by section 1441 on the basis of Treas. Reg. § 1.6302-2(b)(5).

tax that should have been withheld plus interest.[12] The employee "timely filed" an income tax return and satisfied his income tax liability relating to the withholding. The ruling concludes that the employer is liable for interest assessed for the period beginning with the due date or dates for payment of the tax that the employer was required, but failed, to withhold, until the earlier of the following April 15 or date on which the employee satisfied the employee's individual income tax liability.[13]

Thus, in the event that the Loans are recharacterized by the Service, resulting in a withholding tax liability for Enron, Enron should be subject to interest on such tax liability from March 15 of the year following the recharacterized payments to the date payment is made by the Preferred Shareholders (presumably April 15, if the majority of Preferred Shareholders are U.S. individuals as expected).

Prior to the enactment of the Revenue Reconciliation Act of 1989 (the "1989 Act"), the Code provided that a penalty could be imposed on the Withholding Agent or the

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[12] The ruling did not state whether the filing of the supplemental returns qualified as an adjustment within the meaning of section 6205(a)(1) such that no interest would have been due. Section 6205(a)(1) provides that if an employer withholds less than the correct amount of tax imposed by sections 3301, 3111, 3201, 3221, or 3402 with respect to the payment of wages or other compensation and the employer makes "proper adjustments," no interest will be charged on the tax due. Section 31.6205-1(c)(2)(i) of the Treasury Regulations sets forth the conditions under which an interest-free adjustment is made if an employer filed a return and reported either no income tax or less than the correct amount of income tax required to be withheld by the employer. The employer must adjust the error by either (i) reporting the additional amount due on a return for any quarter in the calendar year in which the wages were paid or (ii) reporting the additional amount on a supplemental return for the period in which the wages were paid. Such reporting constitutes an adjustment under section 6205(a) of the Code only if the return or supplemental return is filed on or before the due date for the return for the quarter in which the error is ascertained. An error is ascertained when the employer has sufficient knowledge of the error to be able to correct it. Treas. Reg. § 31.6205-1(a)(4). Although the availability of an interest-free payment of a withholding liability is addressed only in the employment context, Enron could attempt to argue by analogy pursuant to H.R. Rep. 101-247, 101st Cong., 1st Sess. at 295, 298 *discussed infra* that the principles of section 6205(a) should apply to Withholding Agents. However, there is no basis in the Code or the Treasury Regulations as currently written to support this argument.

[13] An argument can be made that a Preferred Shareholder's income tax return filed pursuant to a valid extension is "timely filed" such that interest would run on Enron's withholding liability only from March 15 until the original due date of the Preferred Shareholder's return (rather than until the date the withholding tax was actually paid by the Preferred Shareholder pursuant to a valid extension of the due date of the return). *See* Rev. Rul. 83-27, 1983-1 C.B. 338 (impliedly holding that a return filed pursuant to a valid extension is timely filed). However, under the Internal Revenue Code of 1954, the Second Circuit and the Claims Court ruled that a Form 7004, or corporate extension form, constituted a return within the meaning of section 6601 for purposes of computing the interest on tax due. *Hayden Publishing Co., Inc. v. United States*, 341 F.2d 646 (Ct. Cl. 1965); *Louillard Co. v. United States*, 64-2 USTC ¶9876 (2d Cir. 1964). Finally, the language of section 6601 is unequivocal in stating that interest accrues on an underpayment or nonpayment from the last date prescribed for payment (determined without regard to extension) until "the date paid."

recipient of section 1441 income by reason of a failure to pay withholding tax when the tax was subsequently paid by the recipient only if the failure were fraudulent and for the purposes of evading payment. Section 1463 before amendment by section 7743 of the 1989 Act. By contrast, U.S. employers remained liable for penalties and additions to tax where the employer failed to withhold income tax from the employee's wages even if the employee subsequently paid the tax. Section 3402(d). The 1989 Act amended section 1463 to provide that Withholding Agents would be subject to the same general approach applicable to U.S. employers who withhold income taxes from employees' wages. H.R. Rep. 101-247, 101st Cong., 1st Sess. at 295, 298 ("Conference Report"). To date, the Service has not provided any regulations or other guidance as to the application of amended section 1463. Moreover, few cases have addressed withholding issues in the context of Chapter 3 of Subtitle A of the Code (sections 1441 through 1446). Therefore, in keeping with the Congressional intent as expressed in the Conference Report, a taxpayer must generally look to the application of withholding principles in the employment context for guidance in applying the withholding provisions of Chapter 3, including the assertion of interest and penalties pursuant to section 1463.

There are a number of penalty provisions that can apply to various failures of a Withholding Agent. The following is a summary of the penalties typically assessed against Withholding Agents.

1. *Failure to collect and pay over tax* -- Section 6672 imposes a 100% penalty against a Withholding Agent or its officers for (i) a willful failure to collect tax, (ii) a willful failure to account truthfully for and pay over tax or (iii) a willful attempt to evade or defeat any tax or payment thereof. Although this provision may technically apply to Withholding Agents, the reported cases have generally concerned employers.

   The standard of willfulness applied by the courts does not embrace any bad motive or evil intent on the part of the responsible party. According to the Internal Revenue Manual - Administration, Section 5632.2(1) (6-3-91), willfulness is the attitude of a person who, having a free will or choice, either intentionally disregards the law or is plainly indifferent to its requirements. Most courts reject the contention that reasonable cause or justifiable excuse is a factor in determining whether a party's actions are willful. *Monday v. United States*, 421 F.2d 1210 (7th Cir. 1970), *cert. denied*, 400 U.S. 821. But see *Newsome v. United States*, 421 F.2d 215 (5th Cir. 1970) in which the Fifth Circuit held that reasonable cause is a limited part of the test for determining whether failure to collect, account for and pay over tax was willful. If the 100% penalty were asserted against Enron in a recharacterization of the Loans, Enron's reliance on the Tax Opinion should evidence

Enron's lack of intentional disregard of or conscious indifference to the law so as to negate the element of willfulness.

2. *Fraud penalty* -- Section 6663(a) imposes a 75% penalty with respect to any portion of an underpayment which is attributable to fraud. The fraud penalty is not imposed if the taxpayer shows that there was a reasonable cause for the underpayment and that the taxpayer acted in good faith with respect to such portion. Section 6664(c).

3. *Accuracy-Related Penalties.*

(a) Negligence penalty -- Sections 6662(a) and (b)(1) add a 20% penalty which applies to the portion of tax underpayment attributable to negligence or disregard of rules or regulations. The reasonable cause and good faith exception applies. Section 6664(c)(1).

(b) Substantial Understatement Penalty -- Section 6662(d) imposes a 20% penalty in the case of any substantial understatement of income tax unless the taxpayer demonstrates substantial authority for the position taken or that the position was adequately disclosed on the tax return and a reasonable basis exists for the position. This penalty may not apply to a Withholding Agent, however, as the Service has taken the position that a substantially similar penalty under pre-1989 Act law did not apply to Withholding Agents for two reasons: (i) Congress intended this penalty to apply to taxpayers who play the "audit lottery" and Withholding Agents are not in a position to play the "audit lottery" because the annual form which Withholding Agents must file does not provide for reporting of deductions and credits, and (ii) the penalty is in the form of an addition to "income tax" and the Service believes that the tax imposed on Withholding Agents is a "withholding tax" rather than an income tax because it is not imposed on the income of the Withholding Agent. GCM 39686 (Dec. 11, 1987).[14]

4. *Late Deposit Penalty* -- Section 6656 imposes this penalty on any person required to make timely deposits of withheld income tax who fails to

[14] A 1993 decision in which the Tax Court concluded that sections 1441 and 1461 impose *income taxes* casts doubt on the continuing vitality of the Service's position. *Northern Indiana Pub. Serv. Co. v. Commissioner*, 101 T.C. __, No. 20 (1993).

do so. The amount of the penalty is time sensitive pursuant to a four-tiered penalty structure under which the penalty amount varies with the time in which the taxpayer corrects the failure. The penalty imposed due to the failure to timely and/or fully deposit withheld income tax may be avoided where it is shown that the failure was due to reasonable cause and not to willful neglect.[15] Section 6656(a). The late deposit penalty may not apply to Enron, however, if the Loans are subsequently recharacterized as the Service has concluded that the late deposit penalty prescribed in section 6656 applies if the employer withholds tax and does not deposit the required amounts, but does not apply to a failure to deposit if no tax, in fact, is withheld. Rev. Rul. 75-191, 1975-1 C.B. 376. *See also* GCM 36912 (Nov. 5, 1976) (late deposit penalty not applicable where employer did not withhold income tax from the employee in question).

5. *Failure to File Correct Information Returns or Payee Statements* -- These penalties apply to failures to (i) file Form 1042S with the Service and (ii) provide Form 1042S to each payee.[16] Each Form 1042S required to be filed with the Service and provided to a payee is treated as an information return and also as a payee statement subject to separate penalties under sections 6722 and 6723. No penalty is imposed for either infraction if the failure was due to reasonable cause and not to willful neglect. Section 6724.

6. *Criminal Penalties* -- The civil penalties have criminal counterparts, all of which involve the element of willfulness. The following is a partial list:

> (1) Attempt to Evade or Defeat Tax -- Section 7201 provides that a Withholding Agent who willfully attempts to evade or defeat the payment of tax may be guilty of a felony and is punishable by a fine not to exceed $100,000 ($500,000 for a corporation), imprisonment for up to 5 years, or both, together with the costs of prosecution.

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[15] The taxpayer must make an affirmative showing of all facts alleged as reasonable cause in a written statement containing a declaration that it is made under penalties of perjury.

[16] Form 1042 is not an information return, as it is a "return . . . of the tax" as required by Treas. Reg. § 1.1461-2(b). *See Northern Indiana Pub. Serv. Co. v. Commissioner*, 101 T.C. ___, No. 20 n.2 (1993).

(ii) **Willful Failure to Collect or Pay Over Tax** -- A Withholding Agent who willfully fails to collect, account for and pay over any tax may also be guilty of a felony and risks a fine not to exceed $10,000, imprisonment for up to 5 years, or both, together with the costs of prosecution. Section 7202.

(iii) **Willful Failure to File Return or Pay Tax** -- A Withholding Agent who willfully fails to pay a tax, file a return, keep required records or supply information may be guilty of a misdemeanor punishable by a fine not to exceed $25,000 ($100,000 for a corporation), imprisonment for up to 1 year, or both, together with the costs of prosecution. Section 7203.

The criminal sanctions that apply to employers and Withholding Agents required to withhold and pay withholding taxes generally require both an affirmative act and willfulness to obtain a conviction. *United States v. Burrell*, 505 F.2d 904 (5th Cir. 1974). Willfulness has been defined as the "voluntary, intentional violation of a known legal duty." *United States v. Kim*, 884 F.2d 189, 192 (5th Cir. 1989). Even gross negligence is insufficient to establish willfulness for purposes of asserting the Code's criminal penalties. Good faith reliance on the advice of counsel or an expert tax preparer after the complete disclosure of all relevant facts to the advisor is a defense to tax evasion. *United States v. Kelley*, 864 F.2d 569 (7th Cir. 1989).[17] There are no facts known to us which would support an attempt by the Service to impose a criminal penalty requiring willfulness on the Loan transactions.

Most civil penalties are subject to nonassertion or abatement if the taxpayer's failure to timely perform the required act is due to "reasonable cause." *See, e.g.*, sections 6651, 6652, 6656, 6664, 6686 and 6724. The Service has issued a consolidated penalty handbook which provides instructions for the Service with respect to all penalties imposed by the Code. The IRS Penalty Handbook, Part XX of the Internal Revenue Manual (the "Penalty Handbook"), sets forth procedures both for assessing and abating penalties, and contains discussions on topics such as the "reasonable cause" exception and procedures for appealing penalties.[18]

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[17] A good faith misunderstanding of the law is a defense to a tax crime and the Supreme Court has recently held in *Cheek v. United States*, 111 S. Ct. 604 (1991) that the defendant's misunderstanding of the law need not be objectively reasonable.

[18] The Penalty Handbook replaces all other Service internal management documents dealing with the administration of penalties, and is intended to be the primary source of authority for the administration of penalties by the Service. IRM (20)112 (7-27-92).

The reasonable cause standard is expressed in various ways throughout the Code. For example, some sections provide that a certain penalty does not apply if there is "reasonable cause and not willful neglect", while other sections provide that the penalty does not apply if there is "reasonable cause and good faith", "reasonable cause" or a "reasonable basis." Although expressed in different ways, the Penalty Handbook seems to apply these standards in essentially the same manner. However, neither the Code, the case law nor the Penalty Handbook provides a definitive explanation as to what constitutes reasonable cause.

The Penalty Handbook defines "reasonable cause" as those reasons deemed "administratively acceptable" to the Service for justifying the nonassertion or abatement of applicable penalties against taxpayers. IRM (20)310 (7-27-92). The Penalty Handbook includes a list of the most common reasons given by taxpayers which may be considered reasonable cause for many of the major penalties, one of which reasons is reliance on the advice of a competent tax advisor.[19] To qualify for this "administratively acceptable" reason, the taxpayer must have (i) received incorrect advice after contacting a tax advisor who is competent on the specific tax matter, (ii) furnished the necessary and relevant information to such tax advisor, and (iii) exercised ordinary business care and prudence in determining whether to obtain additional advice based on the taxpayer's own information and knowledge. IRM (20)333.7 (7-27-92). The Service considers the following factors in determining whether the taxpayer qualifies for the reliance on a competent tax advisor reasonable cause exception: (i) when and how the taxpayer became aware of the mistake, (ii) whether the taxpayer provided complete and accurate information to the tax advisor, (iii) whether the taxpayer actually relied on the advice of the tax advisor and (iv) supporting documentation, such as a copy of the advice requested, a copy of the advice provided and a statement from the tax advisor explaining the circumstances. *Id.*[20]

In addition to the Service's list of "administratively acceptable" reasons supporting a reasonable cause request, the courts have found that a taxpayer may have reasonable cause where it relied on the erroneous advice of counsel concerning a question of law such as whether the taxpayer was required to file a tax return or whether a tax liability exists. *United States v. Boyle*, 469 U.S. 241 (1985); *Estate of Paxton v. Commissioner*, 86 T.C. 785

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[19] A tax advisor is defined as a tax attorney, certified or licensed public accountant, or enrolled agent.

[20] Chared Corp. v. United States, 69-2 USTC ¶9535 (N.D. Tex. 1969), *aff'd*, 446 F.2d 745 (5th Cir. 1971), *vac'd and rem'd on other grounds*, 455 F.2d 928 (5th Cir. 1972) (taxpayer had reasonable cause for purposes of negating the negligence and failure to file withholding tax return penalties where it acted in good faith in the exercise of ordinary business prudence in relying on advice of tax experts who had been supplied with all the necessary information involving advances by a domestic subsidiary to its foreign parent treated as loans which the Service recharacterized as dividends).

(1986); *Lattman v. United States*, 92-2 USTC ¶50,423 (N.D. N.Y. 1992).[21] Although the Penalty Handbook requires that the taxpayer exercise ordinary care in determining whether to obtain additional advice to qualify for reasonable cause treatment, the Supreme Court has noted that requiring the taxpayer to seek a second opinion or attempt to monitor counsel on the analysis of the Code nullifies the original purpose of seeking the advice of a presumed expert. *Boyle*, 469 U.S. at 246. Thus, the courts generally have not imposed as stringent a burden on the taxpayer as the Service to show reasonable cause.

The civil penalties which the Service would likely assert against Enron in the event of a Loan recharacterization and associated withholding tax assessment are subject to nonassertion or abatement if Enron's failure to timely withhold and deposit the tax is due to reasonable cause. Enron should be able to meet the reasonable cause standard as described in the Penalty Handbook based on its reliance on the conclusions in the Tax Opinion that the Loans should be characterized and treated as indebtedness of Enron to the Company for federal income tax purposes and, as such, the related interest paid by Enron to the Company would qualify for the portfolio interest exemption from withholding. Because the determination of whether an interest is debt or equity for federal income tax purposes is essentially a facts and circumstances analysis in which no single factor is determinative, the Service would find it difficult to argue successfully that Enron's management did not exercise ordinary business care and prudence in relying on the Tax Opinion. A similar analysis would apply to any attempt by the Service to recharacterize payments from Enron to the Company pursuant to the Loans as made by Enron to the Preferred Shareholders under the conduit regulations contemplated by section 7701(l) or the existing conduit authorities noted in the Tax Opinion. Therefore, because Enron (i) consulted with a tax advisor, (ii) supplied the tax advisor with the relevant information regarding the Loan transactions and (iii) exercised ordinary business care and prudence in relying upon the advice of the tax advisor, it should meet the Service's criteria for reasonable cause so as to justify nonassertion or abatement of the applicable civil penalties.

CONCLUSION

If the Service were to recharacterize the Loans as (i) an equity interest in Enron owned by the Company or (ii) an equity interest in Enron owned by the Preferred Shareholders, Enron would be liable for withholding tax pursuant to sections 1441 and 1442 with respect to dividend payments made pursuant to the Loans to the extent the Underlying Tax were not subsequently paid by any Preferred Shareholders. If the Service were to

[21] Furthermore, the courts have found that a taxpayer's good faith belief alone that no return is due may constitute reasonable cause for late filing. *See, e.g., Diaz v. United States*, 90-1 USTC ¶50,209 (C.D. Cal. 1990) (good faith belief that employees were independent contractors is reasonable cause for failure to file employment tax returns).

** TOTAL PAGE.014 **

recharacterize the Loans as indebtedness from Enron to the Preferred Shareholders, Enron should not be liable for withholding tax pursuant to sections 1441 and 1442 except with respect to foreign Preferred Shareholders which failed to supply the Company (or Enron) with Forms W-8 (or substitute forms) so as to qualify for the portfolio interest exemption. The reasonable cause exception is available for the various civil penalties which the Service might attempt to impose on Enron in the event of a recharacterization of the Loan transactions,[22] and Enron should qualify for the reasonable cause exception based on the stated criteria in the IRS Penalty Handbook. Consequently, Enron should not be subject to any applicable penalties or interest thereon. Enron, however, would be liable for interest on the amount of tax which should have been withheld under sections 1441 or 1442 from March 15 of the calendar year following the year in which the tax should have been withheld until the Underlying Tax is paid (either by the Preferred Shareholders or Enron).

Very truly yours,

Vinson & Elkins L.L.P.

Vinson & Elkins L.L.P.

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[22] As discussed above, the Service would not have any credible grounds for asserting the Code's criminal penalties in the event of a recharacterization of the Loans.

ARTHUR ANDERSEN

ARTHUR ANDERSEN & Co. SC

Arthur Andersen & Co.

1345 Avenue of the Americas
New York NY 10105
Writer's Direct Dial
[212] 708-4930

September 13, 1993

Goldman, Sachs, & Co.
85 Broad Street
New York, New York 10004

Dear Sir or Madam:

We have been engaged to report on the appropriate application of United States generally accepted accounting principles (US GAAP) to the hypothetical transaction described below. This report is being issued to Goldman, Sachs, & Co. for assistance in evaluating accounting principles for the described hypothetical transaction. Our engagement has been conducted in accordance with standards established by the American Institute of Certified Public Accountants.

Transaction:

1) Corp forms a Special Purpose Corporation (SPC) created and incorporated under the laws of the Grand Cayman Islands or Turks and Caicos Islands. In the event that SPC is a resident of the Turks and Caicos Islands, it will be a 150 year limited duration company. SPC issues common stock all of which is owned by Corp.

2) SPC will sell perpetual preferred stock to unrelated parties, possibly in a public offering. The preferred stock will carry a vote only upon a default in dividends.

3) The Bylaws and Charter of SPC specify that its business is limited to selling stock to raise equity capital and loaning that capital to Corp or another related entity.

4) The preferred stock of SPC will pay a dividend fixed at issuance.

5) SPC will loan its equity proceeds to Corp under a bullet loan, which pays interest at a rate fixed at the time of issuance. Corp has the right to repay the loan on any interest date that the SPC has called the preferred stock.

6) As a matter of its organizational documents, Corp will be liable for SPC expenses in excess of SPC assets; preferred dividends are not considered expenses for this purpose.

7) SPC will dissolve upon bankruptcy of Corp unless the SPC preferred stock holders vote otherwise.

8) Corp may unilaterally pass a resolution to dissolve SPC at any time.

Accounting Discussion:

You have asked us to address the US GAAP accounting for SPC in the consolidated financial statements of Corp. The rules for consolidation of subsidiaries are set forth in Accounting Research Bulletin No. 51 (ARB 51), Opinion No. 18 of the Accounting Principles Board (APB 18) and Statement No. 94 of the Financial Accounting Standards Board (FASB 94). These rules specify that a company should generally consolidate the accounts of an investee when it has a controlling financial interest in the investee. The usual condition for a controlling financial interest is ownership of a majority voting interest. Accordingly, Corp will consolidate SPC.

In our opinion, and in practice, the non affiliate shareholders of a subsidiary are treated as minority interests (i.e., not included in debt or consolidated stockholders' equity) in the US GAAP consolidated financial statements. Hence, we believe that the non affiliate investments in SPC would be reflected as minority interest in Corp's US GAAP consolidated financial statements. While some may argue that where a subsidiary's only role is to loan funds to others in the consolidated group and the non affiliated stockholders of the subsidiary can gain control of its Board in the event of default on the loan, the non affiliate stockholders of the subsidiary should be treated as creditors in the consolidated financial statements of the group, this is not practice.

The ultimate responsibility for the decision on the appropriate application of generally accepted accounting principles for an actual transaction rests with the preparers of financial statements, who should consult with their continuing accountants. Our judgment on the appropriate application of generally accepted accounting principles for the described hypothetical transaction is based solely on the facts provided to us as described above; should these facts and circumstances differ, our conclusion may change. We have not been asked to address and have not addressed any tax matters relating to this transaction.

Our opinion is as of the date of this letter and we do not assume an obligation to update this opinion for subsequent changes in relevant rules or practice.

Very truly yours,

Arthur Andersen & Co.

TW

Office Symbols: CC:DOM:FS:FI&P
Case Number: TL-6149-98

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MEMORANDUM FOR DISTRICT COUNSEL
MIDSTATES REGION CC:MSR:HOU
Attn: Janet Balboni

FROM: Deborah A. Butler
Assistant Chief Counsel (Field Service)

Internal Revenue Service National Office Field Service Advice

This Field Service responds to your memorandum dated May 6, 1998. Field Service Advice is not binding on Examination or Appeals and is not a final case determination. This document is not to be cited as precedent.

LEGEND:

A	=	Enron Corp.
B	=	Enron Capital LLC
C	=	Enron Capital Resources L.P.
D	=	Enron Preferred Capital Corp.
E	=	Organizational Partner, Inc.
F	=	Enron Oil & Gas Company
INSTRUMENT A	=	Monthly Income Preferred Shares ("MIPS")
INSTRUMENT B	=	Cumulative Preferred Shares
YEAR 1	=	1993
YEAR 2	=	1994
DATE 1	=	December 31, 1992
DATE 2	=	October 25, 1993
DATE 3	=	November 4, 1993
DATE 4	=	November 15, 1993
DATE 5	=	November 30, 1993
DATE 6	=	November, 1993
DATE 7	=	December 31, 1993
DATE 8	=	July 15, 1994
DATE 9	=	August 3, 1994
DATE 10	=	August 31, 1994
DATE 11	=	August, 1994

DATE 12	=	March 1, 1998
DATE 13	=	November 30, 1998
DATE 14	=	August 31, 1999
DATE 15	=	August 31, 2024
DATE 16	=	November 30, 2043
DATE 17	=	November 30, 2093
F MONTHS	=	18 Months
G MONTHS	=	60 Months
H YEARS	=	30 Years
I YEARS	=	49 Years
J YEARS	=	50 Years
K YEARS	=	60 Years
L YEARS	=	100 Years
M %	=	8 Percent
N %	=	8.2 Percent
O %	=	8.9 Percent
P %	=	9 Percent
Q %	=	10 Percent
R %	=	21 Percent
S %	=	66-2/3 Percent
T %	=	100 Percent
$U	=	$25.00
$V	=	$2,137,497
$W	=	$3,512,658
$X	=	$19,936,709
$Y	=	$21,645,596
$Z	=	$53,165,000
$AA	=	$75,000,000
$BB	=	$94,936,709
$CC	=	$200,000,000
$DD	=	$253,165,000
$EE	=	$270,569,621
FF	=	1
GG	=	4,997
HH	=	4,998
II	=	5,000
JJ	=	1,200,000
KK	=	3,000,000
LL	=	8,000,000
MM	=	9,200,000
NN	=	1.2:1
OO	=	1:1
PP	=	30
COUNTRY A	=	Turks and Caicos Islands
YEAR 1 Prospectus	=	Enron Capital LLC 1993 Supplement

		to Prospectus (October 25, 1993)
YEAR 1 Terms	=	Terms of the 8% MIPS of Enron Capital LLC, November 4, 1993
YEAR 1 Loan Agreement	=	Loan Agreement, November 15, 1993
YEAR 1 Guarantee	=	Payment and Guarantee Agreement, November 15, 1993
YEAR 2 Prospectus	=	Enron Capital Resources 1994 Prospectus Supplement (July 15, 1994)
YEAR 2 Loan Agreement	=	Loan Agreement, August 3, 1994
YEAR 2 Guarantee	=	Payment and Guarantee Agreement, August 3, 1994

ISSUES:

(1) Whether the Loans from B and C to A should be respected as debt?

(2) Whether the Service may disallow the interest paid to B and C on the Loans because of a lack of economic substance?

(3) Whether B and C should be treated as partnerships or as associations taxable as corporations for federal income tax purposes?

CONCLUSION:

Based upon a review of the documents, the YEAR 1 Loan from B to A and the YEAR 2 Loan from C to A should be respected as debt. Further, the interest deductions on the debt should not be disallowed because the Loans possess economic substance.

The use of partnerships to issue INSTRUMENT A and INSTRUMENT B is not an abuse of the partnership entity. Accordingly, we do not recommend challenging the federal income tax classification of such partnerships. Furthermore, the following analysis concludes that reclassifying these entities as associations taxable as corporations rather than as partnerships is unlikely to succeed.

FACTS:

INSTRUMENT A

A borrowed an aggregate principal amount of $DD from B. A paid interest on this amount, and took an interest deduction of $V in YEAR 1, and an interest deduction of $Y in YEAR 2.

Examination stated in the Statutory Notice of Deficiency (hereinafter referred to as the "Stat. Notice") dated DATE 12, that it determined that the amounts paid by A to B are not deductible interest payments, the obligations do not constitute

indebtedness, and the obligations under which payments were accrued do not constitute indebtedness because the entity with whom A contracted is not sufficiently distinct to be considered an unrelated party contracting at arm's-length. Examination has proposed to reduce the interest expense in the amount of $V for YEAR 1 and $Y for YEAR 2.

A formed B under the law of COUNTRY A as a limited life company for the sole purpose of issuing shares and lending the net proceeds to A. B was a T % subsidiary of A, and as of YEAR 1, A owned directly GG of the outstanding and issued common shares of B, out of II shares. YEAR 1 Prospectus at S-6. D, a T % subsidiary of A, owned FF shares. A purchased the common shares of B for approximately $Z. YEAR 1 Prospectus at S-14.

In DATE 6, B authorized MM shares of M % INSTRUMENT A. YEAR 1 Terms at 1. Of the authorized INSTRUMENT A, B issued LL shares at $U per share, for a total of $CC. The unissued JJ shares of INSTRUMENT A were reserved for the Underwriters' over-allotment option. YEAR 1 Prospectus at S-6.

B loaned to A both the $Z proceeds from the sale of the common shares to A, and the $CC proceeds from the sale of the INSTRUMENT A for an aggregate principal amount of $DD (hereinafter referred to as the "YEAR 1 Loan"). YEAR 1 Prospectus at S-14. However, the YEAR 1 Loan Agreement states that B agreed to make loans to A in the principal amount of $EE in next day funds. YEAR 1 Loan Agreement at 1. The YEAR 1 Loan to A bears interest at an annual rate equal to M % until maturity; this is the same rate as the M % "dividend" rate payable on INSTRUMENT A. YEAR 1 Loan Agreement at 3. Interest on the Loan was payable on the last day of each calendar month of each year beginning on DATE 5. YEAR 1 Prospectus at S-15.

The YEAR 1 Loan Agreement between B and A states that the Loan shall be due as follows:

> The entire principal amount of the Loans shall become due and payable, together with any accrued and unpaid interest thereon, including Additional Interest as defined below, if any, on the earliest of [DATE 16], or the date upon which [A] is dissolved, wound-up or liquidated or the date upon which [B] is dissolved, wound-up or liquidated.

YEAR 1 Loan Agreement at 2.

Upon repayment of the YEAR 1 Loan, B can redeem INSTRUMENT A or reloan these funds to A. The amounts can be reloaned to A only if: (a) A is not in bankruptcy; (b) A is not in default on any loan relating to the INSTRUMENT A; (c) A has made timely

payments on the repaid loan for the preceding F MONTHS; (d) B is not in arrears in dividend payments; (e) A is expected to be able to make timely payment of principal and interest on the Loan; (f) the Loan is being made on terms, and under circumstances, that are consistent with those which a lender would require for a loan to an unrelated party; (g) the Loan is being made at a rate sufficient to pay dividends that accrue on the shares; (h) the senior unsecured long-term debt of A is rated BBB- or better by Standard & Poor or Baa3 or better by Moody's, or the equivalent by another rating organization; (i) the Loan is made for a term that is consistent with market circumstances and A's financial condition; and (j) the final maturity can be no later than the L YEARS anniversary of the issuance of the INSTRUMENT A, or DATE 17. YEAR 1 Terms at 3-4. A has the right to prepay the YEAR 1 Loan without premium or penalty on or after DATE 13. YEAR 1 Loan Agreement at 2.

A has the right to extend the interest payment period for up to F MONTHS. At the end of this, A shall pay all accumulated and unpaid interest. YEAR 1 Loan Agreement at 4. During any extended interest payment period, neither A nor any majority owned subsidiary of A will declare or pay any dividend on, or redeem, purchase, acquire or make a liquidation payment or Guarantee Payment with respect to any of its capital stock (other than Guarantee Payments). YEAR 1 Loan Agreement at 4.

A also guarantees the full payment, when due, of any of the indebtedness and liabilities of B. Agreement as to Expenses and Liabilities, DATE 4, at 1.

In the event of default by A in the payment of interest, in the payment of principal when due, in the event of a dissolution, winding up or liquidation of B, upon the bankruptcy, insolvency or liquidation of A, or upon the breach of any covenants, B shall have the following rights:

> to declare the principal of and the interest on the Loans (including any Additional Interest and any interest subject to an extension of the interest payment period) and any other amounts payable on the Loans to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything in this Agreement to the contrary notwithstanding.

YEAR 1 Loan Agreement at 10-11. An event of default is defined as a default by A in repayment of the principal or interest on the Loans when due, the dissolution, winding up or liquidation of B, the bankruptcy, insolvency or liquidation of A, or the breach

of any covenant in the Loan Agreement. YEAR 1 Prospectus at S-18.

The YEAR 1 Loan is "subordinate and junior in right of payment to all Senior Indebtedness of A as provided herein." YEAR 1 Loan Agreement at 5. The Senior Indebtedness of A's includes the principal, premium, and interest on:

> (i) all indebtedness of [A], whether outstanding on the date hereof or hereafter created, incurred or assumed, which is for money borrowed, or evidenced by a note or similar instrument given in connection with the acquisition of any business, properties or assets, including securities, (ii) any indebtedness of others of the kinds described in the preceding clause (i) for the payment of which [A] is responsible or liable (directly or indirectly, contingently or non-contingently) as guarantor or otherwise, (iii) any indebtedness secured by a lien upon property owned by [A] and upon which indebtedness [A] customarily pays interest, even though [A] has not assumed or become liable for the payment of such indebtedness and (iv) amendments, renewals, extensions and refunding of any such indebtedness unless ... it is expressly provided that the indebtedness is not superior in right of payment to the Loans.

YEAR 1 Loan Agreement at 5.

If A defaults in the payment of principal, premium or interest on any Senior Indebtedness when it becomes due and payable, or in the event of a default on the Senior Indebtedness, then until such default has been cured or waved, no direct or indirect payment will be made on the YEAR 1 Loan. YEAR 1 Loan Agreement at 6.

In the event of insolvency, bankruptcy, receivership, liquidation, reorganization, composition, or similar proceeding against A or its property, all Senior Indebtedness of A's shall be paid in full before any payment or distribution of the YEAR 1 Loan. YEAR 1 Loan Agreement at 6-7.

B has no right to participate in the management of A; however, the holders of the INSTRUMENT A will have creditors' rights against A if B fails to pay "dividends" on the INSTRUMENT A for F MONTHS (consecutive monthly dividend periods), if an event of default occurs or if A is in default on any of its payment or other obligation under the Guarantee Agreement. YEAR

1 Terms at 6. The holders of a majority in liquidation preference of INSTRUMENT A in YEAR 1 will be entitled to the following rights:

> to appoint and authorize a trustee to enforce [B's] creditor rights under the Loans against [A], enforce the obligations undertaken by [A] under the Guarantee Agreement and the Agreement as to Expenses and Liabilities pursuant to which [A] will agree to guarantee payment of any liabilities incurred by [B] (other than obligations to holders of [INSTRUMENT A] in their capacities as holders)... and declare and pay dividends on [INSTRUMENT A].

YEAR 1 Terms at 6. Not later than PP days after such right to appoint a trustee arises, the manager will convene a general meeting for the above purpose. If the manager fails to convene a meeting, the INSTRUMENT A holders of Q % in liquidation preference of outstanding shares will be entitled to convene the meeting. YEAR 1 Terms at 6.

The holders of the INSTRUMENT A shall have the following rights:

> If any resolution is proposed for adoption by the shareholders of [B] providing for, or the Manager otherwise proposes to effect, (x) any variation or abrogation of the rights, preferences and privileges of [INSTRUMENT A], whether by way of amendment of [B]'s Articles of Association ... or (y) the liquidation, dissolution or winding up of [B], then the holders of outstanding [INSTRUMENT A] will be entitled to vote on such resolution or action of the Manager (but not on any other resolution or action), and such resolution or action shall not be effective except with approval of the holders of [S] % in liquidation preference of the outstanding [INSTRUMENT A]....

YEAR 1 Terms at 6-7.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of B, the INSTRUMENT A holders will be entitled to receive out of the assets of B available for distribution to shareholders, before any distribution of assets is made to holders of common shares or any other class of shares of B ranking junior to INSTRUMENT A, an amount equal to the stated liquidation preference of $U per share and all accumulated

and unpaid "dividends" to the date of payment. YEAR 1 Terms at 5.

The holders of the INSTRUMENT A are entitled to receive, when, as and if declared by B out of funds held and legally available, cumulative cash "dividends" at the annual rate of M % of the stated liquidation preference of $U per share per annum. The "dividends", payable in U.S. dollars monthly in arrears on the last day of each calendar month, will accrue and be cumulative whether or not they have been declared and whether or not there are profits, surplus or other funds of B legally available. YEAR 1 Terms at 2. "Dividends" must be declared on the INSTRUMENT A in any calendar year to the extent that A reasonably anticipates that at the time of payment B will have and must pay cash on hand that is sufficient to permit such payments. YEAR 1 Terms at 2.

B will not pay any dividends on any shares of B ranking junior to the INSTRUMENT A, or redeem, purchase or otherwise acquire any junior shares of B, until such time as all accumulated and unpaid "dividends" on the INSTRUMENT A have been paid in full. YEAR 1 Terms at 3.

In YEAR 1, A had a debt-to-equity ratio of approximately NN. YEAR 1 Prospectus at S-5.

The obligation at issue between A and B is labeled as a loan in the YEAR 1 Prospectus. YEAR 1 Prospectus at S-14. The YEAR 1 Loan Agreement, as well as all other documents reviewed, labels the obligation as a loan.

A used the proceeds from the YEAR 1 Loan from B to repay other indebtedness, and for general corporate purposes. YEAR 1 Prospectus at S-5. In the Form 10-K Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (hereinafter referred to as the "10-K" for YEAR 1) that A filed with the Securities and Exchange Commission for YEAR 1, A reported that "the average cost of long-term debt declined to N % at DATE 7 from O % at DATE 1. The decline was accomplished primarily through the retirement of additional higher coupon long-term debt which was subject to call provisions during [YEAR 1]." YEAR 1 A 10-K at 32.

A has irrevocably and unconditionally agreed to pay the holders of the INSTRUMENT A the following Guarantee Payments, in the event that B fails to pay: any accumulated and unpaid "dividends" declared on the INSTRUMENT A from legally available funds; the $U redemption price per preferred share, from legally available funds; the lesser of either the liquidation preference of $U per share plus accumulated and unpaid "dividends" or the amount of assets of B available for distribution to INSTRUMENT A holders; and any interest payable on the INSTRUMENT A. YEAR 1

Guarantee at 2. A irrevocably and unconditionally agrees to pay in full to the INSTRUMENT A holders the Guarantee Payments when due, except to the extent paid by B, regardless of any defense, right of set-off or counterclaim that B may have or assert. YEAR 1 Guarantee at 2. A's obligation to make Guarantee Payments may be satisfied by direct payment by A to the INSTRUMENT A holders or by causing B to pay such amounts to the holders. YEAR 1 Guarantee at 2-3.

This Guarantee Agreement is an unsecured obligation of A, the Guarantor, and is subordinate and junior in right of payment to all of the liabilities of A, is *pari passu* with the most senior preferred or preference stock, and is senior to A's common stock. YEAR 1 Guarantee at 6. A's obligations under the Guarantee Agreement are independent of B's obligations with respect to the INSTRUMENT A. In addition, A will be liable as principal and sole debtor to make the Guarantee Payments.

If any INSTRUMENT A remain outstanding and A is in default with respect to its obligations under the Guarantee Agreement or the Loan Agreement, then neither A nor any majority owned subsidiary of A will declare or pay any dividend on, or redeem, purchase, acquire or make a liquidation payment or guarantee payment with respect to, any of its capital stock. YEAR 1 Guarantee at 5.

Under the Guarantee Agreement, A covenants that, as long as the INSTRUMENT A remain outstanding, it will maintain direct or indirect ownership of the common shares of B, maintain R % of the value as common shares, and not voluntarily dissolve, wind up or liquidate B or cause it to lose its status as an LLC. YEAR 1 Guarantee at 5.

INSTRUMENT B

In YEAR 2, A borrowed an aggregate principal amount of $BB from C and paid $W in interest expenses to C.

Examination stated in the Stat. Notice that it determined that the amounts paid by A to C in YEAR 2 are not deductible as interest payments, and the obligations under which payments were accrued do not constitute indebtedness because the entity with whom A contracted is not sufficiently distinct to be considered an unrelated party contracting at arm's-length. Examination has proposed to reduce A's interest expense in the amount of $W in YEAR 2.

A and E (a T % subsidiary of A) formed C as a limited partnership organized under the laws of Delaware. A, as a general partner, holds an R % interest in the partnership; the remainder of C is owned by the holders of INSTRUMENT B. E withdrew after the issuance of INSTRUMENT B. C exists solely for

the purpose of issuing limited partner interests and lending the net proceeds from the interests to A. YEAR 2 Prospectus at S-2. A paid $X to C for the partnership interest.

A, as general partner, will furnish to each cumulative preferred instrument holder a Schedule K-1 each year setting forth the holder's allocable share of income for the prior calendar year. YEAR 2 Prospectus at S-21.

C issued KK shares of P % INSTRUMENT B, Series A, in DATE 11. Each instrument was issued at $U per individual INSTRUMENT B, for a total of $AA. Although these INSTRUMENT B are not INSTRUMENT A, the two instruments are similar. The holders of the instruments shall be entitled to "dividends", fixed at a rate per annum of P % per $U per INSTRUMENT B. Amended and Restated Agreement of Limited Partnership of C at 14. "Dividends" must be paid on the INSTRUMENT B in any calendar year to the extent that A reasonably anticipates that at the time of payment C will have and must legally pay funds available for the payment of such "dividends", and sufficient cash to permit such payments. YEAR 2 Prospectus at S-8.

C loaned to A the proceeds from the sales of both the capital shares and the INSTRUMENT B, an aggregate principal amount of $BB (hereinafter referred to as the "YEAR 2 Loan"). YEAR 2 Prospectus at S-16.

The YEAR 2 Loan bears interest at an annual rate equal to P % until maturity, with interest payable on the last day of each calendar year as of DATE 10. The YEAR 2 Loan Agreement between C and A provides for the following:

> The entire principal amount of the Loan shall become due and payable, together with any accrued and unpaid interest thereon, including Additional Interest as defined below, if any, on the earliest of [DATE 15] or the date upon which A is dissolved, wound-up or liquidated or the date upon which [C] is dissolved, wound-up or liquidated.

YEAR 2 Loan Agreement at 2.

A has the right to prepay the Loan at any time on or after DATE 14, without premium or penalty, and if legislation is enacted or existing law is modified that causes C to be treated as an association taxable as a corporation, provided that C has elected to redeem the instruments. YEAR 2 Loan Agreement at 2. The INSTRUMENT B instruments are redeemable at the option of C and subject to the consent of A on or after DATE 14, at the redemption price of $U per instrument plus accumulated "dividends". YEAR 2 Prospectus at S-9.

Upon any repayment or prepayment of principal on the YEAR 2 Loan, the proceeds from such payment will be applied to redeem INSTRUMENT B. However, such amounts may be reloaned to A, and not used for redemption, if at the time of such loan: (a) A is not in bankruptcy; (b) A is not in default on any loan relating the INSTRUMENT B; (c) A has made timely payments on the Loan for the immediately preceding F MONTHS; (d) C is not in arrears on payments of the "dividends" on INSTRUMENT B; (e) A is expected to be able to make timely payments of principal and interest on the Loan; (f) the Loan is made on terms and under circumstances that are consistent with one made to an outside party; (g) the rate on the Loan is sufficient to provide for dividends on the INSTRUMENT B; (h) the senior unsecured long-term debt of A is rated BBB- or better by Standard & Poor or Baa3 or better by Moody's or the equivalent; (i) the terms are consistent with market and A's financial condition; (j) the term of the Loan is no more than H YEARS; and (k) the final maturity of such Loan is not later than the I YEARS anniversary of the issuance of the INSTRUMENT B. YEAR 2 Prospectus at S-9-S-10.

A has the right to an extended interest period on the YEAR 2 Loan, to extend the interest payment period on the YEAR 2 Loan for up to G MONTHS (consecutive), deferring also the monthly dividend payments on the INSTRUMENT B. YEAR 2 Prospectus at S-4. However, the interest will continue to accrue and will be paid after the G MONTHS period. YEAR 2 Loan Agreement at 3. During any extended interest payment period, A will not declare or pay any dividend on, redeem, purchase, acquire or make a liquidation payment with respect to any of its capital stock. YEAR 2 Loan Agreement at 3.

The YEAR 2 Loan Agreement "constitutes the valid and legally binding obligation of A enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles." YEAR 2 Loan Agreement at 7.

In the event of a default by A, C:

> will have the right to declare the principal of and interest on the Loan (including any Additional Interest and any interest subject to an extension of the interest payment period) and any other amounts payable on the Loan to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything in this Agreement to the contrary notwithstanding.

YEAR 2 Loan Agreement at 8.

An event of default is defined as a default by A in the payment of interest or principal on the YEAR 2 Loan, the dissolution, winding up or liquidation of C, the bankruptcy, insolvency or liquidation of A, and any breach of the Loan Agreement covenants. YEAR 2 Loan Agreement at 8. Thus, upon A's default, C may enforce its creditor rights by declaring the principal and interest on the YEAR 2 Loan to be due and payable (without presentment, demand, protest or other notice).

The YEAR 2 Loan is subordinated as follows:

> the Loan is subordinate and junior in right of payment to all Senior Indebtedness as provided herein. The term 'Senior Indebtedness' shall mean the principal, premium, if any, and interest on (i) all indebtedness of [A], ... incurred or assumed, which is for money borrowed, or evidenced by a note or similar instrument given in connection with the acquisition of any business, properties, or assets, including securities....

YEAR 2 Loan Agreement at 4. Senior Indebtedness also includes any similar debt on which A is liable as a guarantor, any indebtedness secured by a lien on property which A owns and for which A customarily pays interest, and any amendments, renewals, extensions and refundings of any such indebtedness. YEAR 2 Loan Agreement at 4.

If A defaults on any payments of any principal or interest upon its Senior Indebtedness, no direct or indirect payments shall be made on the YEAR 2 Loan. YEAR 2 Loan Agreement at 5. The Senior Indebtedness shall also be paid in full prior to payments made on the YEAR 2 Loan in the event of insolvency, bankruptcy, receivership, liquidation, reorganization, composition or similar proceeding relating to A; and liquidation, dissolution or winding up of A; any assignment by A for the benefit of its creditors; and any other marshalling of A's assets. YEAR 2 Loan Agreement at 5.

Senior Indebtedness does not include "the indebtedness pursuant to the Loan Agreement dated as of DATE 4 between [A] and [B] and any extensions or refundings thereof (the 'Pari Passu Debt')." YEAR 2 Loan Agreement at 4. The YEAR 2 Loan shall not be subordinate to any other liabilities of A. YEAR 2 Prospectus at S-17.

C has no right to participate in the management of A. However, the holders of INSTRUMENT B shall be entitled to appoint and authorize a trustee to enforce C's creditor rights under the YEAR 2 Loan against A and pay "dividends" if C fails to pay

"dividends" in full, or in the event of default by A on principal or interest on the Loan. YEAR 2 Prospectus at S-11.

Not later than PP days after such right to appoint a trustee arises, the general partner, A, will convene a general meeting. If the general partner fails to convene such a meeting, the cumulative preferred instrument holders of Q % in liquidation preference will be entitled to convene the meeting. YEAR 2 Prospectus at S-11.

If any amendment to the C Partnership Agreement is proposed for adoption providing for any variation or abrogation of the rights, preferences and privileges of the INSTRUMENT B, or the liquidation, dissolution, or winding up of C, then the holders of the INSTRUMENT B will be entitled to vote on such proposal. YEAR 2 Prospectus at S-11.

In YEAR 2, A had a debt-to-equity ratio of approximately OO. YEAR 2 Prospectus at S-7, S-19.

A purportedly used the YEAR 2 Loan for general corporate purposes including the repayment of indebtedness. YEAR 2 Prospectus at S-7. A's estimated fair market value of its long-term debt decreased in YEAR 2; the fair market value of debt includes the estimated cost to acquire the debt. YEAR 2 Form 10-K Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (hereinafter referred to as the "10-K" for YEAR 2).

A labeled this obligation between A and C as a loan in the Prospectus that it submitted to the Securities and Exchange Commission for YEAR 2. YEAR 2 Prospectus at S-16. A also labeled the obligation as a loan in the YEAR 2 Loan Agreement and other documents.

Holders of the INSTRUMENT B shall also be entitled to enforce the obligation undertaken by A under the Guarantee Agreement, should C fail to pay "dividends", in the event of a default, or if A is in default on any of its payment or other obligations under the Guarantee. YEAR 2 Prospectus at S-11.

A has also irrevocably and unconditionally agreed to pay the holders of the INSTRUMENT B certain Guarantee Payments in the event that C fails to do so. YEAR 2 Guarantee at 1-2. Guarantee Payments are defined as accumulated and unpaid dividends, the redemption price of $U, the lesser of either the $U liquidation preference plus accumulated and unpaid dividends or assets of C available for distribution, and any additional interest, to the extent that these are not paid by C. YEAR 2 Guarantee at 1-2. A's obligation to make a Guarantee Payment may be satisfied by direct payment by A to the holders of the instruments or by causing C to pay such amounts to the holders.

A's obligations under the Guarantee Agreement are independent of C's obligations with respect to the INSTRUMENT B. A is liable as principal and sole debtor to make the Guarantee Payments.

If any INSTRUMENT B remain outstanding and A is in default under the Guarantee Agreement, the Expense Agreement, or the Loan Agreement, then A shall not declare or pay any dividend on or redeem, purchase, acquire or make a liquidation payment with respect to any of its capital stock. YEAR 2 Guarantee at 4.

Under the Guarantee Agreement, A covenants that, as long as the INSTRUMENT B remain outstanding, it will maintain direct or indirect ownership of the general partner interest in C, it will cause at least R % of the value of C to be represented as a general partner interest, it will not voluntarily dissolve, wind up or liquidate C, and will make every effort to cause C to remain a limited partnership and will perform duties as a general partner. YEAR 2 Guarantee at 4-5.

The Guarantee Agreement is an unsecured obligation of A and ranks subordinate and junior in right of payment to all liabilities of A other than the YEAR 1 INSTRUMENT A Guarantee Agreement, *pari passu* with the most senior preferred or preference stock, and senior to A's common stock. YEAR 2 Guarantee at 5.

ISSUE 1:

Whether the Loans from B and C to A should be respected as debt?

LAW AND ANALYSIS:

I.R.C. § 385 of the Internal Revenue Code of 1986, as amended, ("the Code") discusses the treatment of certain investments in corporations as stock or indebtedness. Both section 385(a) and 385(b) require regulations to be effective. Since neither had regulations in effect for the years in issue, a facts and circumstances approach is required.

Under section 385(c)(1), the characterization (as of the time of issuance) by the issuer as to whether an interest in a corporation is stock or indebtedness is binding on the issuer and on all holders of such interest (but is not binding on the Secretary of the Treasury).

Notice 94-47, 1994-1 C.B. 357, provides guidance in the determination of whether an instrument is debt or equity for federal income tax purposes. Notice 94-47 addresses potential abuses of the tax law by instruments that contain both debt and equity characteristics.

The eight factors to be considered under Notice 94-47 are:

> (a) whether there is an unconditional promise on the part of the issuer to pay a sum certain on demand or at a fixed maturity date that is in the reasonably foreseeable future;
>
> (b) whether holders of the instruments possess the right to enforce the payment of principal and interest;
>
> (c) whether the rights of the holders of the instruments are subordinate to rights of general creditors;
>
> (d) whether the instruments give the holders the right to participate in the management of the issuer;
>
> (e) whether the issuer is thinly capitalized;
>
> (f) whether there is identity between holders of the instruments and stockholders of the issuer;
>
> (g) the label placed upon the instruments by the parties; and
>
> (h) whether the instruments are intended to be treated as debt or equity for non-tax purposes, including regulatory, rating agency, or financial accounting purposes.

No particular factor is conclusive in making the determination of whether an instrument constitutes debt or equity. John Kelley Co. v. Commissioner, 326 U.S. 521 (1946). The Notice is primarily concerned with instruments that combine long maturities (greater than 50 years) with other substantial equity characteristics.

We shall discuss the facts relating to each factor in the Notice in sequence. This analysis is focused on the Loans because the narrow issue is whether the payments made pursuant to the Loans represent interest upon debt.

(a) Whether there is an unconditional promise to pay by the issuer to pay a sum certain on demand or at a fixed maturity date that is in the reasonably foreseeable future. The presence of a fixed maturity date indicates a definite obligation to repay, which is a debt characteristic. Both the YEAR 1 and the YEAR 2 Loans contain a promise by A to pay the principal and interest by

a fixed maturity date.

The entire principal amount and interest on the YEAR 1 Loan are due and payable on DATE 16, or earlier if either A or B is dissolved, wound-up or liquidated. YEAR 1 Loan Agreement at 2.

If A repays the YEAR 1 Loan when due or prepays the Loan, the proceeds from the repayment of principal and interest shall be applied to redeem the INSTRUMENT A; alternatively, the proceeds could be reloaned to A for an additional maximum J YEARS, so that the Loan maturity can be no longer than the L YEARS anniversary of the issuance of the INSTRUMENT A. YEAR 1 Prospectus at S-7. Thus, the YEAR 1 Loan could have an effective maximum maturity date of L YEARS, if the optional J YEARS extension is exercised. The YEAR 1 Loan will become due and payable earlier if B redeems the INSTRUMENT A. YEAR 1 Prospectus at S-14. B may redeem the INSTRUMENT A at its option after DATE 13, but redemption is subject to the prior consent of A. YEAR 1 Prospectus at S-7.

Although A may extend the interest payment period for up to F MONTHS, the interest will continue to accrue. YEAR 1 Prospectus at S-20.

Principal and interest on the YEAR 2 Loan are due and payable on DATE 15, or when A or C is dissolved, wound-up or liquidated. YEAR 2 Loan Agreement at 2. If A repays the YEAR 2 Loan when due or prepays the Loan, the proceeds from the repayment will be applied to redeem the INSTRUMENT B, or the funds could be reloaned to A. YEAR 2 Prospectus at S-9. Upon C's redemption of the INSTRUMENT B, the principal and interest on the Loan shall become due and payable; while the INSTRUMENT B are redeemable at the option of C, redemption is subject to the consent of A. YEAR 2 Prospectus at S-9, S-16. If the Loan is paid by A and subsequently reloaned to A, the final maturity of the Loan can be no later than the I YEARS anniversary of the issuance of the INSTRUMENT B. YEAR 2 Prospectus at S-10. Thus, the YEAR 2 Loan could have an effective maximum maturity date of I YEARS, if the extension is exercised.

Additionally, upon an event of default by A on its payments, the YEAR 2 Loan will be forthwith due and payable. If the holders of the INSTRUMENT B fail to receive "dividends" from C, they have creditors' rights against A, and thus, A is obligated to C's holders.

The facts in these documents indicate that A has made an unconditional promise to pay a sum certain on demand or at a fixed maturity date in the reasonably foreseeable future for both Loans. A fixed maturity date indicates a fixed obligation to repay, which is a characteristic of debt. Mixon v. United States, 464 F.2d 394, 404 (5th Cir. 1972). Therefore, based upon

the information contained in the available documents, these facts are more indicative of debt.

(b) Whether the holders of the instruments possess the right to enforce payment of principal and interest. Both of the holders of the Loans, B and C, possess the right to enforce payment of the Loans by A.

The YEAR 1 Loan Agreement "constitutes the valid and legally binding obligation of A enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization...." YEAR 1 Loan Agreement at 8-9.

Upon an event of default on the YEAR 1 Loan, B has the right to declare the principal and interest forthwith due and payable. YEAR 1 Loan Agreement at 10.

Similarly, C has the right to enforce the YEAR 2 Loan Agreement and the repayment of the YEAR 2 Loan. YEAR 2 Loan Agreement at 7. C has creditor's rights as against A and has the right to declare the principal and interest of the YEAR 2 Loan due and payable upon an event of default by A. YEAR 2 Loan Agreement at 8.

B and C are, in effect, controlled by A, and therefore the rights of these two intermediaries could be questioned. However, A's obligations under the Loans are also for the benefit of the holders of INSTRUMENT A and INSTRUMENT B, and these holders are entitled to enforce the Loan Agreements directly against A. The facts in these documents indicate that holders of the Loan instruments possess the right to enforce payment as creditors. A definite obligation to repay an advance is an indication of a loan. Mixon, 464 F.2d at 405. This factor is more indicative of debt.

(c) Whether the rights of the holders of the instruments are subordinate to the rights of general creditors. The rights of the holders of the YEAR 1 Loan and of the YEAR 2 Loan are not subordinate to the rights of the general creditors of A.

The YEAR 1 Loan is subordinate only to the Senior Indebtedness. The Senior Indebtedness shall be paid first in full before any payment or distribution is made on the YEAR 1 Loans, in the event of insolvency, bankruptcy, receivership, liquidation, reorganization, or the dissolution or winding up of A. YEAR 1 Loan Agreement at 7. See supra at 6. Senior Indebtedness includes generally the principal and interest on all indebtedness of A, evidenced by a note or another instrument, but it does not include debts to general creditors. YEAR 1 Loan Agreement at 5. In addition, the Loan ranks superior to the claims of A's stockholders. YEAR 1 Guarantee at 5.

The YEAR 2 Loan is also subordinate only to the Senior Indebtedness. YEAR 2 Loan Agreement at 4. The definition of Senior Indebtedness for the YEAR 2 Loan is nearly identical to that of the YEAR 1 Loan, that is, both include generally the principal and interest on all indebtedness of A, evidenced by a note or another instrument, but do not include debts to general creditors. YEAR 2 Loan Agreement at 4-5.

If the holder of the obligation has rights that take precedence over the rights of shareholders, this suggests that the instrument is debt, although it is not dispositive. Monon Railroad v. Commissioner, 55 T.C. 345, 360 (1970), acq., 1973-2 C.B. 2. The facts available in these documents indicate that the obligations are not subordinated to the level of general creditors, and therefore the obligations resemble debt more than equity.

(d) Whether the instruments give the holders the right to participate in the management of the issuer. Neither the holder of the YEAR 1 Loan, B, nor the holder of the YEAR 2 Loan, C, has rights to participate in the management of the issuer of the Loans, A.

The holders of B's INSTRUMENT A and the holders of the INSTRUMENT B of C have certain limited creditors' rights as against A. Upon B's failure to pay "dividends" for F MONTHS (consecutive dividend periods), the INSTRUMENT A holders will be entitled to appoint and authorize a trustee to enforce B's creditor rights against A. YEAR 1 Terms at 6. Also, if a resolution is proposed to effect any variation or abrogation of the rights of the INSTRUMENT A holders or that would effect the liquidation, dissolution or winding up of B by way of an amendment to B's Articles of Association, then the holders will be entitled to vote on such resolution or action. YEAR 1 Terms at 6-7.

The holders of the INSTRUMENT B have been granted similar creditors' rights to appoint a trustee to enforce C's creditors' rights under the YEAR 2 Loan against A and also the right to vote upon certain proposals to amend the Partnership Agreement. YEAR 2 Prospectus at S-11.

Also, during any extended interest period under the Loan, neither A nor any majority owned subsidiary can declare or pay any dividend on, or redeem, purchase, acquire or make a liquidation payment with respect to any of its capital stock. YEAR 1 Loan Agreement at 4; YEAR 2 Loan Agreement at 3. (Under the YEAR 1 Loan this limitation does not apply to certain payments; in particular, the dividends paid by F on its common stock.)

These rights to vote for a trustee, to vote upon certain

Articles of Association or Partnership Agreement amendments should B or C fail to pay "dividends", and to restrict certain payments on A's capital stock during an extended interest period do not qualify as giving the holder of the instrument, either B or C, the right to participate in the management of the issuer, A. Rather, B's and C's holders are granted rights as creditors against A only.

Creditors are not usually entitled to vote in the affairs of the debtor corporation, or participate in its management, including electing corporate directors, unlike stockholders. Monon, 55 T.C. at 359-360. Based upon the information provided, there is no indication that B or C have any rights to participate in the management of A, or have any voting rights in A. Therefore, these facts are more indicative of debt.

(e) Whether the issuer is thinly capitalized. If a corporation has a nominal stock investment coupled with excessive debt, this fact would tend to indicate that an instrument labeled debt might constitute stock. As a result, the debt-to-equity ratio is another factor used to determine whether an instrument is debt or equity. The ratio indicates to what extent a corporation may suffer losses without impairment of the interests of the corporation's creditors. A high ratio lowers the protection afforded to the creditors against sudden business slumps. As a result, a high ratio of debt-to-equity indicates that the issuance of the instrument is a contribution to capital rather than a bona fide loan.

In YEAR 1, A had a debt-to-equity ratio of approximately NN. YEAR 1 Prospectus at S-5. In YEAR 2, A had a debt-to-equity ratio of approximately OO. YEAR 2 Prospectus at S-7, S-19.

A at no time has had a debt-to-equity ratio in excess of 2:1. See J.S. Biritz Construction Co. v. Commissioner, 387 F.2d 451, 459 (8th Cir. 1967) ("The debt to equity ratio of 2 to 1 is patently not so inordinately high as to qualify this as a 'thin capitalization' case."). A is not thinly capitalized, a factor which is more indicative of debt.

(f) Whether there is identity between holders of the instruments and stockholders of the issuer. This factor is usually relevant only when a corporation's shareholders have advanced money to the corporation. Advances made by stockholders in proportion to their respective stock ownership are an indication of equity, but a sharply disproportionate ratio is an indication of debt. Mixon, 464 F.2d at 409.

B is T % owned by A, except for T % of the issued and outstanding INSTRUMENT A, which are publicly held. A owns directly or indirectly T % of the HH issued and outstanding common shares of B out of II common shares. A also owns T % of

the partnership interests in C other than the interests represented by the INSTRUMENT B, which are publicly held. A is a publicly-held utility company, with millions of dollars of common and preferred stock outstanding. The stockholders of A indirectly own the common shares of B and C through A's ownership. However, other than the shares owned by A, the outstanding instruments of B and C, the INSTRUMENT A and the INSTRUMENT B, are publicly owned.

For purposes of this characteristic, there is no identity between the holders of the instruments and the stockholders of the issuer, and therefore, this indicates debt.

(g) The label placed upon the instruments. The instruments between A and B and C have been consistently characterized as Loans in the documents available. YEAR 1 Loan Agreement, YEAR 2 Loan Agreement.

In addition, under section 385(c), the issuer's characterization of an instrument as of the time of the issuance as either debt or equity is binding on the issuer and on all holders of the instrument. However, this characterization is not binding on the Service or on a holder that discloses that it is treating the instrument in a manner inconsistent with the issuer's characterization.

The labels on these instruments are not the same as the labels on the INSTRUMENT A and the INSTRUMENT B. However, since the form of the pass-through entities will be respected, and B and C will be treated as partnerships separate and distinct from A, then the label on the obligations (the INSTRUMENT A and INSTRUMENT B) that B and C have with the holders of their instruments will not affect the label on the obligations (the Loans) that A has with either B or C.

Therefore, because the available documents show that A has consistently labeled and treated these obligations as debt, this fact is indicative of debt. See Mixon, 464 F.2d at 403.

(h) Whether the instruments are intended to be treated as debt or equity for non-tax purposes, including regulatory, rating agency, or financial accounting purposes. There is no indication that the parties have treated the instruments (the Loans) between A and B and C as anything except debt. A labeled the obligations as loans in its YEAR 1 and YEAR 2 Prospectuses submitted to the Securities and Exchange Commission, and also indicated that the income on the shares is taxable as interest income rather than dividend income.

The labels placed upon the INSTRUMENT A and the INSTRUMENT B are different from the labels placed on the Loans. Thus, even though Moody's may have included the YEAR 1 INSTRUMENT A and the

YEAR 2 INSTRUMENT B in with A's capital stock, and INSTRUMENT A and INSTRUMENT B may give A some "equity credit" for purposes of the rating agencies, like Standard & Poor's and Moody's, Solomon B. Samson, Credit Comments: A Hierarchy of Hybrid Securities, Standard & Poor's Creditweek, March 25, 1996, at 43, this fact has no bearing on the analysis of whether the Loans are properly labeled for federal tax purposes.

The obligations have been treated consistently as Loans by A, a factor more indicative of debt. See Crown Iron Works v. Commissioner, 245 F.2d 357, 359 (8th Cir. 1957).

Unreasonably Long Maturity

Notice 94-47 focuses on "recent offerings of instruments that combine long maturities with substantial equity characteristics," and cites to Monon, 55 T.C. 345. The Service cautions taxpayers of the following:

> even in the case of an instrument having a term of less than 50 years, Monon Railroad generally does not provide support for treating an instrument as debt for federal income tax purposes if the instrument contains significant equity characteristics not present in that case. The reasonableness of an instrument's term (including that of any relending obligation or similar arrangement) is determined based on all the facts and circumstances, including the issuer's ability to satisfy the instrument. A maturity that is reasonable in one set of circumstances may be unreasonable in another if sufficient equity characteristics are present.

In Monon, the court determined that a 50-year maturity term on a debt instrument was not unreasonable in light of the fact that the corporation had been in existence for many years.

There is no bright-line test to determine whether a maturity date for a particular instrument is in the reasonably foreseeable future. In determining whether a maturity date for a particular instrument is a reasonable date, the courts have considered a number of factors, including the nature of the taxpayer's business, the financial condition of the taxpayer, the length of time the taxpayer has been in existence, and how likely it is that the taxpayer will be in existence when the instrument matures.

A was in existence for over K YEARS when the INSTRUMENT A and INSTRUMENT B were issued. In addition, A is a substantial operating business. Therefore, in this case, the J YEARS and H

YEARS maturity dates appear to be reasonable, as does the extended I YEAR extended term for the YEAR 2 issuance. The L YEARS extended term for the YEAR 1 Loan may appear to be unreasonable on its face. In light of the other characteristics of debt, however, it is not enough to cause recharacterization.

Based on a review of the documents, we do not recommend recharacterizing the debt as equity.

CASE DEVELOPMENT, HAZARDS AND OTHER CONSIDERATIONS:

This analysis has focused on the Loans because the narrow issue is whether the Loans represent debt or equity. The forms of the partnerships (the intermediate entities) are to be respected, as will be discussed infra, at 26. If facts were present in this case that caused the forms of the partnerships to not be respected, the conclusions would not be different, and the instruments would still be properly characterized as debt.

The foregoing analysis is based on the information and documents that we have been given and independent legal research. We have no knowledge that A has acted other than as a debtor or that the intermediaries have not at all times acted as creditors.

If you wish to determine if A has not acted as described in the documents, the following may be considered: Whether A has actually paid the interest or principal on the Loans when payment was due? Has A requested any extensions of time for repayment? Whether B and C have had any reason to enforce the agreements, and if so, whether they have enforced the obligations against A?

These issues may be developed by a review of the intermediaries' operating documents, corporate minutes and all correspondence between the parties regarding these instruments.

Based on a review of the documents, the litigating hazards on this issue are significant, and consequently, we recommend that this issue not be litigated. If you determine that A has not acted consistently with its documents, call us to determine what strategies to pursue.

ISSUE 2:

Whether the Service may disallow the interest paid to B and C on the Loans because of a lack of economic substance?

LAW AND ANALYSIS:

Section 163 allows as a deduction interest paid or accrued within the taxable year on indebtedness.

In United States v. Wexler, 31 F.3d 117, 122-23 (3d Cir.

1994), the court determined that, while section 163 does not expressly require that the transactions that gave rise to deductions have a business purpose or profit motive, nevertheless, case law establishes that the sham transaction doctrine bars interest deductions under section 163 if the underlying transaction does not have a business purpose or profit motive.

In Wexler, the taxpayer took deductions on interest paid on "repo to maturity" transactions involving sales and repurchases of government securities. The interest deduction and the income from the transactions were divided up into different years, and the mismatching of the deduction and income caused the income to be deferred for a second year. Wexler, 31 F.2d at 120. The court determined that none of the debt obligations were entered into for any reason other than for the tax benefits of deducting the interest on the obligations. Wexler, 31 F.3d at 126. In many of the cases upon which the court relied, it found that "a key requirement is that the interest obligation be *economically substantive*, defined in every decision ... to mean that the transaction have a potential non-tax benefit." Wexler, 31 F.3d at 127.

The taxpayers in Sheldon v. Commissioner, 94 T.C. 738 (1990), entered into eleven "repo" transactions involving sales and repurchases of U.S. Treasury Bills, or T-Bills. The repos involved were purchases of T-bills financed through repurchase agreements. The court determined that, although ten of these eleven transactions were real and had actually occurred, the transactions were lacking in the requisite substance and denied the interest deductions. Sheldon, 94 T.C. at 769.

The Sheldon court found that the taxpayers' sole objective was to obtain the interest deduction for transactions that had locked-in losses with no potential for any profit. Sheldon, 94 T.C. at 767. In 1981 and 1982 the partners in the transaction were locked in for a loss in the amount of $60,000, but received more than $5,000,000 in interest deductions to offset against their ordinary income. Sheldon, 94 T.C. at 769. Most of the transactions resulted in a loss, that is, the average interest rates on the repos were higher than the yield upon the maturity of the T-Bills that the taxpayers were to receive. Sheldon, 94 T.C. 746. In addition, the transactions were structured at year end to accommodate the mismatching of the income and deductions, thus creating a large tax benefit. Sheldon, 94 T.C. at 766.

"[L]oans or other financing transactions will merit respect and give rise to deductible interest only if there is some tax-independent purpose for the transactions." Sheldon, 94 T.C. at 759. Interest is not deductible if the underlying transaction is a sham or if it has no purpose, substance, or utility apart from the expected tax consequences. Sheldon, 94 T.C. at 760. "The

need for a profit objective" was of little or insignificant importance in the analysis of the interest deduction for transactions occurring in 1981 and 1982, the years in issue. Sheldon, 94 T.C. at 760. However, the ability to profit is a part of the overall inquiry into purpose, substance and utility. Sheldon, 94 T.C. at 767. The court determined that the transactions at issue were real, but were entered into irrespective of the gain or loss potential, and solely for the tax benefits, and therefore lacked the purpose, substance and utility required for the deduction. Sheldon, 94 T.C. at 769.

In Bealor v. Commissioner, T.C. Memo. 1996-435, the Tax Court reiterated that the substance of the underlying debt must be genuine in order for interest to be deductible under section 163(a).

The taxpayers in Bealor structured highly complex employee leasing transactions between a fuel trucking corporation and numerous partnerships. One of the primary corporations contracted its employees and independent contractors from a different partnership each year, but the partnerships had common partners and were pre-planned. All of the partnerships, which were the investment vehicles in this transaction, reported substantial losses. The tax benefits of the partnerships were sometimes touted to investors. Investor-partners for the most part did not receive any cash return on their investments.

The Tax Court determined that the taxpayers were not entitled to interest and loss deductions because the transactions giving rise to the claimed deductions had neither economic substance nor a profit objective. Bealor, T.C. Memo. 1996-435. In its analysis of the economic substance of the overall transaction, the Tax Court examined the real parties in interest, the structure of the financing, the taxpayers' prospects of actually making payments on their obligations, arm's-length negotiations, the parties' adherence to the contractual terms, the reasonableness of the income projections, and the introduction of new entities to buffer the existing parties from liability. Bealor, T.C. Memo. 1996-435. The court noted that "where a debt transaction is not conducted at arm's-length by two economically self-interested parties, or where a debt is incurred in 'peculiar circumstances' indicating that it will not be paid, we have disregarded that debt for tax purposes." Bealor, T.C. Memo. 1996-435.

Under the profit objective analysis of the overall transaction, the Tax Court looked to the parties' intent and ability to profit from the transactions, specifically that the partners often could not recover any money from their investments.

Upon a realistic view of the employee leasing transactions

under the foregoing factors, the Bealor court found that the transactions were shams lacking in economic substance, and the parties at issue did not demonstrate that they had profit as their primary purpose or any actual and honest profit objectives. Therefore, the losses and deductions were properly denied.

A stated in its YEAR 1 Prospectus and YEAR 2 Prospectus that the Loans would be used for general corporate purposes including the repayment of indebtedness. YEAR 1 Prospectus at S-5; YEAR 2 Prospectus at S-7. In the A 10-K for YEAR 1, A stated that the average cost of its long term debt declined. Additionally, A's debt-to-equity ratios decreased from YEAR 1 to YEAR 2, from approximately NN to OO. These statements indicate that A did possess a business reason for entering into the transaction, and that the transactions possess the requisite economic substance.

Because part of the funds loaned to A are from A's own contributions to the capital of B and C, there may be questions concerning the circular flow of funds. However, nothing in the documents indicates that the money from the contributions to capital are treated any differently from the proceeds from the public offerings in either the YEAR 1 or the YEAR 2 Loan documents.

In the balance, it appears from the available information that A entered into the transactions to obtain loans at lower interest rates and at lower costs generally, and therefore the underlying transactions possess economic substance. Thus, the interest deduction should not be disallowed.

CASE DEVELOPMENT, HAZARDS AND OTHER CONSIDERATIONS:

We have analyzed the transaction based upon the documents available to us, and conclude that this issue should not be pursued. Should you discover that the parties have acted inconsistently with these documents, we recommend that you review the minutes of the meetings of the Board of Directors of A, B and C, corporate correspondences, notes, and additional corporate documents.

You may inquire further into A's uses of the Loan proceeds if you have general questions on the economic substance. You may inquire into whether A benefitted from the transaction (from its use of the Loan proceeds), and verify that A paid off higher-rate debt as it claims to have done. You may also inquire into what it would have cost A to have issued straight corporate debt, projecting the interest rates and the transactional costs.

The litigating hazards on this issue are significant, and as such, disallowance of the interest deductions should not be pursued. If you find that the parties have acted inconsistently with the agreements and documents, contact us to discuss further

strategy.

ISSUE 3:

Whether B and C should be treated as partnerships or as associations taxable as corporations for federal income tax purposes?

LAW AND ANALYSIS:

Treas. Reg. § 301.7701-3(f)(2) of the regulations (finalized on December 17, 1996) provides that in the case of a business entity that is not automatically treated as a corporation under Treas. Reg. §§ 301.7701-2(b)(1), (3), (4), (5), (6), or (7), and that was in existence prior to January 1, 1997, the entity's claimed classification will be respected for all periods prior to January 1, 1997 if -

> (i) The entity had a reasonable basis (within the meaning of section 6662) for its claimed classification;
>
> (ii) The entity and all members of the entity recognized the federal tax consequences of any change in the entity's classification within the sixty months prior to January 1, 1997; and
>
> (iii) Neither the entity nor any member was notified in writing on or before May 8, 1996, that the classification of the entity was under examination (in which case the entity's classification will be determined in the examination).

Treas. Reg. § 301.7701-3(f)(2).

You have indicated that neither B nor C, nor any member therein, was notified in writing on or before May 8, 1996, that the classification of the entity was under examination by the Service. If we assume that there was no change in the entity's classification within the sixty months prior to January 1, 1997, then the tax treatment of B and C must be respected if B and C had a "reasonable basis" for their claimed classifications.

B

COUNTRY A amended its corporate laws to permit limited life companies in a YEAR 1 Ordinance. This entity does not appear on the list of foreign entities that automatically will be treated as "per se" corporations under current Treas. Reg. § 301.7701-

2(b)(8).

A conclusive response concerning B's tax classification would require a careful review of B's organizational documents, which have not been provided to us. However, B was formed under a modern LLC statute which permits the formation of entities which should be taxed as partnerships. It appears very likely that the taxpayers had a "reasonable basis" for B's claimed classification as a partnership, and that this classification must be respected under current Treas. Reg. § 301.7701-3(f)(2).

C

C was formed under Delaware's version of the Revised Uniform Limited Partnership Act (RULPA), which corresponds with the Uniform Limited Partnership Act (ULPA) for purposes of Treas. Reg. § 301.7701-2. Rev. Rul. 95-2, 1995-1 C.B. 221. Limited partnerships which were formed pursuant to a statute corresponding to the ULPA will lack two or more corporate characteristics. Therefore, the taxpayers had a "reasonable basis" for C's claimed classification as a partnership, and this classification must be respected under current Treas. Reg. § 301.7701-3(f)(2).

CASE DEVELOPMENT, HAZARDS AND OTHER CONSIDERATIONS:

The litigating hazards on this issue are considerable. Upon review of this memorandum, please call us to discuss resolution of these issues.

If you have any further questions, please call (202) 622-7870.

DEBORAH A. BUTLER

By: _____
JOEL E. HELKE
Chief
Field Service, Financial
Institutions and Products

CC:MSR:TL-6149-98
RLHunn

COUNSEL SETTLEMENT MEMORANDUM
MIPS ISSUES

In re: Enron Corporation & Consolidated Subsidiaries
Docket Number 6149-98

ISSUES:

(1) Whether the Loans from Enron Capital LLC and Enron Capital Resources L.P. to Enron Corp. should be respected as debt.

(2) Whether the Service may disallow the interest paid to Enron Capital LLC and Enron Capital Resources L.P. on the Loans because of a lack of economic substance.

(3) Whether Enron Capital LLC and Enron Capital Resources L.P. should be treated as partnerships or as associations taxable as corporations for federal income tax purposes.

CONCLUSION:

On August 3, 1993, the National Office issued a Field Service advice recommending that we concede the MIPS issues in this case. We concur with that advice. National Office's advice was based upon a review of the available evidence. It concluded that the 1993 Loan from Enron Capital LLC to Enron Corp. and the 1994 Loan from Enron Capital Resources L.P. to Enron Corp. should be respected as debt. Further, the interest deductions on the debt should not be disallowed because the Loans possess economic substance.

The evidence in this case did not establish that the use of partnerships to issue Monthly Income Preferred Shares ("MIPS") and Cumulative Preferred Shares was an abuse of the partnership entity. Accordingly, we concluded that we should not challenge the federal income tax classification of such partnerships. Furthermore, the following analysis concludes that reclassifying these entities as associations taxable as corporations rather than as partnerships is unlikely to succeed.

FACTS:

1993--Monthly Income Preferred Shares ("MIPS")

In 1993, Enron Corp. borrowed an aggregate principal amount of $253,165,000 from Enron Capital LLC. Enron Corp. paid interest on this amount, and took an interest deduction of

$2,137,497 in 1993, and an interest deduction of $21,645,596 in 1994.

Examination stated in the Statutory Notice of Deficiency (hereinafter referred to as the "Stat. Notice") dated March 1, 1998, that it determined that the amounts paid by Enron Corp. to Enron Capital LLC are not deductible interest payments, the obligations do not constitute indebtedness, and the obligations under which payments were accrued do not constitute indebtedness because the entity with whom Enron Corp. contracted is not sufficiently distinct to be considered an unrelated party contracting at arm's-length. Examination proposed to reduce the interest expense in the amount of $2,137,497 for 1993 and $21,645,596 for 1994.

Enron Corp. formed Enron Capital LLC under the law of Turks and Caicos Islands as a limited life company for the sole purpose of issuing shares and lending the net proceeds to Enron Corp. Enron Capital LLC was a 100 percent subsidiary of Enron Corp., and as of 1993, Enron Corp. owned directly 4,997 of the outstanding and issued common shares of Enron Capital LLC, out of 5,000 shares. 1993 Prospectus at S-6. Enron Preferred Capital Corp., a 100 percent subsidiary of Enron Corp., owned 1 share. Enron Corp. purchased the common shares of Enron Capital LLC for approximately $53,165,000. 1993 Prospectus at S-14.

In November, 1993, Enron Capital LLC authorized 9,200,000 shares of 8 percent MIPS. 1993 Terms at 1. Of the authorized MIPS, Enron Capital LLC issued 8,000,000 shares at $25.00 per share, for a total of $200,000,000. The unissued 1,200,000 shares of MIPS were reserved for the Underwriters' over-allotment option. 1993 Prospectus at S-6.

Enron Capital LLC loaned to Enron Corp. both the $53,165,000 proceeds from the sale of the common shares to Enron Corp., and the $200,000,000 proceeds from the sale of the MIPS for an aggregate principal amount of $253,165,000 (hereinafter referred to as the "1993 Loan"). 1993 Prospectus at S-14. However, the 1993 Loan Agreement states that Enron Capital LLC agreed to make loans to Enron Corp. in the principal amount of $270,569,621 in next day funds. 1993 Loan Agreement at 1. The 1993 Loan to Enron Corp. bears interest at an annual rate equal to 8 percent until maturity; this is the same rate as the 8 percent "dividend" rate payable on the MIPS. 1993 Loan Agreement at 3. Interest on the Loan was payable on the last day of each calendar month of each year beginning on November 30, 1993. 1993 Prospectus at S-15.

The 1993 Loan Agreement between Enron Capital LLC and Enron Corp. states that the Loan shall be due as follows:

> The entire principal amount of the Loan shall become due and payable, together with any accrued and unpaid interest thereon, including Additional Interest as defined below, if any, on the earliest of [November 30, 2043], or the date upon which [Enron Corp.] is dissolved, wound-up or liquidated or the date upon which [Enron Capital LLC] is dissolved, wound-up or liquidated.

1993 Loan Agreement at 2.

Upon repayment of the 1993 Loan, Enron Capital LLC can redeem the MIPS or reloan these funds to Enron Corp. The amounts can be reloaned to Enron Corp. only if: (a) Enron Corp. is not in bankruptcy; (b) Enron Corp. is not in default on any loan relating to the MIPS; (c) Enron Corp. has made timely payments on the repaid loan for the preceding 18 months; (d) Enron Capital LLC is not in arrears in dividend payments; (e) Enron Corp. is expected to be able to make timely payment of principal and interest on the Loan; (f) the Loan is being made on terms, and under circumstances, that are consistent with those which a lender would require for a loan to an unrelated party; (g) the Loan is being made at a rate sufficient to pay dividends that accrue on the shares; (h) the senior unsecured long-term debt of Enron Corp. is rated BBB- or better by Standard & Poor or Baa3 or better by Moody's, or the equivalent by another rating organization; (i) the Loan is made for a term that is consistent with market circumstances and A's financial condition; and (j) the final maturity can be no later than the 100 years anniversary of the issuance of the MIPS, or November 30, 2093. 1993 Terms at 3-4. Enron Corp. has the right to prepay the 1993 Loan without premium or penalty on or after November 30, 1998. 1993 Loan Agreement at 2.

Enron Corp. has the right to extend the interest payment period for up to 18 months. At the end of this, Enron Corp. shall pay all accumulated and unpaid interest. 1993 Loan Agreement at 4. During any extended interest payment period, neither Enron Corp. nor any majority owned subsidiary of Enron Corp. will declare or pay any dividend on, or redeem, purchase, acquire or make a liquidation payment or Guarantee Payment with respect to any of its capital stock (other than Guarantee Payments). 1993 Loan Agreement at 4.

Enron Corp. also guarantees the full payment, when due, of any of the indebtedness and liabilities of Enron Capital LLC. Agreement as to Expenses and Liabilities, November 15, 1993, at 1.

In the event of default by Enron Corp. in the payment of interest, in the payment of principal when due, in the event of a dissolution, winding up or liquidation of Enron Capital LLC, upon the bankruptcy, insolvency or liquidation of Enron Corp., or upon the breach of any covenants, Enron Capital LLC shall have the following rights:

> to declare the principal of and the interest on the Loans (including any Additional Interest and any interest subject to an extension of the interest payment period) and any other amounts payable on the Loans to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything in this Agreement to the contrary notwithstanding.

1993 Loan Agreement at 10-11. An event of default is defined as a default by Enron Corp. in repayment of the principal or interest on the Loans when due, the dissolution, winding up or liquidation of Enron Capital LLC, the bankruptcy, insolvency or liquidation of Enron Corp., or the breach of any covenant in the Loan Agreement. 1993 Prospectus at S-18.

The 1993 Loan is "subordinate and junior in right of payment to all Senior Indebtedness of Enron Corp. as provided herein." 1993 Loan Agreement at 5. The Senior Indebtedness of Enron Corp. includes the principal, premium, and interest on:

> (i) all indebtedness of [Enron Corp.], whether outstanding on the date hereof or hereafter created, incurred or assumed, which is for money borrowed, or evidenced by a note or similar instrument given in connection with the acquisition of any business, properties or assets, including securities, (ii) any indebtedness of others of the kinds described in the preceding clause (i) for the payment of which [Enron Corp.] is responsible or liable (directly or indirectly, contingently or non-contingently) as guarantor or otherwise,

> (iii) any indebtedness secured by a lien upon property owned by [Enron Corp.] and upon which indebtedness [Enron Corp.] customarily pays interest, even though [Enron Corp.] has not assumed or become liable for the payment of such indebtedness and (iv) amendments, renewals, extensions and refunding of any such indebtedness unless ... it is expressly provided that the indebtedness is not superior in right of payment to the Loans.

1993 Loan Agreement at 5.

If Enron Corp. defaults in the payment of principal, premium or interest on any Senior Indebtedness when it becomes due and payable, or in the event of a default on the Senior Indebtedness, then until such default has been cured or waved, no direct or indirect payment will be made on the 1993 Loan. 1993 Loan Agreement at 6.

In the event of insolvency, bankruptcy, receivership, liquidation, reorganization, composition, or similar proceeding against Enron Corp. or its property, all Senior Indebtedness of Enron Corp. shall be paid in full before any payment or distribution of the 1993 Loan. 1993 Loan Agreement at 6-7.

Enron Capital LLC has no right to participate in the management of Enron Corp.; however, the holders of the MIPS will have creditors' rights against Enron Corp. if Enron Capital LLC fails to pay "dividends" on the MIPS for 18 months (consecutive monthly dividend periods), if an event of default occurs or if Enron Corp. is in default on any of its payment or other obligation under the Guarantee Agreement. 1993 Terms at 6. The holders of a majority in liquidation preference of MIPS in 1993 will be entitled to the following rights:

> to appoint and authorize a trustee to enforce [Enron Capital's] creditor rights under the Loans against [Enron Corp.], enforce the obligations undertaken by [Enron Corp.] under the Guarantee Agreement and the Agreement as to Expenses and Liabilities pursuant to which [Enron Corp.] will agree to guarantee payment of any liabilities incurred by [Enron Capital LLC] (other than obligations to holders of [MIPS] in their capacities as holders)... and declare and pay dividends on [MIPS].

1993 Terms at 6. Not later than 30 days after such right to appoint a trustee arises, the manager will convene a general meeting for the above purpose. If the manager fails to convene a meeting, the MIPS holders of 10 percent in liquidation preference of outstanding shares will be entitled to convene the meeting. 1993 Terms at 6.

The holders of the MIPS shall have the following rights:

> If any resolution is proposed for adoption by the shareholders of [Enron Capital LLC] providing for, or the Manager otherwise proposes to effect, (x) any variation or abrogation of the rights, preferences and privileges of [MIPS], whether by way of amendment of [Enron Capital LLC]'s Articles of Association ... or (y) the liquidation, dissolution or winding up of [Enron Capital LLC], then the holders of outstanding [MIPS] will be entitled to vote on such resolution or action of the Manager (but not on any other resolution or action), and such resolution or action shall not be effective except with approval of the holders of [66-2/3] % in liquidation preference of the outstanding [MIPS]....

1993 Terms at 6-7.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of Enron Capital LLC, the MIPS holders will be entitled to receive out of the assets of Enron Capital LLC available for distribution to shareholders, before any distribution of assets is made to holders of common shares or any other class of shares of Enron Capital LLC ranking junior to MIPS, an amount equal to the stated liquidation preference of $25.00 per share and all accumulated and unpaid "dividends" to the date of payment. 1993 Terms at 5.

The holders of the MIPS are entitled to receive, when, as and if declared by Enron Capital LLC out of funds held and legally available, cumulative cash "dividends" at the annual rate of 8 percent of the stated liquidation preference of $25.00 per share per annum. The "dividends," payable in U.S. dollars monthly in arrears on the last day of each calendar month, will accrue and be cumulative whether or not they have been declared and whether or not there are profits, surplus or other funds of Enron Capital LLC legally available. 1993 Terms at 2. "Dividends" must be declared on the MIPS in any calendar year to the extent that Enron Corp. reasonably anticipates that at the

time of payment Enron Capital LLC will have and must pay cash on hand that is sufficient to permit such payments. 1993 Terms at 2.

Enron Capital LLC will not pay any dividends on any shares of Enron Capital LLC ranking junior to the MIPS, or redeem, purchase or otherwise acquire any junior shares of Enron Capital LLC, until such time as all accumulated and unpaid "dividends" on the MIPS have been paid in full. 1993 Terms at 3.

In 1993, Enron Corp. had a debt-to-equity ratio of approximately 1.2:1. 1993 Prospectus at S-5.

The obligation at issue between Enron Corp. and Enron Capital LLC is labeled as a loan in the 1993 Prospectus. 1993 Prospectus at S-14. The 1993 Loan Agreement, as well as all other documents reviewed, labels the obligation as a loan.

Enron Corp. used the proceeds from the 1993 Loan from Enron Capital LLC to repay other indebtedness, and for general corporate purposes. 1993 Prospectus at S-5. In the Form 10-K Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (hereinafter referred to as the "10-K" for 1993) that Enron Corp. filed with the Securities and Exchange Commission for 1993, Enron Corp. reported that "the average cost of long-term debt declined to 8.2 percent at December 31, 1993 from 8.9 percent at December 31, 1992. The decline was accomplished primarily through the retirement of additional higher coupon long-term debt which was subject to call provisions during [1993]." 1993 Enron Corp. 10-K at 32.

Enron Corp. has irrevocably and unconditionally agreed to pay the holders of the MIPS the following Guarantee Payments, in the event that Enron Capital LLC fails to pay: any accumulated and unpaid "dividends" declared on the MIPS from legally available funds; the $25.00 redemption price per preferred share, from legally available funds; the lesser of either the liquidation preference of $25.00 per share plus accumulated and unpaid "dividends" or the amount of assets of Enron Capital LLC available for distribution to MIPS holders; and any interest payable on the MIPS. 1993 Guarantee at 2. Enron Corp. irrevocably and unconditionally agrees to pay in full to the MIPS holders the Guarantee Payments when due, except to the extent paid by Enron Capital LLC, regardless of any defense, right of set-off or counterclaim that Enron Capital LLC may have or assert. 1993 Guarantee at 2. Enron Corp.'s obligation to make Guarantee Payments may be satisfied by direct payment by Enron

Corp. to the MIPS holders or by causing Enron Capital LLC to pay such amounts to the holders. 1993 Guarantee at 2-3.

This Guarantee Agreement is an unsecured obligation of Enron Corp., the Guarantor, and is subordinate and junior in right of payment to all of the liabilities of Enron Corp., is *pari passu* with the most senior preferred or preference stock, and is senior to Enron Corp.'s common stock. 1993 Guarantee at 6. Enron Corp.'s obligations under the Guarantee Agreement are independent of Enron Capital's obligations with respect to the MIPS. In addition, Enron Corp. will be liable as principal and sole debtor to make the Guarantee Payments.

If any MIPS remain outstanding and Enron Corp. is in default with respect to its obligations under the Guarantee Agreement or the Loan Agreement, then neither Enron Corp. nor any majority owned subsidiary of Enron Corp. will declare or pay any dividend on, or redeem, purchase, acquire or make a liquidation payment or guarantee payment with respect to, any of its capital stock. 1993 Guarantee at 5.

Under the Guarantee Agreement, Enron Corp. covenants that, as long as the MIPS remain outstanding, it will maintain direct or indirect ownership of the common shares of Enron Capital LLC, maintain 21 percent of the value as common shares, and not voluntarily dissolve, wind up or liquidate Enron Capital LLC or cause it to lose its status as an LLC. 1993 Guarantee at 5.

1994--Cumulative Preferred Shares

In 1994, Enron Corp. borrowed an aggregate principal amount of $94,936,709 from Enron Capital Resources L.P. and paid $3,512,658 in interest expenses to Enron Capital Resources L.P.

Examination stated in the Stat. Notice that it determined that the amounts paid by Enron Corp. to Enron Capital Resources L.P. in 1994 are not deductible as interest payments, and the obligations under which payments were accrued do not constitute indebtedness because the entity with whom Enron Corp. contracted is not sufficiently distinct to be considered an unrelated party contracting at arm's-length. Examination has proposed to reduce Enron Corp.'s interest expense in the amount of $3,512,658 in 1994.

Enron Corp. and Organizational Partner, Inc. (a 100 percent subsidiary of Enron Corp.) formed Enron Capital Resources L.P. as a limited partnership organized under the laws of Delaware.

Enron Corp., as a general partner, holds an 21 percent interest in the partnership; the remainder of Enron Capital Resources L.P. is owned by the holders of Cumulative Preferred Shares. Organizational Partner, Inc. withdrew after the issuance of the Cumulative Preferred Shares. Enron Capital Resources L.P. exists solely for the purpose of issuing limited partner interests and lending the net proceeds from the interests to Enron Corp. 1994 Prospectus at S-2. Enron Corp. paid $19,936,709 to Enron Capital Resources L.P. for the partnership interest.

Enron Corp., as general partner, will furnish to each cumulative preferred instrument holder a Schedule K-1 each year setting forth the holder's allocable share of income for the prior calendar year. 1994 Prospectus at S-21.

Enron Capital Resources L.P. issued 3,000,000 shares of 9 percent Cumulative Preferred Shares, Series A, in August, 1994. Each instrument was issued at $25.00 per individual Cumulative Preferred Share, for a total of $75,000,000. Although these Cumulative Preferred Shares are not MIPS, the two instruments are similar. The holders of the instruments shall be entitled to "dividends" fixed at a rate per annum of 9 percent per $25.00 per Cumulative Preferred Shares. Amended and Restated Agreement of Limited Partnership of Enron Capital Resources L.P. at 14. "Dividends" must be paid on the Cumulative Preferred Shares in any calendar year to the extent that Enron Corp. reasonably anticipates that at the time of payment Enron Capital Resources L.P. will have and must legally pay funds available for the payment of such "dividends" and sufficient cash to permit such payments. 1994 Prospectus at S-8.

Enron Capital Resources L.P. loaned to Enron Corp. the proceeds from the sales of both the capital shares and the Cumulative Preferred Shares, an aggregate principal amount of $94,936,709 (hereinafter referred to as the "1994 Loan"). 1994 Prospectus at S-16.

The 1994 Loan bears interest at an annual rate equal to 9 percent until maturity, with interest payable on the last day of each calendar year as of August 31, 1994. The 1994 Loan Agreement between Enron Capital Resources L.P. and Enron Corp. provides for the following:

> The entire principal amount of the Loan shall become due and payable, together with any accrued and unpaid interest thereon, including Additional Interest as defined below, if any, on the earliest of [August 31, 2024] or the date

> upon which Enron Corp. is dissolved, wound-up or liquidated or the date upon which [Enron Capital Resources L.P.] is dissolved, wound-up or liquidated.

1994 Loan Agreement at 2.

Enron Corp. has the right to prepay the Loan at any time on or after August 31, 1999, without premium or penalty, and if legislation is enacted or existing law is modified that causes Enron Capital Resources L.P. to be treated as an association taxable as a corporation, provided that Enron Capital Resources L.P. has elected to redeem the instruments. 1994 Loan Agreement at 2. The Cumulative Preferred Shares instruments are redeemable at the option of Enron Capital Resources L.P. and subject to the consent of Enron Corp. on or after August 31, 1999, at the redemption price of $25.00 per instrument plus accumulated "dividends." 1994 Prospectus at S-9.

Upon any repayment or prepayment of principal on the 1994 Loan, the proceeds from such payment will be applied to redeem Cumulative Preferred Shares. However, such amounts may be reloaned to Enron Corp., and not used for redemption, if at the time of such loan: (a) Enron Corp. is not in bankruptcy; (b) Enron Corp. is not in default on any loan relating the Cumulative Preferred Shares; (c) Enron Corp. has made timely payments on the Loan for the immediately preceding 18 months; (d) Enron Capital Resources L.P. is not in arrears on payments of the "dividends" on Cumulative Preferred Shares; (e) Enron Corp. is expected to be able to make timely payments of principal and interest on the Loan; (f) the Loan is made on terms and under circumstances that are consistent with one made to an outside party; (g) the rate on the Loan is sufficient to provide for dividends on the Cumulative Preferred Shares; (h) the senior unsecured long-term debt of Enron Corp. is rated BBB- or better by Standard & Poor or Baa3 or better by Moody's or the equivalent; (i) the terms are consistent with market and A's financial condition; (j) the term of the Loan is no more than 30 years; and (k) the final maturity of such Loan is not later than the 49 years anniversary of the issuance of the Cumulative Preferred Shares. 1994 Prospectus at S-9-S-10.

Enron Corp. has the right to an extended interest period on the 1994 Loan, to extend the interest payment period on the 1994 Loan for up to 60 months (consecutive), deferring also the monthly dividend payments on the Cumulative Preferred Shares. 1994 Prospectus at S-4. However, the interest will continue to accrue and will be paid after the 60 months period. 1994 Loan Agreement at 3. During any extended interest payment period, Enron Corp. will not declare or pay any dividend on, redeem,

purchase, acquire or make a liquidation payment with respect to any of its capital stock. 1994 Loan Agreement at 3.

The 1994 Loan Agreement "constitutes the valid and legally binding obligation of Enron Corp. enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles." 1994 Loan Agreement at 7.

In the event of a default by Enron Corp., Enron Capital Resources L.P.:

> will have the right to declare the principal of and interest on the Loan (including any Additional Interest and any interest subject to an extension of the interest payment period) and any other amounts payable on the Loan to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything in this Agreement to the contrary notwithstanding.

1994 Loan Agreement at 8.

An event of default is defined as a default by Enron Corp. in the payment of interest or principal on the 1994 Loan, the dissolution, winding up or liquidation of Enron Capital Resources L.P., the bankruptcy, insolvency or liquidation of Enron Corp., and any breach of the Loan Agreement covenants. 1994 Loan Agreement at 8. Thus, upon Enron Corp.'s default, Enron Capital Resources L.P. may enforce its creditor rights by declaring the principal and interest on the 1994 Loan to be due and payable (without presentment, demand, protest or other notice).

The 1994 Loan is subordinated as follows:

> the Loan is subordinate and junior in right of payment to all Senior Indebtedness as provided herein. The term 'Senior Indebtedness' shall mean the principal, premium, if any, and interest on (i) all indebtedness of [Enron Corp.], ... incurred or assumed, which is for money borrowed, or evidenced by a note or similar instrument given in connection with the acquisition of any business, properties, or assets, including securities....

1994 Loan Agreement at 4. Senior Indebtedness also includes any similar debt on which Enron Corp. is liable as a guarantor, any indebtedness secured by a lien on property which Enron Corp. owns and for which Enron Corp. customarily pays interest, and any amendments, renewals, extensions and refundings of any such indebtedness. 1994 Loan Agreement at 4.

If Enron Corp. defaults on any payments of any principal or interest upon its Senior Indebtedness, no direct or indirect payments shall be made on the 1994 Loan. 1994 Loan Agreement at 5. The Senior Indebtedness shall also be paid in full prior to payments made on the 1994 Loan in the event of insolvency, bankruptcy, receivership, liquidation, reorganization, composition or similar proceeding relating to Enron Corp.; and liquidation, dissolution or winding up of Enron Corp.; any assignment by Enron Corp. for the benefit of its creditors; and any other marshalling of Enron Corp.'s assets. 1994 Loan Agreement at 5.

Senior Indebtedness does not include "the indebtedness pursuant to the Loan Agreement dated as of November 15, 1993 between [Enron Corp.] and [Enron Capital LLC] and any extensions or refundings thereof (the 'Pari Passu Debt')." 1994 Loan Agreement at 4. The 1994 Loan shall not be subordinate to any other liabilities of Enron Corp. 1994 Prospectus at S-17.

Enron Capital Resources L.P. has no right to participate in the management of Enron Corp. However, the holders of Cumulative Preferred Shares shall be entitled to appoint and authorize a trustee to enforce Enron Capital Resources' creditor rights under the 1994 Loan against Enron Corp. and pay "dividends" if Enron Capital Resources L.P. fails to pay "dividends" in full, or in the event of default by Enron Corp. on principal or interest on the Loan. 1994 Prospectus at S-11.

Not later than 30 days after such right to appoint a trustee arises, the general partner, Enron Corp., will convene a general meeting. If the general partner fails to convene such a meeting, the cumulative preferred instrument holders of 10 percent in liquidation preference will be entitled to convene the meeting. 1994 Prospectus at S-11.

If any amendment to the Enron Capital Resources L.P. Partnership Agreement is proposed for adoption providing for any variation or abrogation of the rights, preferences and privileges of the Cumulative Preferred Shares, or the liquidation, dissolution, or winding up of Enron Capital Resources L.P., then

the holders of the Cumulative Preferred Shares will be entitled to vote on such proposal. 1994 Prospectus at S-11.

In 1994, Enron Corp. had a debt-to-equity ratio of approximately 1:1. 1994 Prospectus at S-7, S-19.

Enron Corp. purportedly used the 1994 Loan for general corporate purposes including the repayment of indebtedness. 1994 Prospectus at S-7. Enron Corp.'s estimated fair market value of its long-term debt decreased in 1994; the fair market value of debt includes the estimated cost to acquire the debt. 1994 Form 10-K Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (hereinafter referred to as the "10-K" for 1994).

Enron Corp. labeled this obligation between Enron Corp. and Enron Capital Resources L.P. as a loan in the Prospectus that it submitted to the Securities and Exchange Commission for 1994. 1994 Prospectus at S-16. Enron Corp. also labeled the obligation as a loan in the 1994 Loan Agreement and other documents.

Holders of the Cumulative Preferred Shares shall also be entitled to enforce the obligation undertaken by Enron Corp. under the Guarantee Agreement, should Enron Capital Resources L.P. fail to pay "dividends," in the event of a default, or if Enron Corp. is in default on any of its payment or other obligations under the Guarantee. 1994 Prospectus at S-11.

Enron Corp. has also irrevocably and unconditionally agreed to pay the holders of the Cumulative Preferred Shares certain Guarantee Payments in the event that Enron Capital Resources L.P. fails to do so. 1994 Guarantee at 1-2. Guarantee Payments are defined as accumulated and unpaid dividends, the redemption price of $25.00, the lesser of either the $25.00 liquidation preference plus accumulated and unpaid dividends or assets of Enron Capital Resources L.P. available for distribution, and any additional interest, to the extent that these are not paid by Enron Capital Resources L.P. 1994 Guarantee at 1-2. Enron Corp.'s obligation to make a Guarantee Payment may be satisfied by direct payment by Enron Corp. to the holders of the instruments or by causing Enron Capital Resources L.P. to pay such amounts to the holders.

Enron Corp.'s obligations under the Guarantee Agreement are independent of Enron Capital Resources' obligations with respect to the Cumulative Preferred Shares. Enron Corp. is liable as principal and sole debtor to make the Guarantee Payments.

If any Cumulative Preferred Shares remain outstanding and Enron Corp. is in default under the Guarantee Agreement, the Expense Agreement, or the Loan Agreement, then Enron Corp. shall not declare or pay any dividend on or redeem, purchase, acquire or make a liquidation payment with respect to any of its capital stock. 1994 Guarantee at 4.

Under the Guarantee Agreement, Enron Corp. covenants that, as long as the Cumulative Preferred Shares remain outstanding, it will maintain direct or indirect ownership of the general partner interest in Enron Capital Resources L.P., it will cause at least 21 percent of the value of Enron Capital Resources L.P. to be represented as a general partner interest, it will not voluntarily dissolve, wind up or liquidate Enron Capital Resources L.P., and will make every effort to cause Enron Capital Resources L.P. to remain a limited partnership and will perform duties as a general partner. 1994 Guarantee at 4-5.

The Guarantee Agreement is an unsecured obligation of Enron Corp. and ranks subordinate and junior in right of payment to all liabilities of Enron Corp. other than the 1993 MIPS Guarantee Agreement, *pari passu* with the most senior preferred or preference stock, and senior to A's common stock. 1994 Guarantee at 5.

ISSUE 1:

Whether the Loans from Enron Capital LLC and Enron Capital Resources L.P. to Enron Corp. should be respected as debt.

LAW AND ANALYSIS:

I.R.C. § 385 of the Internal Revenue Code of 1986, as amended, ("the Code") discusses the treatment of certain investments in corporations as stock or indebtedness. Both section 385(a) and 385(b) require regulations to be effective. Since neither had regulations in effect for the years in issue, a facts and circumstances approach is required.

Under section 385(c)(1), the characterization (as of the time of issuance) by the issuer as to whether an interest in a corporation is stock or indebtedness is binding on the issuer and on all holders of such interest (but is not binding on the Secretary of the Treasury).

Notice 94-47, 1994-1 C.B. 357, provides guidance in the determination of whether an instrument is debt or equity for

federal income tax purposes. Notice 94-47 addresses potential abuses of the tax law by instruments that contain both debt and equity characteristics.

The eight factors to be considered under Notice 94-47 are:

> (a) whether there is an unconditional promise on the part of the issuer to pay a sum certain on demand or at a fixed maturity date that is in the reasonably foreseeable future;
>
> (b) whether holders of the instruments possess the right to enforce the payment of principal and interest;
>
> (c) whether the rights of the holders of the instruments are subordinate to rights of general creditors;
>
> (d) whether the instruments give the holders the right to participate in the management of the issuer;
>
> (e) whether the issuer is thinly capitalized;
>
> (f) whether there is identity between holders of the instruments and stockholders of the issuer;
>
> (g) the label placed upon the instruments by the parties; and
>
> (h) whether the instruments are intended to be treated as debt or equity for non-tax purposes, including regulatory, rating agency, or financial accounting purposes.

No particular factor is conclusive in making the determination of whether an instrument constitutes debt or equity. John Kelley Co. v. Commissioner, 326 U.S. 521 (1946). The Notice is primarily concerned with instruments that combine long maturities (greater than 50 years) with other substantial equity characteristics.

We shall discuss the facts relating to each factor in the Notice in sequence. This analysis is focused on the Loans because the narrow issue is whether the payments made pursuant to the Loans represent interest upon debt.

(a) Whether there is an unconditional promise to pay by the issuer to pay a sum certain on demand or at a fixed maturity date that is in the reasonably foreseeable future. The presence of a fixed maturity date indicates a definite obligation to repay, which is a debt characteristic. Both the 1993 and the 1994 Loans contain a promise by Enron Corp. to pay the principal and interest by a fixed maturity date.

The entire principal amount and interest on the 1993 Loan are due and payable on November 30, 2043, or earlier if either Enron Corp. or Enron Capital LLC is dissolved, wound-up or liquidated. 1993 Loan Agreement at 2.

If Enron Corp. repays the 1993 Loan when due or prepays the Loan, the proceeds from the repayment of principal and interest shall be applied to redeem the MIPS; alternatively, the proceeds could be reloaned to Enron Corp. for an additional maximum 50 years, so that the Loan maturity can be no longer than the 100 years anniversary of the issuance of the MIPS. 1993 Prospectus at S-7. Thus, the 1993 Loan could have an effective maximum maturity date of 100 years, if the optional 50 years extension is exercised. The 1993 Loan will become due and payable earlier if Enron Capital LLC redeems the MIPS. 1993 Prospectus at S-14. Enron Capital LLC may redeem the MIPS at its option after November 30, 1998, but redemption is subject to the prior consent of Enron Corp. 1993 Prospectus at S-7.

Although Enron Corp. may extend the interest payment period for up to 18 months, the interest will continue to accrue. 1993 Prospectus at S-20.

Principal and interest on the 1994 Loan are due and payable on August 31, 2024, or when Enron Corp. or Enron Capital Resources L.P. is dissolved, wound-up or liquidated. 1994 Loan Agreement at 2. If Enron Corp. repays the 1994 Loan when due or prepays the Loan, the proceeds from the repayment will be applied to redeem the Cumulative Preferred Shares, or the funds could be reloaned to Enron Corp. 1994 Prospectus at S-9. Upon Enron Capital Resources' redemption of the Cumulative Preferred Shares, the principal and interest on the Loan shall become due and payable; while the Cumulative Preferred Shares are redeemable at the option of Enron Capital Resources L.P., redemption is subject to the consent of Enron Corp. 1994 Prospectus at S-9, S-16. If the Loan is paid by Enron Corp. and subsequently reloaned to Enron Corp., the final maturity of the Loan can be no later than the 49 years anniversary of the issuance of the Cumulative Preferred Shares. 1994 Prospectus at S-10. Thus, the 1994 Loan

could have an effective maximum maturity date of 49 years, if the extension is exercised.

Additionally, upon an event of default by Enron Corp. on its payments, the 1994 Loan will be forthwith due and payable. If the holders of the Cumulative Preferred Shares fail to receive "dividends" from Enron Capital Resources L.P., they have creditors' rights against Enron Corp., and thus, Enron Corp. is obligated to Enron Capital Resources' holders.

The evidence indicates that Enron Corp. has made an unconditional promise to pay a sum certain on demand or at a fixed maturity date in the reasonably foreseeable future for both Loans. A fixed maturity date indicates a fixed obligation to repay, which is a characteristic of debt. Mixon v. United States, 464 F.2d 394, 404 (5th Cir. 1972).

(b) Whether the holders of the instruments possess the right to enforce payment of principal and interest. Both of the holders of the Loans, Enron Capital LLC and Enron Capital Resources L.P., possess the right to enforce payment of the Loans by Enron Corp.

The 1993 Loan Agreement "constitutes the valid and legally binding obligation of Enron Corp. enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization...." 1993 Loan Agreement at 8-9.

Upon an event of default on the 1993 Loan, Enron Capital LLC has the right to declare the principal and interest forthwith due and payable. 1993 Loan Agreement at 10.

Similarly, Enron Capital Resources L.P. has the right to enforce the 1994 Loan Agreement and the repayment of the 1994 Loan. 1994 Loan Agreement at 7. Enron Capital Resources L.P. has creditor's rights as against Enron Corp. and has the right to declare the principal and interest of the 1994 Loan due and payable upon an event of default by Enron Corp. 1994 Loan Agreement at 8.

Enron Capital LLC and Enron Capital Resources L.P. are, in effect, controlled by Enron Corp., and therefore the rights of these two intermediaries could be questioned. However, Enron Corp.'s obligations under the Loans are also for the benefit of the holders of MIPS and Cumulative Preferred Shares, and these holders are entitled to enforce the Loan Agreements directly against Enron Corp. The facts in these documents indicate that holders of the Loan instruments possess the right to enforce payment as creditors. A definite obligation to repay an advance

is an indication of a loan. Mixon, 464 F.2d at 405. This factor is more indicative of debt.

(c) Whether the rights of the holders of the instruments are subordinate to the rights of general creditors. The rights of the holders of the 1993 Loan and of the 1994 Loan are not subordinate to the rights of the general creditors of Enron Corp.

The 1993 Loan is subordinate only to the Senior Indebtedness. The Senior Indebtedness shall be paid first in full before any payment or distribution is made on the 1993 Loans, in the event of insolvency, bankruptcy, receivership, liquidation, reorganization, or the dissolution or winding up of Enron Corp. 1993 Loan Agreement at 7. See supra at 6. Senior Indebtedness includes generally the principal and interest on all indebtedness of Enron Corp., evidenced by a note or another instrument, but it does not include debts to general creditors. 1993 Loan Agreement at 5. In addition, the Loan ranks superior to the claims of A's stockholders. 1993 Guarantee at 5.

The 1994 Loan is also subordinate only to the Senior Indebtedness. 1994 Loan Agreement at 4. The definition of Senior Indebtedness for the 1994 Loan is nearly identical to that of the 1993 Loan, that is, both include generally the principal and interest on all indebtedness of Enron Corp., evidenced by a note or another instrument, but do not include debts to general creditors. 1994 Loan Agreement at 4-5.

If the holder of the obligation has rights that take precedence over the rights of shareholders, this suggests that the instrument is debt, although it is not dispositive. Monon Railroad v. Commissioner, 55 T.C. 345, 360 (1970), acq., 1973-2 C.B. 2. The evidence indicates that the obligations are not subordinated to the level of general creditors, and therefore the obligations resemble debt more than equity.

(d) Whether the instruments give the holders the right to participate in the management of the issuer. Neither the holder of the 1993 Loan, Enron Capital LLC, nor the holder of the 1994 Loan, Enron Capital Resources L.P., has rights to participate in the management of the issuer of the Loans, Enron Corp.

The holders of Enron Capital's MIPS and the holders of the Cumulative Preferred Shares of Enron Capital Resources L.P. have certain limited creditors' rights as against Enron Corp. Upon Enron Capital's failure to pay "dividends" for 18 months (consecutive dividend periods), the MIPS holders will be entitled to appoint and authorize a trustee to enforce B's creditor rights

against Enron Corp. 1993 Terms at 6. Also, if a resolution is proposed to effect any variation or abrogation of the rights of the MIPS holders or that would effect the liquidation, dissolution or winding up of Enron Capital LLC by way of an amendment to B's Articles of Association, then the holders will be entitled to vote on such resolution or action. 1993 Terms at 6-7.

The holders of the Cumulative Preferred Shares have been granted similar creditors' rights to appoint a trustee to enforce C's creditors' rights under the 1994 Loan against Enron Corp. and also the right to vote upon certain proposals to amend the Partnership Agreement. 1994 Prospectus at S-11.

Also, during any extended interest period under the Loan, neither Enron Corp. nor any majority owned subsidiary can declare or pay any dividend on, or redeem, purchase, acquire or make a liquidation payment with respect to any of its capital stock. 1993 Loan Agreement at 4; 1994 Loan Agreement at 3. (Under the 1993 Loan this limitation does not apply to certain payments; in particular, the dividends paid by Enron Oil & Gas Company on its common stock.)

These rights to vote for a trustee, to vote upon certain Articles of Association or Partnership Agreement amendments should Enron Capital LLC or Enron Capital Resources L.P. fail to pay "dividends," and to restrict certain payments on Enron Corp.'s capital stock during an extended interest period do not qualify as giving the holder of the instrument, either Enron Capital LLC or Enron Capital Resources L.P., the right to participate in the management of the issuer, Enron Corp. Rather, B's and C's holders are granted rights as creditors against Enron Corp. only.

Creditors are not usually entitled to vote in the affairs of the debtor corporation, or participate in its management, including electing corporate directors, unlike stockholders. Monon, 55 T.C. at 359-360. Based upon the information provided, there is no indication that Enron Capital LLC or Enron Capital Resources L.P. have any rights to participate in the management of Enron Corp., or have any voting rights in Enron Corp. Therefore, these facts are more indicative of debt.

(e) Whether the issuer is thinly capitalized. If a corporation has a nominal stock investment coupled with excessive debt, this fact would tend to indicate that an instrument labeled debt might constitute stock. As a result, the debt-to-equity ratio is another factor used to determine whether an instrument is debt or

equity. The ratio indicates to what extent a corporation may suffer losses without impairment of the interests of the corporation's creditors. A high ratio lowers the protection afforded to the creditors against sudden business slumps. As a result, a high ratio of debt-to-equity indicates that the issuance of the instrument is a contribution to capital rather than a bona fide loan.

In 1993, Enron Corp. had a debt-to-equity ratio of approximately 1.2:1. 1993 Prospectus at S-5. In 1994, Enron Corp. had a debt-to-equity ratio of approximately 1:1. 1994 Prospectus at S-7, S-19.

Enron Corp. at no time has had a debt-to-equity ratio in excess of 2:1. See J.S. Biritz Construction Co. v. Commissioner, 387 F.2d 451, 459 (8th Cir. 1967) ("The debt to equity ratio of 2 to 1 is patently not so inordinately high as to qualify this as a 'thin capitalization' case."). Enron Corp. is not thinly capitalized, a factor which is more indicative of debt.

(f) Whether there is identity between holders of the instruments and stockholders of the issuer. This factor is usually relevant only when a corporation's shareholders have advanced money to the corporation. Advances made by stockholders in proportion to their respective stock ownership are an indication of equity, but a sharply disproportionate ratio is an indication of debt. Mixon, 464 F.2d at 409.

Enron Capital LLC is 100 percent owned by Enron Corp., except for 100 percent of the issued and outstanding MIPS, which are publicly held. Enron Corp. owns directly or indirectly 100 percent of the 4,998 issued and outstanding common shares of Enron Capital LLC out of 5,000 common shares. Enron Corp. also owns 100 percent of the partnership interests in Enron Capital Resources L.P. other than the interests represented by the Cumulative Preferred Shares, which are publicly held. Enron Corp. is a publicly-held utility company, with millions of dollars of common and preferred stock outstanding. The stockholders of Enron Corp. indirectly own the common shares of Enron Capital LLC and Enron Capital Resources L.P. through Enron Corp.'s ownership. However, other than the shares owned by Enron Corp., the outstanding instruments of Enron Capital LLC and Enron Capital Resources L.P., the MIPS and the Cumulative Preferred Shares, are publicly owned.

For purposes of this characteristic, there is no identity between the holders of the instruments and the stockholders of the issuer, and therefore, this indicates debt.

(g) The label placed upon the instruments. The instruments between Enron Corp. and Enron Capital LLC and Enron Capital Resources L.P. have been consistently characterized as Loans in the documents available. 1993 Loan Agreement, 1994 Loan Agreement.

In addition, under section 385(c), the issuer's characterization of an instrument as of the time of the issuance as either debt or equity is binding on the issuer and on all holders of the instrument. However, this characterization is not binding on the Service or on a holder that discloses that it is treating the instrument in a manner inconsistent with the issuer's characterization.

The labels on these instruments are not the same as the labels on the MIPS and the Cumulative Preferred Shares. However, since the form of the pass-through entities will be respected, and Enron Capital LLC and Enron Capital Resources L.P. will be treated as partnerships separate and distinct from Enron Corp., then the label on the obligations (the MIPS and Cumulative Preferred Shares) that Enron Capital LLC and Enron Capital Resources L.P. have with the holders of their instruments will not affect the label on the obligations (the Loans) that Enron Corp. has with either Enron Capital LLC or Enron Capital Resources L.P.

Therefore, because the evidence shows that Enron Corp. has consistently labeled and treated these obligations as debt, this fact is indicative of debt. See Mixon, 464 F.2d at 403.

(h) Whether the instruments are intended to be treated as debt or equity for non-tax purposes, including regulatory, rating agency, or financial accounting purposes. There is no indication that the parties have treated the instruments (the Loans) between Enron Corp. and Enron Capital LLC and Enron Capital Resources L.P. as anything except debt. Enron Corp. labeled the obligations as loans in its 1993 and 1994 Prospectuses submitted to the Securities and Exchange Commission, and also indicated that the income on the shares is taxable as interest income rather than dividend income.

The labels placed upon the MIPS and the Cumulative Preferred Shares are different from the labels placed on the Loans. Thus, even though Moody's may have included the 1993 MIPS and the 1994 Cumulative Preferred Shares in with Enron Corp.'s capital stock, and MIPS and Cumulative Preferred Shares may give Enron Corp. some "equity credit" for purposes of the rating agencies, like Standard & Poor's and Moody's, Solomon B. Samson, Credit

Comments: A Hierarchy of Hybrid Securities, Standard & Poor's Creditweek, March 25, 1996, at 43, this fact has no bearing on the analysis of whether the Loans are properly labeled for federal tax purposes.

The obligations have been treated consistently as Loans by Enron Corp., a factor more indicative of debt. See Crown Iron Works v. Commissioner, 245 F.2d 357, 359 (8th Cir. 1957).

Unreasonably Long Maturity

Notice 94-47 focuses on "recent offerings of instruments that combine long maturities with substantial equity characteristics," and cites to Monon, 55 T.C. 345. The Service cautions taxpayers of the following:

> even in the case of an instrument having a term of less than 50 years, Monon Railroad generally does not provide support for treating an instrument as debt for federal income tax purposes if the instrument contains significant equity characteristics not present in that case. The reasonableness of an instrument's term (including that of any relending obligation or similar arrangement) is determined based on all the facts and circumstances, including the issuer's ability to satisfy the instrument. A maturity that is reasonable in one set of circumstances may be unreasonable in another if sufficient equity characteristics are present.

In Monon, the court determined that a 50-year maturity term on a debt instrument was not unreasonable in light of the fact that the corporation had been in existence for many years.

There is no bright-line test to determine whether a maturity date for a particular instrument is in the reasonably foreseeable future. In determining whether a maturity date for a particular instrument is a reasonable date, the courts have considered a number of factors, including the nature of the taxpayer's business, the financial condition of the taxpayer, the length of time the taxpayer has been in existence, and how likely it is that the taxpayer will be in existence when the instrument matures.

Enron Corp. was in existence for over 60 years when the MIPS and Cumulative Preferred Shares were issued. In addition, Enron

Corp. is a substantial operating business. Therefore, in this case, the 50-year and 30-year maturity dates appear to be reasonable, as does the 49-year extended term for the 1994 issuance. The 100-year extended term for the 1993 Loan may appear to be unreasonable on its face. In light of the other characteristics of debt, however, it is not enough to cause recharacterization.

Based on this review of the evidence, we concluded that attempting to recharacterize the debt as equity was unlikely to succeed.

This analysis has focused on the Loans because the narrow issue is whether the Loans represent debt or equity. The forms of the partnerships (the intermediate entities) should be respected, as will be discussed infra, at 26. If facts were present in this case that caused the forms of the partnerships to not be respected, the conclusions would not be different, and the instruments would still be properly characterized as debt.

ISSUE 2:

Whether the Service may disallow the interest paid to Enron Capital LLC and Enron Capital Resources L.P. on the Loans because of a lack of economic substance.

LAW AND ANALYSIS:

Section 163 allows as a deduction interest paid or accrued within the taxable year on indebtedness.

In United States v. Wexler, 31 F.3d 117, 122-23 (3d Cir. 1994), the court determined that, while section 163 does not expressly require that the transactions that gave rise to deductions have a business purpose or profit motive, nevertheless, case law establishes that the sham transaction doctrine bars interest deductions under section 163 if the underlying transaction does not have a business purpose or profit motive.

In Wexler, the taxpayer took deductions on interest paid on "repo to maturity" transactions involving sales and repurchases of government securities. The interest deduction and the income from the transactions were divided up into different years, and the mismatching of the deduction and income caused the income to be deferred for a second year. Wexler, 31 F.2d at 120. The court determined that none of the debt obligations were entered into for any reason other than for the tax benefits of deducting

the interest on the obligations. Wexler, 31 F.3d at 126. In many of the cases upon which the court relied, it found that "a key requirement is that the interest obligation be *economically substantive*, defined in every decision ... to mean that the transaction have a potential non-tax benefit." Wexler, 31 F.3d at 127.

The taxpayers in Sheldon v. Commissioner, 94 T.C. 738 (1990), entered into eleven "repo" transactions involving sales and repurchases of U.S. Treasury Bills, or T-Bills. The repos involved were purchases of T-bills financed through repurchase agreements. The court determined that, although ten of these eleven transactions were real and had actually occurred, the transactions were lacking in the requisite substance and denied the interest deductions. Sheldon, 94 T.C. at 769.

The Sheldon court found that the taxpayers' sole objective was to obtain the interest deduction for transactions that had locked-in losses with no potential for any profit. Sheldon, 94 T.C. at 767. In 1981 and 1982 the partners in the transaction were locked in for a loss in the amount of $60,000, but received more than $5,000,000 in interest deductions to offset against their ordinary income. Sheldon, 94 T.C. at 769. Most of the transactions resulted in a loss, that is, the average interest rates on the repos were higher than the yield upon the maturity of the T-Bills that the taxpayers were to receive. Sheldon, 94 T.C. 746. In addition, the transactions were structured at year end to accommodate the mismatching of the income and deductions, thus creating a large tax benefit. Sheldon, 94 T.C. at 766.

"[L]oans or other financing transactions will merit respect and give rise to deductible interest only if there is some tax-independent purpose for the transactions." Sheldon, 94 T.C. at 759. Interest is not deductible if the underlying transaction is a sham or if it has no purpose, substance, or utility apart from the expected tax consequences. Sheldon, 94 T.C. at 760. "The need for a profit objective" was of little or insignificant importance in the analysis of the interest deduction for transactions occurring in 1981 and 1982, the years in issue. Sheldon, 94 T.C. at 760. However, the ability to profit is a part of the overall inquiry into purpose, substance and utility. Sheldon, 94 T.C. at 767. The court determined that the transactions at issue were real, but were entered into irrespective of the gain or loss potential, and solely for the tax benefits, and therefore lacked the purpose, substance and utility required for the deduction. Sheldon, 94 T.C. at 769.

In Bealor v. Commissioner, T.C. Memo. 1996-435, the Tax Court reiterated that the substance of the underlying debt must be genuine in order for interest to be deductible under section 163(a).

The taxpayers in Bealor structured highly complex employee leasing transactions between a fuel trucking corporation and numerous partnerships. One of the primary corporations contracted its employees and independent contractors from a different partnership each year, but the partnerships had common partners and were pre-planned. All of the partnerships, which were the investment vehicles in this transaction, reported substantial losses. The tax benefits of the partnerships were sometimes touted to investors. Investor-partners for the most part did not receive any cash return on their investments.

The Tax Court determined that the taxpayers were not entitled to interest and loss deductions because the transactions giving rise to the claimed deductions had neither economic substance nor a profit objective. Bealor, T.C. Memo. 1996-435. In its analysis of the economic substance of the overall transaction, the Tax Court examined the real parties in interest, the structure of the financing, the taxpayers' prospects of actually making payments on their obligations, arm's-length negotiations, the parties' adherence to the contractual terms, the reasonableness of the income projections, and the introduction of new entities to buffer the existing parties from liability. Bealor, T.C. Memo. 1996-435. The court noted that "where a debt transaction is not conducted at arm's-length by two economically self-interested parties, or where a debt is incurred in 'peculiar circumstances' indicating that it will not be paid, we have disregarded that debt for tax purposes." Bealor, T.C. Memo. 1996-435.

Under the profit objective analysis of the overall transaction, the Tax Court looked to the parties' intent and ability to profit from the transactions, specifically that the partners often could not recover any money from their investments.

Upon a realistic view of the employee leasing transactions under the foregoing factors, the Bealor court found that the transactions were shams lacking in economic substance, and the parties at issue did not demonstrate that they had profit as their primary purpose or any actual and honest profit objectives. Therefore, the losses and deductions were properly denied.

Enron Corp. stated in its 1993 Prospectus and 1994 Prospectus that the Loans would be used for general corporate purposes including the repayment of indebtedness. 1993 Prospectus at S-5; 1994 Prospectus at S-7. In the Enron Corp. 10-K for 1993, Enron Corp. stated that the average cost of its long term debt declined. Additionally, Enron Corp.'s debt-to-equity ratios decreased from 1993 to 1994, from approximately 1.2:1 to 1:1. These statements indicate that Enron Corp. did possess a business reason for entering into the transaction, and that the transactions possess the requisite economic substance.

Because part of the funds loaned to Enron Corp. are from Enron Corp.'s own contributions to the capital of Enron Capital LLC and Enron Capital Resources L.P., there may be questions concerning the circular flow of funds. However, nothing in the evidence indicates that the money from the contributions to capital are treated any differently from the proceeds from the public offerings in either the 1993 or the 1994 Loan documents.

In the balance, it appears from the available information that Enron Corp. entered into the transactions to obtain loans at lower interest rates and at lower costs generally, and therefore the underlying transactions possess economic substance.

The taxpayer asserts that it followed the form of its transaction. Appeals does not dispute this assertion. Appeals' principal point of contention, as we understand it, is that the intermediate affiliates should be treated as shams, because there was no business purpose for interposing them between Enron and the third party investors. If this is accomplished, Appeals believes the MIPS are equity and Enron gets no interest deduction. The first problem with this is that, during conferences with Counsel and Appeals, Enron articulated more fully its business purpose for utilizing the affiliates. If Enron had issued the MIPS directly and they were considered equity, this would have diluted Enron's earnings per share in its financial reports. If it had issued them directly and they were considered debt, this would have harmed Enron's credit rating. The second problem is that, even if the intermediaries were treated as shams, the MIPS are more like debt than equity and so Enron would still have an interest deduction.

ISSUE 3:

Whether Enron Capital LLC and Enron Capital Resources L.P. should be treated as partnerships or as associations taxable as corporations for federal income tax purposes.

LAW AND ANALYSIS:

Treas. Reg. § 301.7701-3(f)(2) of the regulations (finalized on December 17, 1996) provides that in the case of a business entity that is not automatically treated as a corporation under Treas. Reg. §§ 301.7701-2(b)(1), (3), (4), (5), (6), or (7), and that was in existence prior to January 1, 1997, the entity's claimed classification will be respected for all periods prior to January 1, 1997 if -

> (i) The entity had a reasonable basis (within the meaning of section 6662) for its claimed classification;
>
> (ii) The entity and all members of the entity recognized the federal tax consequences of any change in the entity's classification within the sixty months prior to January 1, 1997; and
>
> (iii) Neither the entity nor any member was notified in writing on or before May 8, 1996, that the classification of the entity was under examination (in which case the entity's classification will be determined in the examination).

Treas. Reg. § 301.7701-3(f)(2).

Neither Enron Capital LLC nor Enron Capital Resources L.P., nor any member therein, was notified in writing on or before May 8, 1996, that the classification of the entity was under examination by the Service. If we assume that there was no change in the entity's classification within the sixty months prior to January 1, 1997, then the tax treatment of Enron Capital LLC and Enron Capital Resources L.P. must be respected if Enron Capital LLC and Enron Capital Resources L.P. had a "reasonable basis" for their claimed classifications.

Enron Capital, LLC

Turks and Caicos Islands amended its corporate laws to permit limited life companies in a 1993 Ordinance. This entity does not appear on the list of foreign entities that automatically will be treated as "per se" corporations under current Treas. Reg. § 301.7701-2(b)(8).

A conclusive response concerning B's tax classification would require a careful review of B's organizational documents,

which have not been provided to us. However, Enron Capital LLC was formed under a modern LLC statute which permits the formation of entities which should be taxed as partnerships. It appears very likely that the taxpayers had a "reasonable basis" for Enron Capital's claimed classification as a partnership, and that this classification must be respected under current Treas. Reg. § 301.7701-3(f)(2).

Enron Capital Resources, L.P.

Enron Capital Resources L.P. was formed under Delaware's version of the Revised Uniform Limited Partnership Act (RULPA), which corresponds with the Uniform Limited Partnership Act (ULPA) for purposes of Treas. Reg. § 301.7701-2. Rev. Rul. 95-2, 1995-1 C.B. 221. Limited partnerships which were formed pursuant to a statute corresponding to the ULPA will lack two or more corporate characteristics. Therefore, the taxpayers had a "reasonable basis" for Enron Capital Resources' claimed classification as a partnership, and this classification must be respected under current Treas. Reg. § 301.7701-3(f)(2).

Our conclusions herein are based on a Field Service Advice from the National Office dated August 3, 1998. We concur with the Field Service Advice and have conceded the issue.

7/23/99

RICHARD L. HUNN
Special Trial Attorney

APPROVED:

Mark E. O'Leary JUL 26 1999

MARK E. O'LEARY
Assistant Regional Counsel (TL)
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MEMORANDUM

Confidential
Attorney-Client Communications

TO: Jordan Mintz

FROM: Morris R. Clark

DATE: September 22, 1999

RE: **Federal Income Tax Treatment of Prepayments**

This memorandum addresses the federal income tax treatment of the receipt of certain prepayment proceeds. In particular, the **Factual Background** provides a brief overview the various Enron Corp. ("Enron") prepayment transactions and how such transactions were historically treated for federal income tax and accounting purposes. The **Short Answer** and **Discussion** provide both a synopsis and a more detailed discussion of the rules governing the **recipient's** treatment of prepayment transactions for federal income tax purposes. The **Discussion** also addresses our recommendations regarding the most tax efficient method of executing future prepayment transactions.

I. Factual Background

By way of background, Enron and its affiliates have entered into approximately $3 billion in prepayment transactions since 1992. Enron's prepayment transactions are generally structured as forward oil or gas sale contracts with a counterparty arranged by a financial institution. Historically, Enron's prepayment transactions have fallen into two categories: (i) taxable income accelerated ("TIA") prepayments – that is, prepayments where Enron needed to accelerate the recognition of income in order to take advantage of particular tax attributes; or (ii) strategic cash flow payments, where Enron entered into a prepayment simply as a means to generate cash flow. (In addition, Enron has, on one isolated occasion, entered into a commercial prepayment with an industry participant).

As alluded to above, Enron has elected to treat the TIA prepayment proceeds -- which originated from the 1992 and early 1993 prepay transactions -- as taxable income in the year of receipt in order to take advantage of certain Internal Revenue Code ("Code") § 29 tax credits available in those years. However, Enron elected to defer the recognition of income from the later strategic prepayment transactions because it had no desire to accelerate taxable income in those later years. Typically, once a taxpayer elects to either accelerate or defer recognition of prepayment proceeds, such election becomes irrevocable absent the express consent of the Internal Revenue Service ("Service"). However, Enron was able to both accelerate and defer recognition of certain prepayment proceeds by using separate entities to effectuate certain transactions. (See **Discussion - Section C**, below for a discussion of the particular elections made by the various Enron entities).

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For financial accounting ("book") purposes, prepayment transactions are generally treated as a component of Enron's price risk management liability[1] and income (including an interest component) is recognized as the "commodity" is delivered to satisfy the prepayment. (See **Attachment A** for a summary of the book/tax treatment of the various prepayment transactions).

II. Issue Presented

What is the proper treatment of Enron's receipt of prepayment or advance payment proceeds for federal income tax purposes?

III. Short Answer

Briefly stated, prepayments or advance payments[2] relating to non-inventoriable goods (goods not properly includible in the inventory of the taxpayer) must be included in the income of the recipient in either: (i) the taxable year of receipt; or (ii) the taxable year in which such prepayment would be properly accruable under the taxpayer's method of tax accounting, provided such method results in income being recognized no later than the time such payments are included in gross income for financial reporting purposes.

For example, a typical accrual method taxpayer would recognize income no later than year of receipt. However, manufacturers can use a modified accrual method which allows income recognition to be deferred until the goods are shipped, delivered or accepted. Furthermore, under certain limited circumstances, an accrual basis taxpayer can recognize proceeds received to modify certain "take or pay" contracts into income ratably over the life the contract.

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[1] Although the prepayment is treated as price risk management liability for financial accounting purposes, it is our understanding that the transaction is not treated as debt for credit rating purposes; rather, the prepayment is viewed as part of Enron's overall price risk management activity. Once the prepayment transaction is executed the commodity volumes that will be delivered in the future are recorded on the Company's commodity risk books. Since such books are accounted for under the mark-to-market method of accounting, the prepay transaction ultimately results in the recording of a mark-to-market liability; however, once the prepay transaction is recorded on its risk books, Enron, if necessary, will then enter into a financial swap to hedge the price and basis exposure associated with the prepay liability.

[2] The terms "prepayment" and "advance payment" are synonymous and are used interchangeably. Simply put, advance payments or prepayments are defined as any amount which is received in a taxable year by a taxpayer using an accrual method of accounting and such amount is made pursuant to an agreement for the sale of goods held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business and such agreement is not completed within the taxable year. Treas. Reg. § 1.451-5(a)(1)(i). For consistency purposes, such payments will be referred to as "prepayments".

Notwithstanding the above, however, special rules relating to prepayments for inventoriable goods (e.g. gas, power[3] and other commodities) provide that such prepayments must be included in the recipient's income no later than the second taxable year following the receipt of a "substantial advance payment" -- effectively resulting in a two year deferral of income recognition. In the event that prepayment proceeds are taken into income in the second taxable year under the inventoriable goods exception, then the taxpayer must take into account the estimated cost of goods necessary to satisfy the agreement in the second taxable year. As a result, only the net prepayment amount will be subject to tax in the second year following receipt.

Generally, Enron's prepayment transactions involve goods held in inventory (e.g. oil or natural gas) and, as such, fall under the inventoriable goods exception. However, it should be noted that Enron does not have to defer recognition of the income; rather, it could choose to accelerate the recognition of income in the year of receipt as Enron has done historically with TIA prepayments. Although Enron could choose to recognize income in the year of receipt, it could defer recognition of the related cost of goods sold over time as product is delivered – thus creating, if needed, a significant mismatching of income and expense. (See **Discussion – Section B-1**).

IV. Discussion

A. Overview of Timing Rules

1. General Rule for Taxable Year of Inclusion

Generally, receipts should be included in gross income in the year in which they are actually or constructively received by the taxpayer, unless such receipts should be included in a different year in accordance with the taxpayer's method of tax accounting. Treas. Reg. § 1.451-1(a). For instance, under an accrual method of accounting, income is included in gross receipts **when all the events have occurred** which fix the right to receive such income and the amount of such income can be determined with reasonable accuracy. Treas. Reg. § 1.446-1(c)(1)(ii). "All events" are normally deemed to occur at the earlier of when: (i) the required performance under the contract occurs; (ii) payment is due; or (iii) payment is made. (See Rev. Rul. 74-607, 1974-2 CB 149 where the Service applied the above rule to the accrual of interest and held that interest should be included in income ratably over the life of the loan since performance, i.e. making of the loan, occurred before payment).

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[3] Although the Service has not explicitly addressed whether power should be considered inventory for purposes of the prepayment rules, the Service has held that electricity is an inventoriable good in several non-prepayment contexts. For example, Technical Advice Memorandum 9523001 held that the taxpayer (an independent power producer – "IPP" or qualifying facility – "QF") must use the accrual method of accounting because electricity was inventoriable merchandise. See also Private Letter Ruling 961004 (holding that capacity payments made by an electric utility to a QF should be included in the utility's electricity inventory costs).

In addition to these general accrual rules, a taxpayer engaged in a manufacturing business may account for sales under a modified accrual method where taxable income is recognized when either: (i) the goods are shipped; (ii) the product is delivered or accepted; or (iii) title to the goods passes to the customer. Treas. Reg. § 1.446-1(c)(2)(C). Although a taxpayer using a modified accrual method has some flexibility regarding the timing of income recognition, the accrual method selected must clearly reflect income and must be consistently used by the taxpayer from year to year. Id. In that event, income realization may be pushed out a bit further.

The interaction of the general accrual rules with the modified accrual method can be illustrated by the following example:

> S, a manufacturer, uses the traditional accrual method for tax and financial accounting purposes. S has a contract with B which calls for S to provide 100 widgets to B each month. S usually ships the widgets to B on the 20th of each month. S also bills B on the 20th of each month with payment due by the 30th of each month. B typically receives the goods 7 days after shipping (when title passes) and has 5 days to inspect and accept the goods. Under the traditional accrual method of accounting, "all events" would occur when the required performance under the contract occurs -- that is on the 20th, the shipping date. However, if S used a modified accrual method, S could choose to recognize income when the widgets are accepted -- 12 days after the shipping date.

Thus, as a manufacturer, the taxpayer can elect to defer recognition of income until after the shipping date provided that its method of accounting is both consistent and clearly reflects income.

It should also be noted that in certain circumstances, the Service has allowed a limited exception to the "all events" test with regards to certain "take or pay" or other similar payments. Under this exception, an accrual basis taxpayer may be able to defer recognition of proceeds if the payment is made to modify an existing contract rather than terminate such contract. In these limited circumstances, the Service will allow the taxpayer to take the modification payment into income over the life of the modified contract. For example, the tax accounting rules relating to "take or pay" contracts has been invoked in certain prepay transactions involving the restructuring of power purchase agreements ("PPAs") between utilities and IPPs located in the Northeast United States (e.g. Connecticut Light & Power/AES and New England Power/Haverhill recently entered into PPA modifications structured as prepayments). (See **Discussion - Section A-2-b,** below for further discussion of the tax treatment of the recent IPP restructurings).

2. Rules Governing Prepayments

(a) *General Rule*

In addition to the all events test, there are two special rules governing taxable income

recognition of prepayment proceeds. The first rule, the general prepayment rule, governs prepayments for **non-inventoriable goods** (e.g. relating to an agreement for the sale of goods that are not includible in the taxpayers inventory). It provides that a prepayment should be included in income in either:

(i) the taxable year of receipt;

(ii) the taxable year in which properly accruable under the taxpayer's method of accounting (provided that such method does not result in including prepayments in income later than the time such payments are included in gross receipts for financial reporting purposes); or

(iii) if the taxpayer's method of accounting does result in including prepayments in gross receipts for financial reporting purposes earlier than for tax purposes, then in the taxable year that such payments are included in gross receipts for financial reporting purposes. Treas. Reg. § 1.451-5(b).

Thus, in a non-inventory prepayment, the recipient can either recognize prepayment proceeds in the year received or defer recognition under an accrual method (e.g. a manufacturing company would be able recognize income under an accrual method as goods are shipped or delivered) provided that such deferral does not result in income being recognized later than for financial reporting purposes.

The general prepayment rules can be illustrated by the following example:

> S, a retailer, for tax and financial accounting purposes, follows an accrual method of accounting under which it accounts for its sales when the goods are shipped. S receives an advance payment for such goods. Such advance payment must be included in gross receipts for tax purposes either in the taxable year the payments are received or in the taxable year such goods are shipped.

Thus, as a retailer, the taxpayer can defer recognition of the prepayment proceeds for tax purposes until the taxable year that the goods are shipped, provided that such income is not recognized any earlier for financial accounting purposes.

(b) *Contrast with Loan Treatment*

The above example assumes that the prepayment will be settled by delivering the physical commodity. This is important because, by definition, a prepayment must be made pursuant to an agreement for the sale of goods. (See footnote 2, above). As such, the prepayment transaction must actually provide for the sale of the underlying physical commodity. A purported prepayment transaction that merely requires the prepayment recipient to pay a specific amount of money based on the notional principal amount of an indexed commodity would be analyzed as a loan for federal income tax purposes. Notwithstanding the sale of goods requirement, a prepayment recipient can arrange to

market or sell the underlying physical commodity on behalf of the counterparty as long as the actual cash proceeds from such sale are remitted to the counterparty. Furthermore, unlike a loan, the counterparty must assume the price risk of the sale – that is, the prepayment recipient cannot guarantee a certain return from the actual sale of the commodity.

It should also be noted that a production payment, another financing vehicle commonly used in the energy industry, is statutorily required to be treated as a loan for tax purposes. (See Code § 636). As such, a production payment does not have to undergo the same structural guidelines as a prepayment in order to obtain favorable tax treatment, ie. loan or deferral.

(c) *Exception for Prepayments Relating to Inventory Goods*

Notwithstanding the general prepayment rule, if an accrual basis taxpayer receives a prepayment with respect to an agreement for the sale of goods that are properly includible in its inventory (e.g. commodities) and on the last day of such taxable year:

(i) the taxpayer has goods on hand (or available through normal sources of supply) to satisfy the agreement in such year; and
(ii) the taxpayer has received "substantial advance payments" [4] under such agreement,

then **all prepayments received by the last day of the second taxable year following the year in which such "substantial advance payments" are received (and not previously included in income in accordance with the taxpayer's accrual method of tax accounting) must be included in income in such second taxable year.** However, such deferral cannot result in a taxpayer recognizing income later than for financial reporting purposes. Treas. Reg. § 1.451-5(b)(ii) and (c). As such, this two year deferral is not available if Enron recognizes prepayment income under the mark-to-market method of accounting for financial reporting purposes.

In the event that prepayments are required to be taken into income under the inventoriable goods exception, then the taxpayer must take into account the estimated cost of goods necessary to satisfy the agreement.[5] As such, only the net prepayment amount will be subject to tax in the second year following receipt.

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[4] "Substantial advance payments" are deemed to exist if the sum of all prepayments equal or exceed the total estimated costs and expenditures necessary to satisfy the agreement. Treas. Reg. § 1.451-5(c)(3). The substantial advance payment rules can be illustrated by the following example: X enters into a prepayment contract for the sale of goods over a five year period for a total contract price of $100. X estimates that his total inventoriable costs and expenditures for the goods will be $50. X receives a "substantial advance payment" in the year that he receives $50 or more under the contract, determined in the aggregate.

[5] However, it should be noted that a taxpayer only has to take into account the estimated cost of goods sold if the taxpayer has elected to defer the recognition of income under the inventoriable goods exception. For

The inventoriable goods prepayment exception can be illustrated by the following example:

> S, a retailer, uses for tax and financial accounting purposes an accrual method of accounting under which it accounts for its sales when the goods are shipped. During 1998, S receives an advance payment for goods currently held in its inventory in the amount of $100. These goods will be shipped over three years from 2001 through 2003. The estimated cost of such goods is $50. Under the non-inventory prepayment rules, S could elect to defer recognition of the prepayment proceeds until the goods are shipped – in years 2001, 2002, and 2003. However, under the inventoriable goods exception, S could only defer recognition of the prepayment until the second taxable year following receipt - or in year 2000. However, S would be able to take into account the estimated cost of the goods ($50) such that S would only take into account $50 of income in year 2000.

(d) *Taxable Income Accelerated Prepayments*

As noted above, the prepayment timing recognition rules allow a taxpayer the flexibility to elect to either: (i) recognize prepayment proceeds in the year of receipt; or (ii) defer recognition of the prepayment proceeds until a later tax year (no later than the second taxable year following receipt of the proceeds for an inventoriable goods transaction). Treas. Reg. § 1.451-5(b) and (c). Thus, a taxpayer who elects to recognize the prepayment proceeds in the year of receipt effectively elects out of the complicated deferral regime of Treas. Reg. § 1.451-5. (See Treas. Reg. § 1.451-5(b) and (c)(ii)).

By effectively electing out of the § 451-5 deferral rules, a taxpayer who recognizes prepayment proceeds in the year of receipt does not have to take into the estimated cost of goods sold on an accelerated basis. Rather, the taxpayer would recognize the cost of goods sold over time as product was delivered under traditional accrual principles – thus creating a significant timing mismatch.

By way of summary, if the prepayment relates to non-inventoriable goods, S would have to either: (i) recognize the prepayment proceeds in taxable income in the year of receipt; or (ii) defer recognition under an accrual method (e.g. S recognizes income as goods are shipped or delivered). On the other hand, prepayment proceeds for inventoriable goods should be included in S' taxable income no later than the second year after receipt of payment.

In light of recent developments in the power industry, it is also important to note that several recent PPA modifications were structured as prepayments for non-inventoriable goods. The IPPs have claimed that power was not an inventoriable good because of their status as QFs for federal energy regulatory purposes. As a QF, power can only be

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instance, a taxpayer who elects to recognize the prepayment proceeds in the year of receipt would recognize the cost of goods sold over time under normal accrual rules. (See **Discussion – Section A-2-d**, above).

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supplied from limited sources – mainly from itself or other QFs. As such, the IPPs contended that: (i) they did not currently have the power on hand; and (ii) the power was "not readily available" because it could not get the power on the open market due to regulatory limitations. However, in discussing this approach with outside counsel, the IPP's position was considered very aggressive because their reliance on federal regulatory interpretations are not binding on the Service.

B. Enron Prepayment Transactions

As noted at the outset of this memorandum, Enron has been involved in approximately $3 billion in prepayment transactions since 1992. Historically, Enron's prepayment transactions have fallen into two categories: (i) taxable income accelerated ("TIA") prepayments -- that is, prepayments where Enron needed to accelerate the recognition of income in order to take advantage of certain tax credits or losses; or (ii) strategic cash flow prepayments, where Enron has entered into a prepayment simply as a means to generate significant cash flow. (In addition, Enron has, on one isolated occasion, entered into commercial prepayments with an industry participant. However, this prepayment transaction has been completed and product is no longer being delivered pursuant to such transaction.)

The appropriate Enron entities that should be used to effectuate the various prepayment transactions is discussed in **Discussion - Section C**, below.

1. Taxable Income Accelerated Prepayments

Enron entered into three TIA prepayments during 1992 and 1993. (See **Exhibit B** for a list of prepayment transactions). These prepayments were entered into primarily as a means for generating taxable income in order to take advantage of § 29 credits generated by EOG which, at that time, was part of Enron's consolidated group. By way of overview, § 29 credits are used against regular tax liability, but cannot be used against the alternative minimum tax ("AMT"). Further, the Code does not authorize § 29 credits to be carried forward and, as such, a taxpayer loses the benefit of the credits if it does not have sufficient regular taxable income. (However, such credits would be added to the taxpayer's AMT credit carryforward). Therefore, Enron had to create regular taxable income to realize the benefit of the credits, thereby helping to reduce its effective tax rate.

The TIA prepayments were typically structured as forward oil sale contracts with a counterparty arranged by a financial institution (Chase Manhattan or Citibank), whereby the counterparty would make a significant up-front payment in exchange for Enron's obligation to deliver oil on a monthly basis over a 3 to 4 year period.[6] Since Enron holds oil in its inventory, these prepayment transactions were subject to the inventoriable goods exception which requires income to be recognized in either the year of receipt or deferred

[6] Typically, the financial institution counterparty does not actually take delivery of the oil or gas over the term of the prepayment. Instead, Enron will act as a marketer for the counterparty and sell the agreed upon volume of oil or gas in the open market and pay the proceeds from such sale to the counterparty.

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for a period no longer than two years. Again, in order to use the § 29 credits, Enron elected to recognize the proceeds from these prepayments in the year of receipt.

It should also be noted that since Enron elected to accelerate the recognition of income, it did not have to take into account the estimated costs of goods sold on an accelerated basis. Treas. Reg. § 1.451-5(c)(ii). Rather, Enron was able to recognize the cost of goods sold over time as product was delivered (under normal accrual methodology) – a timing mismatch that worked in Enron's favor since it needed to produce as much taxable income as possible during the tax years at issue.

For financial accounting purposes, the TIA prepayments are essentially treated as deferred revenue (a component of the price risk management liability) and income (with an interest component) is recognized under an accrual model over time as the product is delivered in satisfaction of the prepayment. The transaction is not treated as traditional debt for accounting and credit rating purposes, but rather, the prepayment is viewed as a part of Enron's overall price risk management activity. (See footnote 1, above).

2. Strategic Cash Flow Prepayments

The majority of Enron's prepayments have been structured as strategic cash flow prepayments and we anticipate additional prepayments this year. Rather than entering into these prepayments to manage our tax situation, these prepayments were entered into primarily as a means of generating cash flow for Enron. These strategic prepayment transactions were typically structured as either forward oil sale contracts or natural gas forward sale contracts with a counterparty arranged by a financial institution (Chase Manhattan), whereby the counterparty would make a significant up front payment in exchange for an Enron obligation to deliver oil or natural gas on a monthly basis over a period of several years (3-6 years). As previously explained, after EOG was deconsolidated from the Enron group, there was less of a need to generate regular taxable income to use § 29 credits. As a result, Enron elected to defer recognition of these prepayment proceeds. However, since both natural gas and oil are carried in Enron's inventory, these prepayments fall under the inventoriable goods exception and, as such, gain recognition may only be deferred for a period of two years after the year of receipt. (See **Discussion - Section A-2**, above).

For financial accounting purposes, the cash flow prepayments are treated as a component of Enron's price risk management liability with income, including an interest component, recognized over time as the product is delivered in satisfaction of the prepayment. However, the prepayments are not treated as traditional debt for balance sheet purposes, but rather, are treated as a fixed price commodity contract as part of Enron's overall price risk management activity.

3. Commercial Prepayments

Enron entered into one commercial prepayment in 1992. This prepayment was not entered into for tax or cash management reasons, but was merely entered into as a part of an underlying commercial transaction. This transaction was structured as forward oil sale contract with Texas Utilities Fuel Co. ("Tufco") as the counterparty. The prepayment amount was considerably smaller than any of the other accelerated or strategic prepayments. Since oil is an inventoriable good with respect to Enron, it could either recognize the prepayment income in the year of receipt or elect to defer recognition of such income for period not to exceed two years. However, because EOG had § 29 credits readily available in 1992, Enron, nevertheless, elected to accelerate the recognition of the Tufco prepayment proceeds.

Again, for financial accounting purposes, commercial prepayments are treated as a part of Enron's price risk management liability with income, including an interest component, recognized over time as the product is delivered. However, the prepayments are not treated as traditional debt for balance sheet or credit rating purposes.

C. Enron Prepayment Entities

As stated earlier, a taxpayer who receives prepayment proceeds has the option of either recognizing income in the year of receipt or deferring recognition until a later year. Although the taxpayer does not have to make an affirmative election on any particular tax form, the taxpayer must include an annual information schedule with its income tax return reflecting: (i) the particular recognition method used; (ii) the amount of prepayment proceeds recognized in the current year; and (iii) the total amount of payments received but not yet recognized. Treas. Reg. § 1.451-5(d). (See **Attachment C** for a copy of the annual information statement that is filed with Enron's consolidated tax return).

Once a taxpayer elects to either include prepayment proceeds in the year of receipt or to defer recognition until a later year, such tax treatment becomes the taxpayer's method of accounting for prepayments. The consequence of a prepayment election becoming a method of accounting is that the taxpayer cannot change such method of accounting without consent from the Service. Treas. Reg. § 1.446-1(e).

1. Entities Electing to Include Prepayments In Year of Receipt

The Enron entities used to facilitate the accelerated prepayments were Enron Reserve Acquisition Corp. ("ERAC"), Enron Power Services ("EPS") and EGS Hydrocarbon Corp. ("EGS"). ERAC and EPS made the accelerated recognition election in 1992, while EGS made its election in 1993.

At the end of 1994, EPS was merged (along with several other entities) into Enron Risk Management Services ("ERMS") as part of the "mega-merger" that created Enron Capital

& Trade Resources Corp. ("ECT"). Thus, under the tax attribution rules of Code § 381, ECT (and now Enron North America Corp. – "ENA") must continue to use the prepayment accounting method of EPS under the "principal accounting method test". Treas. Reg. § 1.381(c)(4)-1(c)(2)(iv). As such, ECT has effectively elected to accelerate the recognition of any prepayment proceeds. Thus, although ECT may be the preferred entity to effectuate prepayment transactions from a commercial or legal perspective (since the counterparty may already have a master swap agreement in place with ECT or because the counterparty otherwise has familiarity with ECT from other commercial deals), ECT may not be the preferred entity from a tax perspective (See discussion of recommended entities in **Discussion - Section D** below).

2. Entities Electing to Defer Recognition of Prepayments

The Enron entities used to facilitate the strategic prepayments were Enron Hydrocarbons Marketing Corp. ("Hydrocarbons"), Enron Cushing Oil Marketing, Inc. ("Cushing Oil") and Enron Natural Gas Marketing ("ENGM"). As stated earlier, these entities elected to defer recognition of prepayment proceeds because there were no readily available tax credits to justify accelerating the recognition of taxable income. Hydrocarbons' election was made in 1993[7], Cushing Oil's election was made in 1994, and ENGM's election was made in 1995.[8] ENGM continues to have 1997 prepayment proceeds that have not been fully recognized as income.

D. Future Prepayment Transactions

1. TIA Prepayments

As noted above, TIA prepayment transactions are entered into to generate taxable income to offset expiring tax attributes (tax credits or net operating losses). As such, these transactions should be effectuated with an entity that has elected to recognize prepayment proceeds in the year of receipt. It is recommended that ENA be used for any future TIA prepayments.

In light of the current focus on utilizing the Enron consolidated net operating loss ("NOL"), all future prepayment transactions (particularly year-end 1999 transactions) should be examined to determine whether it is feasible to recognize such prepayment proceeds in the year of receipt.

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[7] It should be noted that Hydrocarbons entered into prepayment transactions with Chase in both 1993 and 1994. Although Treas. Reg. § 1.451-5 requires that all remaining income from the 1994 prepayment transaction (as well as the estimated remaining cost of sales) should have been recognized in 1996, such amounts were not reported in 1996. Rather, such amounts have been reported as deliveries are made. This prepayment is scheduled to expire in 1999.

[8] From 1993 to 1996, Enron created a new entity every year to effectuate its prepayment transactions. The new entities were created to isolate the particular transactions and in order to make the desired deferral election – which typically was not known until some time after the transaction was consummated.

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2. Financial Prepayments

Financial prepayments are entered into as a means of generating strategic cash flow. Since these transactions do not involve the utilization of offsetting tax attributes, financial payments should be effectuated with an entity that elects to defer recognition of prepayment proceeds. As such, ENGM should continue to be the entity used for all future strategic prepayment transactions.

Notwithstanding the above, however, there may be a number of circumstances where ENA is the preferred entity from a commercial or legal perspective (ie. ENA already has a master agreement in place with the counterparty or the counterparty would prefer to deal with ENA because of familiarity). In the event that commercial realities mandate that ENA act as the prepayment entity, we will consider whether it is feasible to change ENA's prepayment accounting method and use it for these transactions.

3. Commercial Prepayments

As noted above, commercial prepayments are entered into as part of an underlying commercial transaction. Although we have rarely entered into commercial prepayments, it is anticipated that we may have opportunities to enter into more of these transactions in the future. For financial accounting purposes, these transactions are currently treated as deferred revenue. However, there have been ongoing discussions regarding whether commercial prepayments can be accounted for under MTM. In the event that MTM is used for future prepayment transactions then, regardless of the entity used to effectuate the transaction, proceeds from commercial prepayments must be taken into taxable income no later than the time such income is recognized for financial accounting purposes – or the year of receipt for MTM income.

V. Conclusion

Generally, an accrual basis taxpayer must include income in gross receipts when all events have occurred which fix the right to receive such payment and the amount of income can be determined with reasonable accuracy. However, pursuant to special prepayment rules, **all non-inventory prepayment proceeds should be included in income in either the taxable year of receipt or defer recognition under an accrual method** (e.g. recognize income as goods are shipped or when goods are delivered) provided that such deferral does not result in income being recognized later than for financial reporting purposes.

In the case of prepayments relating to inventoriable goods, **the taxpayer must recognize taxable income from the prepayment no later than the second year after receipt** provided the prepayment constitutes a "substantial advance payment" and the taxpayer has goods on hand (or available through normal sources) to satisfy the commodity

contract. Again, this two year deferral is only available if such deferral does not result in income being recognized later than for financial reporting purposes. It should also be noted that due to this two year limitation, structuring a transaction as a loan rather than a prepayment (e.g. production payment) may be more advantageous to the recipient.

Enron has effectively elected to accelerate the recognition of income related to prepayments executed by ECT. As such, we should be careful to avoid using ECT (or now, ENA) as the counterparty for any future prepayment transactions until we further consider whether ENA can change its prepayment accounting method, or until we determine that the tax consequences should be accelerated to utilize the NOL. Rather, Enron should continue to use ENGM to effectuate future prepayment transactions so that we defer recognition of proceeds until after receipt. However, in light of circumstances where ECT is the preferred counterparty from a commercial or legal perspective, we may want to consider the feasibility of changing ECT's prepayment accounting method.

MRC

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Attachment A

TAXATION OF PREPAYMENTS

Outline of Book/Tax Treatment

I. Financial Prepayments

A. Book Treatment

- Treated as deferred revenue and income recognized over time as product is delivered to satisfy the prepayment; also has an interest component
- Not treated as debt on balance sheet but is treated as a price risk management liability

B. Tax

- Election to defer under accrual method
- Inventoriable goods exception would limit the deferral to the second taxable year following the year of receipt (2 year deferral)
- Also takes into account the estimated cost of goods, thus resulting in reporting of net revenue

II. Commercial Prepayments

A. Book Treatment

- Treated as deferred revenue and income recognized over time as product is delivered to satisfy the prepayment; also has an interest component
- Discussions ongoing regarding recognition under MTM

B. Tax

- Election to defer under accrual method
- Inventoriable goods exception would limit the deferral to the second taxable year following the year of receipt (2 year deferral)
- Also take into account the estimated cost of goods

IF MTM is adopted for future transactions:

- Must take into income no later than the year taken into income for financial accounting purposes (*ie.* Year 1 for MTM)
- Must take gross revenue into account
- Cost of goods are taken into account as product is delivered thereby potentially creating a substantial timing difference

EC2 000033018

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III. Taxable Income Accelerated Prepayments

A. Book Treatment

- Treated as a loan and income recognized over time as product is delivered to satisfy the prepayment; also has an interest component
- Not treated as debt on balance sheet

B. Tax

- Recognize proceeds in income in year of receipt
- Must take gross revenue into account
- Cost of goods are taken into account as product is delivered thereby potentially creating a substantial timing difference – which is a positive from a tax acceleration standpoint

EC2 000033019

Attachment B

Enron Capital & Trade Resources Corp.

Schedule of Prepayments

Enron Company Name	Prepay Counterparty	Contract Date		Amount ($)	Taxed in Year of Receipt?
Enron Reserve Acquisition Corp.	Chase Manhattan & Bankers Trust	1992		$ 225,309,396.00	Yes
Enron Power Services, Inc.	Tufco	1992		$ 35,000,000.00	Yes
Enron Hydrocarbons Marketing Corp.	Chase Manhattan	1993		$ 230,006,022.00	No
EGS Hydrocarbon Corp.	Citibank	1993		$ 149,887,713.00	Yes
Enron Hydrocarbons Marketing Corp.	Chase Manhattan	1994	(1)	$ 207,901,069.00	No
Enron Cushing Oil Marketing, Inc.	Chase Manhattan	1994		$ 124,951,430.00	No
Enron Natural Gas Marketing	Chase Manhattan	1995		$ 224,440,450.00	No
Enron Natural Gas Marketing	Chase Manhattan	1996		$ 224,233,880.00	No
Enron Natural Gas Marketing	Chase Manhattan	1996		$ 124,549,095.00	No
Enron Natural Gas Marketing	Chase Manhattan	1997		$ 299,991,679.00	No
Enron Natural Gas Marketing	Chase Manhattan	1998		$ 249,062,500.00	No
Enron Natural Gas Marketing	Chase - Mahonia	1998		$ 249,619,352.00	No
Enron Natural Gas Marketing	Citibank-Delta/Vega	1998		$ 308,358,349.00	No
Enron Natural Gas Marketing	Citibank-Delta/Vega	1998		$ 190,000,000.00	No
Enron Natural Gas Marketing	American Public Energy Agency	1999		$ 250,000,000.00	
				$ 3,093,310,935.00	

Footnote (1): Tax inadvertently took the prepayment proceeds into income over the life of the prepayment delivery schedule, rather than in accordance with the prepayment rules of Treas. Reg. § 1.451-5.

EC2 000033020

Enron Corp. And Subsidiaries (47-0255140)
Corporation Income Tax Return
For The Year Ended 12/31/96

Statement Pursuant to Regulation 1.451-5(d)
for Enron Natural Gas Marketing (76-0481290)

Advanced Payments Received 1/1/96 to 12/31/96 Not Taken into Taxable Income Currently	$348,782,975
Advanced Payments Received Prior to 1/1/96 Taken into Taxable Income Currently	$ 49,673,885

EC2 000033021

DRAFT

Interoffice Memorandum

To: Jim Sandt

From: AnnMarie Tiller and Brent Vasconcellos

Department: Corporate Tax Planning

Subject: Enron Credit Linked Notes Due 2005

Date: April 10, 2001

Background

On August 25, 2000, at the direction of the Enron Global Finance department, Enron North America ("ENA," a wholly-owned subsidiary of Enron Corp.) borrowed a total of $499,995,000 from Citibank N.A. ("Citibank") in a transaction that took the form of a $474,995,000 prepaid swap (the "Swap") and in a related transaction, Enron Corp. borrowed $25M from Citibank in the form of a direct loan. (ENA and Enron Corp. are hereafter referred to in the aggregate as "Enron.") To the extent the borrowing is characterized as a Swap, it appears on Enron's financial statements as a price risk management liability rather than a loan. The format is beneficial to Citibank as well because the transaction is reported as part of the bank's credit derivative activities rather than as a loan to Enron. **[Travis Winfrey is checking into whether the $5,000 difference is attributable to fees or a trading spread paid to Delta under the Swap or an error.]**

In order to avoid utilizing Citibank's limited capacity for Enron credit, Citibank and Enron designed the Swap to be part of a larger contemporaneous transaction which had the result of transferring Citibank's Enron credit risk related to the Swap over to investors who purchased the securities of a special purpose trust established on August 11, 2000 by Citibank called the Enron Credit Linked Notes Trust (the "Trust").

Trust Notes

At the same time that ENA and Citibank entered into the Swap, the Trust issued $500M 8.00% Enron Credit Linked Notes due 2005 (the "Notes") in a 144A offering and $50M 9.00% Trust Certificates (the "Certificates") to one entity, the Royal Bank of Canada Europe Limited ("RBC"). The certificates in the Trust represent beneficial interests in the Trust and are subordinate in right of repayment to the Notes. [The Trust is also prohibited under the Indenture Agreement from creating, assuming, or incurring any further indebtedness.] As discussed further below, since the Trust has only one owner, the Trust is disregarded for federal income tax purposes and is treated as a branch of RBC.

The Notes issued by the Trust are debt for federal income tax purposes. Enron's obligation under the "Swap" and the Trust's obligation to repay the principal amount of the Notes, along with any accrued and unpaid interest, both come due on August 15, 2005 to the extent the Notes have not been redeemed, accelerated, or repaid prior to that date. The interest accruing on the principal amount of the Notes at a rate of 8.0% is payable semi-annually in arrears on February 15 and August 15 of each year starting on February 15, 2001.

The Notes were issued at a slight discount of 99.827% to their stated redemption price at maturity or face amount giving rise to proceeds of $499,135,000. The discount of $865,000 falls below the de minimis threshold of Section 1273(a)(3) ($6,250,000 computed as .0025 x $500,000,000 x 5 years) and, thus, can be treated as zero.

The Noteholders are part of a group called the "Secured Parties" who receive protection under a Collateral Security Agreement that provides them with a security interest in all of the assets of the Trust. Citibank is also a Secured Party although the bank's rights are superior to the rights of the Noteholders in all of the collateral except as to a credit swap running between Citibank and the Trust (the "Credit Swap") and any Enron Deliverable Obligations that may be delivered under the Credit Swap as described further below.

The Notes were sold to qualified institutional buyers ("QIBs") in the U.S. in reliance on Rule 144A of the Securities Act and to non-U.S. persons in reliance upon Regulation S of the Securities Act. Both sets of Notes were issued in fully registered form without interest coupons. [At least initially, approximately __% of the Notes were sold to domestic holders and approximately ___% of the Notes were sold to non-US holders.]

Trust Investments

The $550M in proceeds from the sale of the Notes and the Certificates must be used by the Trust to invest in a select group of investments (the "Trust Investments") defined to include (1) time deposits, promissory notes, and commercial paper of certain U.S. money center banks; (2) promissory notes of, or guaranteed investment contracts from, certain insurance companies; or (3) direct obligations of the United States government as long as the Trust Investments represent no more than nine separate obligors and each Trust Investment is scheduled to mature on or before the maturity date of the Notes. No Trust Investment may be purchased at a premium and no existing Trust Investment may be sold at a discount unless in default. At least initially, the Trust used the entire $550M in funds received from the issuance of the Notes and Certificates, and as discussed below, from a one-time payment under the Credit Swap, to acquire a certificate of deposit issued by Citibank and carrying an interest rate of 6%.

The Trust obtains the funds necessary to pay interest on the Notes and yield on the Certificates from periodic payments received by the Trust from Citibank under the Credit Swap as described below.

EC 000850723

Credit Swap.

The Trust and Citibank entered into the Credit Swap that provides for certain periodic payments and, upon an Enron Credit Event, calls for physical settlement of all or part of the Credit Swap. On a periodic basis as the Trust receives interest payments on the Trust Investments, the Trust delivers those funds to Citibank. On each February 15 and August 15, starting on February 15, 2001, Citibank is required to pay the Trust an amount equal to the interest accrued on the outstanding Notes and the yield on the Certificates.

In the absence of an Enron Credit Event, the Trust will repay the principal amount of the Notes and the Certificateholder's investment from the principal proceeds of the Trust Investments. If an Enron Credit Event should occur (defined to include an Enron failure to pay under the Credit Swap as well as the general condition of Enron being either insolvent or bankrupt), the Credit Swap permits Citibank to physically settle the Credit Swap by delivering to the Trust certain senior unsecured obligations of Enron called Enron Deliverable Obligations in exchange for a like amount of Trust Investments then held by the Trust. In this event, the principal amount of the Notes would be repaid from any proceeds recovered from any of the Enron Deliverable Obligations received by the Trust and any remaining Trust Investments then held by the Trust.

On the closing date of August 25, 2000, Citibank made a one-time payment under the Credit Swap to the Trust of $865,000, an amount representing the discount on the Notes. This additional amount when added to the $499,135,000 in proceeds received on the sale of the Notes and $50M received on the sale of the Certificates equaled the $550M amount required to be invested in Trust Investments on the Closing Date and serve as security for the Noteholders and Certificateholders during the 5-year tenor of the deal. Citibank received the $865,000 by reducing the proceeds delivered to Enron under the Debt Security from the $25M face amount to $24,135,000.

Trust Certificateholder

Certificateholders in the Trust are restricted to U.S. persons within the meaning of Section 7701(a)(3) or non-U.S. persons who can supply an executed Form W-8ECI or W-8BEN claiming the benefits of a treaty that provides for no withholding of U.S. tax with respect to payments to the Certificateholder. Certificateholders cannot exceed a number that directly or indirectly exceeds the 99-person threshold of the publicly traded partnership rules of Section 7704. Similarly, a Certificateholder must represent, warrant, and covenant that it has not and will not transfer any Certificate on or through an established securities market within the meaning of Section 7704(b)(1).

The Trust Agreement acknowledges that if there is more than one Certificateholder, then the Trust will be a partnership but as long as there is a single Certificateholder, the Trust will be disregarded within the meaning of Reg. 301.7701-3(b)(1)(ii). As the sole owner of the Trust, RBC will be treated as owning everything the Trust owns, including the $550M Citibank certificate of deposit and the Trust's rights and obligations in a notional principal contract with Citibank.

RBC will recognize ordinary income in each calendar year equal to the interest accrued on the Trust Investments and periodic payments received by Citibank under the Credit Swap. *See* Reg. Section 1.446-3(e). RBC will deduct the expenses of the Trust, the periodic payments made by the Trust to Citibank under the Credit Swap, and interest paid out to the Noteholders. [RBC will also recognize over the five year tenor of the deal the upfront $865,000 payment received from Citibank by amorting the amount .... Was the parenthetical in Section 10.9(a)(iv) stating "the Trust shall not be deemed to have paid any amount for the right to enter into the Credit Swap" intended to address this last minute change?]. *See* Reg. Section 1.446-3(f).

EC 000850724

Prepaid Swap and Direct Loan

References herein to the prepaid swap or the "Swap" are actually references to the combination of two contemporaneous cash-settled commodity swaps. The first such swap between Enron and Citibank is a cash-settled commodity swap on 22,238,748 barrels of crude oil. In return for an up-front payment of $439,677,103 from Citibank, Enron is obligated to make (1) floating payments to Citibank each January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude at the closing price three commodity business days prior to the payment date; (2) one up-front floating payment to Citibank based on the NYMEX spot price for 533,312 barrels of crude at the closing price three commodity business days prior to the payment date; and (3) on the final floating payment date, a floating payment to Citibank equal to $475,000,000 or, if less, the NYMEX spot price for 23,238,748 barrels of crude at the closing price three commodity business days prior to the payment date.

The second cash-settled commodity swap runs between Enron and Delta Energy Corp., a Cayman Islands exempt LLC ("Delta") under which Enron will receive an up-front payment of $35,317,897 from Delta. Additionally, over the term of the swap, Delta is obligated to make (1) floating payments to Enron each January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude at the closing price three commodity days prior to the payment date; and (2) one up-front floating payment to Enron based on the NYMEX spot price for 533,312 barrels of crude at the closing price three commodity business days prior to the payment date. In consideration for these payments under the second swap, Enron is obligated to make fixed payments of $17,750,750 with an initial fixed stub payment of $16,665,982.

Contemporaneously, Enron borrowed $25M from Citibank in return for a Debt Security calling for semi-annual interest payments payable in arrears with an interest rate of 24.83% from August 25, 2000 to January 14, 2001 and an interest rate of 23.994% thereafter. The Debt Security has a maturity date of July 14, 2005.

The result of the combination of the two swaps and the direct loan is that Enron will receive a net up-front payment of $499,995,000 and Enron must make fixed payments to Delta on January 14 and July 14 of $17,750,750. In five years, Enron must repay a total of $500M to Citibank under the terms of both the swap and the Debt Security.

Note: Commodity swaps generally settle on the fifth day of the month following the payment date. As a result, Enron's obligation to make payments under the Prepaid Swap on January 14 and July 14 are actually settled on February 5 and August 5, respectively. A lead time of 10 days was considered necessary for the obligations of Citibank and the Trust under the Credit Swap and the obligations of the Trust to make interest and yield payments to the Noteholders and Certificateholders all on February 15 and August 15.

U.S. Withholding Taxes

With respect to the Noteholders, the Indenture Agreement provides that the United States Trust Company of New York as Indenture Trustee is responsible for furnishing to the Noteholders and taxing authorities any forms of information required by applicable federal or state law, including, but not limited to appropriate Forms 1099 and/or 1042-S and provide any other such information requested by a Noteholder in order for the Noteholder to prepare its tax returns. The Indenture Agreement further provides that if the Indenture Trustee is required to make a deduction and pay over withholding taxes, no additional amounts will be payable by the Trust in respect of those taxes.

Since all of the Notes are registered bonds, interest payable to non-U.S. holders will qualify for the portfolio interest exemption [upon receipt of the proof of the holders' foreign status]. Section 881(c)(2)(B) and Section 871(h)(2)(B); Reg. Section 1.1441-1(b)(4)(i). Additionally, such payments are exempt from information reporting and backup withholding.....Reg. section 1.6049-5(b)(8); Reg. Section 1.6045-1(g)(1)(i).

If an Enron Credit Event should occur and Citibank physically settles the Credit Swap by delivering Enron Deliverable Obligations to the Trust in exchange for a like amount of Trust Investments then held by the Trust, interest on the Enron Deliverable Obligations will also qualify for the portfolio interest exemption. Section 871(h)(4)(C)(v)(I) and Section 881(c)(4).

With respect to the Certificateholder, no withholding forms should be necessary while the Trust is wholly owned by RBC and is thereby disregarded as a separate entity. If the Trust should become an independent entity for tax purposes, the Trust Agreement provides that the Trust will comply with any withholding requirements and that to the extent the Trust is required to withhold and pay over any amounts to any taxing authority with respect to distributions or allocations to any Certificateholder, any amount withheld will be treated as a distribution of cash and thereby reduce the amount of cash otherwise distributable to the Certificateholder.

Payments by Enron to Delta will qualify for exemption from withholding under Reg. Section 1.863-7(b)(1)....

Federal Tax Reporting.

The Trust Agreement provides that if Trust has more than one Certificateholder and becomes a partnership, Wilmington Trust Company ("Wilmington") as Trustee is responsible for maintaining the books of the partnership and filing such tax returns and making such elections as may from time to time be required as well as delivering Schedules K-1 to each partner. A side letter entered into contemporaneously between Enron Corp. and Wilminington provides that Wilmington will engage Enron Corp. to provide these servies on its behalf. Since the Trust is a disregarded entity for federal income tax purposes, no income tax or information return should be required.

EC 000850725

Enron's rights and obligations under the Swap and the Debt Security with Citibank are for tax purposes the equivalent of a borrowing of $500M with a five year tenor and a fixed rate of interest. In accordance with Reg. Section 1.446-3(g)(2)(iii)(A), the upfront payment together with the principal amount extended under the Debt Security should be amortized by assuming that $[500]M represents ...

For book purposes, Enron will record the upfront payment under the Prepaid Swap in income and record Enron's obligation under the Prepaid Swap as a price risk management expense and liability. For tax purposes, these income and expense entries will be reversed with an M-1 adjustment.

Approximately $[5]M in expenses have been paid to-dated by [Enron Corp.] in connection with the transaction. Enron paid up-front underwriting fees of $1.925M to Salomon Smith Barney and $825,000 to Lehman Brothers. Additionally, Enron is obligated to pay a "balance sheet" fee of 30 basis points per annum to [Salomon Smith Barney] calculated on the $500M principal of the Notes or $1.5M and a [$275,000 fee to RBC as additional compensation for their role as Certificateholder?] [Travis Winfrey is still checking on the annual fee equal to 36 basis points....] [Finally, Enron must also pay approximately $20,000 annually in fees to Wilmington Trust Company as Trustee of the Enron Credit Linked Notes Trust and $25,000 to United States Trust Company of New York as Indenture Trustee.]

These up-front expenses were deducted in calendar year 2000 for book purposes so Enron will make an M-1 adjustment to amortize the expenses for tax purposes over the five year tenor of the transaction. Purely to accomplish a book accounting objective that has no tax implications, the implicit rate of return that Citibank receives under the Swap was set at a rate lower than Enron's cost of funds. When Enron's obligation under the Swap is fair valued starting on the closing date of the transaction at Enron's higher cost of funds rate, Enron will recognize a book (but not a tax) gain that is expected to offset the fees expensed by Enron for book purposes. Enron will make another M-1 adjustment to reverse this and all other fair value or mark-to-market adjustments made for book purposes.

Interoffice Memorandum

To: Dave Maxey

From: AnnMarie Tiller

Department: Corporate Tax Planning

Subject: Enron Credit Linked Notes Due August 2005

Date: January 12, 2001

On August 25, 2000, at the direction of the Enron Corp. Global Finance group, Enron North America ("ENA") borrowed $475M from Citibank N.A. in a transaction that took the form of a prepaid swap (the "Swap"). Since Citibank's internal credit policy did not allow the extension of any further credit to ENA, Enron Corp. (hereafter referred to in the aggregate along with ENA as "Enron") and Citibank simultaneously entered into a transaction in which the exposure to default by Enron under the prepaid swap will be ultimately borne by investors purchasing securities of a special purpose trust established on August 11, 2000 by Citibank as initial depositor called the Enron Credit Linked Notes Trust (the "Trust").

Trust Notes and Certificates.
At the same time that ENA and Citibank entered into the prepaid swap, the Trust issued $500M in notes (the "Notes") in a 144A offering and $50M in trust certificates (the "Certificates") to one entity, the Royal Bank of Canada ("RBC"). Since the Trust has only one owner, the Trust is disregarded for federal income tax purposes and is treated as a branch of RBC. See Reg. 301.7701-3(b)(1)(ii). The Notes issued by the Trust will be treated as debt for federal income tax purposes. (See tax opinion from Milbank, Tweed, Hadley & McCloy, LLP in the Offering Memorandum dated August 17, 2000.)

Enron's obligation under the "Swap" and the Trust's obligation to repay the principal amount of the Notes, along with any accrued and unpaid interest, both come due on August [15], 2005 to the extent the Notes have not been redeemed, accelerated, or repaid prior to that date. Interest accrues on the principal amount of the Notes at a rate of 8.0% and is payable semi-annually in arrears on February 15 and August 15 of each year starting on February 15, 2001.

The Notes were sold to qualified institutional buyers ("QIBs") in the U.S. in reliance on Rule 144A of the Securities Act and to non-U.S. persons in reliance upon Regulation S of the Securities Act. At least initially, approximately __% of the Notes were sold to domestic holders and approximately ___% of the Notes were sold to non-US holders. The Reg. S Notes bearer bonds meet the requirements of Reg. Section 1.163-5(c)(2)(i)(D), including legending, certification of non-U.S. status before interest can be paid or the delivery of definitive notes to holders.

The certificates in the Trust represent beneficial interests in the Trust and are subordinate in right of repayment to the Notes.

EC 000850727

Trust Investments.

The proceeds from the sale of the Notes and the Certificates may be used by the Trust to make any one or more investments from a list of permitted interest-paying obligations of domestic money center banks, insurance companies, or direct obligations of the United States government (the "Trust Investments") as long as the obligations mature on or before the maturity date of the Notes. At least initially, the Trust used the entire $550M in funds received from the issuance of the Notes and Certificates to acquire a [note/guaranteed investment contract] issued by Citibank carrying an interest rate of 6%.

The Trust granted a security interest to the

Credit Swap.
The Trust and Citibank entered into a credit swap (the "Credit Swap") that provides for certain periodic payments and, upon an Enron Credit Event, calls for physical settlement of all or part of the Credit Swap. Upon an Enron Credit Event (defined to include an Enron failure to pay under the Credit Swap as well as the general condition of Enron being either insolvent or bankrupt), the Credit Swap permits Citibank to physically settle the Credit Swap by delivering to the Trust certain senior unsecured obligations of Enron called Enron Deliverable Obligations in exchange for a like amount of Trust Investments then held by the Trust. The principal amount of the Notes would then be repaid from any proceeds recovered from any of these Enron Deliverable Obligations received by the Trust and any remaining Trust Investments then held by the Trust.

On a periodic basis in the absense of an Enron Credit Event, the Trust will obtain the funds necessary to pay interest on the Notes and yield on the Certificates from periodic payments received by the Trust from Citibank under the Credit Swap. In return, the Trust is obligated to pay Citibank all of the interest received by the Trust on the Trust Investments on dates concurrent with the interest payments dates on the Notes. To the extent the amount payable by Citibank under the Credit Swap exceeds the amount Citibank receives under the Credit Swap, Enron is contractually obligated to reimburse Citibank for this difference. [See the Enron-Citi Agreement.] In the absence of an Enron Credit Event, the principal amount of the Notes and the Certificate holder's investment will be repaid from the principal proceeds of the Trust Investments.

U.S. Withholding Taxes
The interest paid on the Notes to foreign holders

Tax Reporting and Filing Requirements.
Since it was critical that the Trust report the transaction for tax and accounting purposes in a correct and timely manner, Wilmington Trust Company ("WTC") as Trustee entered into agreement with Enron under which Enron agreed to perform

Discuss side letter

Transaction Expenses.

EC 000850728

State Tax Considerations.

Vasconcellos, Brent

From: Tiller, AnnMarie
Sent: Tuesday, March 27, 2001 8:55 PM
To: Siurek, Ryan
Cc: Vasconcellos, Brent; Bowes, Bill; Williams, David C.; Wilson, Danny; Sandt, Jim
Subject: Yosemite III prepay

Ryan,

Please let me know if we could meet for a short time around, say, 3:00 p.m. tomorrow to discuss the Yosemite prepay. I've included below the draft summary I have prepared to discuss this portion of the transaction in the deal memo I am preparing for our tax files, but I am confused about how the thing is supposed to work and how it accomplishes your book accounting objective. If 3:00 p.m. doesn't work for you, please don't hesitate to throw out another suggested time. Thanks.

AnnMarie

References herein to the prepaid swap or the "Swap" are actually references to the combination of two contemporaneous cash-settled commodity swaps. The first such swap between Enron and Citibank is a cash-settled commodity swap on 22,238,748 barrels of crude oil. In return for an up-front payment of $439,677,103 from Citibank, Enron is obligated to make (1) floating payments to Citibank each January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude at the closing price three commodity business days prior to the payment date; (2) one up-front floating payment to Citibank based on the NYMEX spot price for 533,312 barrels of crude at the closing price three commodity business days prior to the payment date; and (3) on the final floating payment date, a floating payment to Citibank equal to $475,000,000 or, if less, the NYMEX spot price for 23,238,748 barrels of crude at the closing price three commodity business days prior to the payment date.

The second cash-settled commodity swap runs between Enron and Delta Energy Corp., a Cayman Islands exempt LLC ("Delta") under which Enron will receive an up-front payment of $35,317,897 from Delta. Additionally, over the term of the swap, Delta is obligated to make (1) floating payments to Enron each January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude at the closing price three commodity days prior to the payment date; and (2) one up-front floating payment to Enron based on the NYMEX spot price for 533,312 barrels of crude at the closing price three commodity business days prior to the payment date.

In consideration for these payments under the second swap, Enron is obligated to make (1) an up-front payment to Delta of $16,665,982; (2) floating payments on each January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude at the closing price three commodity business days prior to the payment date; and (3) on the final payment date, a payment in the amount of $17,750,750.

Contemporaneously, Enron borrowed $25M from Citibank in return for a Debt Security calling for semi-annual interest payments payable in arrears with an interest rate of 24.83% from August 25, 2000 to January 14, 2001 and an interest rate of 23.994% thereafter. The Debt Security has a maturity date of July 14, 2005.

[The result of the combination of the two swaps and the direct loan is that Enron will receive a net up-front payment under both swaps and the direct loan of $483,329,018; (2) Enron will have to make floating payments to Delta on January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude oil at the closing price three commodity days prior to the payment date; and (3) Enron will be obligated to make a net payment of no less than [$492,750,750 + $25M] at the end of the transaction]

RMTC Liquids (Prepay)

Schedule of Product Prepayment Amortization
Event 142002 & 142015
1999

	142002 Current M-1	142015 NonCurrent M-1	Total M-1
Chase III - 4/95	(34,412,171)	(2,975,653)	(37,387,824)
Chase Mahonia III - 4/97	(45,290,580)	0	(45,290,580)
Chase IV - 12/98	28,970,135	(65,359,699)	(36,389,564)
Delta Energy (Roosevelt) - 12/98	C2 (17,101,882)	C2 (47,923,063)	(65,024,945)
TOTAL	**(67,834,498)**	**(116,258,415)**	**(184,092,913)**

EC2 000033554

1999 WORKPAPER

RMTC Liquids (Prepay) (69X)

Schedule of Financing Prepayment Amortization
Event 123014
1999

	Total M-1
Yosemite I - 12/99	800,000,000
Yosemite II - 12/99	324,000,000
TOTAL	**1,124,000,000**

RMTC Liquids (Prepay)
FEDERAL INCOME TAX RETURN WORKPAPERS
Advance Payments
CYE 12/31/00
Dr/(Cr)

Prepay Description	Date Started	Completely Amortized	Total of Previous Year's M-1s	Tax Adjustment: 105100180 - Advance Payments - Current - NU	Tax Adjustment: 105100162 - Advance Payments - Noncurrent - NU	Tax Adjustment: 105100212 - Financial Prepayments - Current - NU	Tax Adjustment: 105100210 - Financial Prepayments - Noncurrent - NU	Tax Balance at End of Year
Chase III	Apr-95	Jan-00		(2,975,653)	0			(2,975,653)
Chase Mahonia III	Apr-97	Dec-99		0	0			0
Chase IV	Dec-98	Jan-03		3,697,239	(69,056,938)			(65,359,699)
Delta Energy (Roosevelt)	Dec-98	Feb-02		(C2) 17,670,420	(C2) 65,593,483)			(47,923,063)
Yosemite Securities Trust I	Dec-99	Repay 10/2004	800,000,000			0		800,000,000
Yosemite Securities Co. Ltd. (Bridge)	Dec-99	Repaid 4/2000	324,000,000			(324,000,000)		0
Yosemite Securities Co. Ltd.	Feb-00	Repay 2/2007					330,800,000	330,800,000
Enron Credit Linked Notes Trust I	Aug-00	Repay 8/2005					475,000,000	475,000,000
Toronto Dominion & CSFBI (WTI)	Dec-00	Repay 12/2001				315,000,000		315,000,000
Total			1,124,000,000	18,392,006	(134,650,421)	(9,000,000)	805,800,000	1,804,541,585

(A) (B)

To reverse Commodity prepays, which are not deductible for federal tax purposes until the commodity is received, in order to return to the accrual basis of accounting.

Mcode: 105100180 - Advance Payments - Current - NU

Corptax Account	Description	Amount
6025082	Gas Services Trading/Swap Expense	18,392,006
1800070	Affiliates Receivable	(18,392,006)

(A)

To reverse Commodity prepays, which are not deductible for federal tax purposes until the commodity is received, in order to return to the accrual basis of accounting.

Mcode: 105100162 - Advance Payments - Noncurrent - NU

Corptax Account	Description	Amount
6025082	Gas Services Trading/Swap Expense	(134,650,421)
1800070	Affiliates Receivable	134,650,421

(B)

To reverse Financial prepays which are loans for Tax purposes.

Mcode: 105100212 - Financial Prepayments - Current - NU

Corptax Account	Description	Amount
6025082	Gas Services Trading/Swap Expense	(9,000,000)
1800070	Affiliates Receivable	9,000,000

To reverse Financial prepays which are loans for Tax purposes.

Mcode: 105100210 - Financial Prepayments - Noncurrent - NU

Corptax Account	Description	Amount
6025082	Gas Services Trading/Swap Expense	805,800,000
1800070	Affiliates Receivable	(805,800,000)

ENRON

Int office Memorandum

To: Ann Marie Tiller

From: Brent Vasconcellos

Department: Tax Planning

Subject: Yosemite I Withholding

Date: January 14, 2000

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Pursuant to your request, I have prepared the following analysis of U.S. federal withholding tax considerations related to payments made by Enron North America ("ENA") to Delta Energy Corp. ("Delta"), a Cayman Islands exempt LLC, as part of the Yosemite structured finance transaction.

Background

On November 18, 1999, Yosemite Securities Trust I ("Yosemite"), a Delaware statutory business trust, issued $750 million in senior unsecured notes (the "Notes"). The beneficial ownership interests of Yosemite are evidenced by $75 million of certificates held by Enron Corp. ("Enron") and Long Lane Master Trust IV ("Long Lane"), a Delaware statutory business trust.[1] Yosemite is treated as a partnership for tax purposes, and the trust certificates held by Enron and Long Lane are treated as partnership interests for tax purposes. Currently, Yosemite's sole asset is an $800 million debt obligation of Delta (the "Delta Note").[2] The Delta Note originally bore interest at a rate of 6.3% payable semi-annually, although it was amended on December 22, 1999 (as discussed below) to, among other things, increase the rate to 7.25%.

Delta is checked open as a partnership and is capitalized with nominal equity held by a Cayman Islands charitable trust (the "Trust") and $800 million in proceeds, nominally in the form of a loan, from the issuance of the Delta Note to Yosemite.[3] Delta plans to take certain precautionary measures in order to assure itself of favorable tax treatment for withholding purposes by filing a Form 926 (Form 8865 which is not yet in final form) and has also included tax characterization language in the Delta Note.[4]

The $800-million proceeds received by Delta were used as a prepayment of Delta's obligation under a cash-settled swap with ENA on the price of crude oil (the "Prepay").[5] As part of a pre-arranged integrated transaction, ENA entered into a cash-settled commodity swap with

[1] Enron and Long Lane each own $37.5 million of the certificates. Long Lane is an accommodation party for Citibank through the total return swap in place between Long Lane and Salomon Smith Barney, a Citibank affiliate.

[2] Yosemite is also a swap counterparty to a credit default swap with Citibank, N.A. and has entered into a guarantee arrangement, nominally characterized as a loan, with Enron in which Enron effectively guarantees the interest payable on the Notes (although Enron's obligation is not in the nature of a traditional guarantee because it is not dependent on a payment default by Delta). Neither transaction is relevant for purposes of this discussion.

[3] The use of Delta came at the insistence of Enron Global Finance due to accounting concerns over the Yosemite investing entity's status as a special purpose vehicle (SPV). Characterization of an alternative Delta-like entity as an SPV for financial accounting purposes would have jeopardized the accounting treatment of the debt issuance by Yosemite as an off-balance sheet financing. The decision to use Delta apparently reduced such concerns based, at least in part, on ENA's prior dealings with Delta in similar swap transactions.

[4] These precautionary measures relate to withholding in calendar years 2001-2004. *See* discussion *infra*.

[5] The use of a prepaid swap was not motivated by tax considerations but instead was necessary in order to report the transaction as part of ENA's price risk management activities rather than debt for financial accounting purposes.

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Citibank and Citibank entered to into a cash-settled commodity swap with Delta. Citibank and Delta hold floors and ENA holds a cap on the price of crude oil at the swap's maturity. All three swaps are based on an identical notional amount. Further, the caps and floors are identically priced and have the effect of creating a hedge to all three parties. After canceling all of the redundant terms to the three swaps, ENA receives $800 million and Delta receives 6.3% interest payable semi-annually. Delta uses the interest received from the Swaps to make identical semi-annual interest payments to Yosemite on the Delta Note. Yosemite uses the interest earned on the Delta Note to satisfy the semi-annual interest payments due on the Notes and the semi-annual yield payments due on the Certificates.[6]

Due to commercial uncertainty caused by a last-minute change to a provision in the Swaps, Enron decided to shorten the tenor of the Swaps to two and a half months with a maturity date of January 31, 2000. The tenor of the Delta Note was also shortened to reflect an identical maturity date. Enron terminated the original Swaps and executed new Swaps on December 22, 1999 that reflect the originally contemplated maturity date of October 26, 2004. The Delta Note was also amended to reflect a similar maturity date. The terms under the new Swaps and the Delta Note remained substantially unchanged with the exception of the maturity date and a new interest rate of 7.25%. In connection with the termination of the original Swaps and execution of the new Swaps, Yosemite will execute a consent to these changes in order avoid a mandatory repayment of the Delta Note as required under its terms.[7]

Issues

1. In calendar year 2000, what basis does ENA have for making payments to Delta under the Prepay without reduction for U.S. federal income tax withholding under I.R.C. § 1441 and the regulations thereunder?

2. In calendar years 2001 through 2004, what basis does ENA have for making payments to Delta under the Prepay without reduction for U.S. federal income tax withholding under I.R.C. § 1441 and the regulations thereunder?

Executive Summary

1. For calendar year 2000, ENA can forego withholding on payments made to Delta under the original Prepay by relying on the short-term OID exception contained in I.R.C. § 871. ENA can also forego withholding on payments made to Delta under the new Prepay in calendar year 2000 by relying on the "portfolio interest" exemption.

2. The regulations promulgated under I.R.C. § 1441, effective January 1, 2001, would not require ENA to withhold on any payments made to Delta under the new Prepay for calendar years 2001 through 2004 on the basis that the beneficial owner of the income received by Delta is a U.S. person.

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[6] These cash flows only partially satisfy the Notes and certificates. The "Magic Note" was put in place to make up the shortfall amount.
[7] For purposes of this discussion, the term "original Swaps" refers to the two-and-a-half-month Swaps that mature on January 31, 1999 and the "new" Swaps refers to the Swaps executed on December 22, 1999 that mature on October 26, 2004. Any reference to the "Prepay" or the "Swaps" also refers to the new Prepay/Swaps.

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Discussion

§ 1441 Withholding in Calendar Year 2000

Tax Characterization of the Prepay

The tax characterization of the Prepay is an integral part of the withholding analysis for calendar year 2000 because it allows ENA to identify alternative reporting positions based on the availability of withholding exemptions. Once the tax characterization of the underlying transaction is determined, the most advantageous reporting position for withholding purposes can be determined.

As noted above, the net result of the Swaps was that ENA received $800 million in exchange for interest payable semi-annually at 7.25%. Based on the economic substance of the Swaps, the Service could potentially view the Prepay as a 7.25%, $800 million loan by Delta to ENA and view the ENA/Citibank swap and the Citibank/Delta swap as swaps for tax purposes. Therefore, under this characterization, any payments made by ENA to Delta under the Prepay would be characterized as interest.[8]

Current § 1441 Regulations

The current version of the regulations promulgated under I.R.C. § 1441 are effective until December 31, 2000.[9] Those regulations generally provide that payments made by U.S. persons to foreign persons that constitute gross income from sources within the U.S. are subject to withholding tax at a rate of 30% unless an exemption applies.[10] Here, ENA is expected to make semi-annual payments to Delta under the Prepay that are likely characterized as interest. Therefore, in order for ENA to avoid the withholding obligation under § 1441, it must show either that:

- The payments constitute non-U.S. source income as:
  - Interest paid to by an 80/20 company[11]; or
  - Income from a notional principal contract

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- OR -

- The payments are U.S. source income, but an exemption from withholding applies:

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[8] ENA intends to report the payments under the Swaps according to their form but acknowledges that the economic substance of the Swaps for withholding purposes is a loan by Delta to ENA. ENA will obtain the appropriate withholding certificates from Delta in accordance with its acknowledgement that the Prepay is a loan for tax purposes. *See* § 1441 Documentation discussion *infra*.

[9] *See* I.R.S. Notice 99-25, 1999-20 I.R.B. 75. This notice was the second postponement of the effective date for the new withholding regulations. *See* I.R.S. Notice 98-16, 1998-15 I.R.B. 12 (moving the effective date from 1/1/99 to 1/1/2000).

[10] *See* Treas. Reg. § 1.1441-1.

[11] Under Treas. Reg. § 1441-3(a), payments that represent income from sources without the U.S. are not subject to tax and withholding. I.R.C. § 861(a)(1)(A) excludes from the definition of income from sources within the U.S., interest received by a foreign taxpayer from an "80/20 company." Thus, if the provision applies, any interest paid to a foreign taxpayer would be deemed non-U.S. source income and thus not subject to withholding. An "80/20 company" is a domestic corporation that, for the three-year period ending on the close of the taxable year preceding the interest payment, derived at least 80% of its income from all sources as "active foreign business income." "Active foreign business income" is income derived from outside of the U.S. and is attributable to the active conduct of a trade of business in a foreign country. Here, ENA does not derive 80% of its income from all sources as "active foreign business income" and thus would not qualify as an "80/20 company" under § 861.

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- Income tax treaty[12]; or
- Short-term OID exception; or
- The portfolio interest exemption

Non-U.S. Source Income

Income from a Notional Principal Contract

Under § 1441, a payer is only required to withhold on payments to foreign persons that constitute income from sources within the U.S.[13] Payments that constitute income from sources outside of the U.S. are not subject to § 1441 withholding. Under Treas. Reg. § 1.863-7(b)(1), the source of notional principal contract income is determined by reference to the residence of the taxpayer. Here, Delta is a Cayman Islands resident and thus under § 1.863-7, any income earned by it from a notional principal contract would be foreign source income. Therefore, if the payments made by ENA to Delta under the Prepay are characterized as payments made under a notional principal contract pursuant to § 1.446-3, no withholding would be required under § 1441 because the payments would not constitute U.S. source income to Delta.

Here, however the Service would likely take the position that the economic substance of the Prepay supports a loan characterization rather than a notional principal contract characterization. The $800 million prepayment by Delta would be treated as the advanced principal and the semi-annual barrel payments by ENA would be treated as interest payable to Delta on that principal. However, the payments under ENA/Citibank swap and the Citibank/Delta swap would be treated as payments under a notional principal contract. Another position the Service could take is that § 1.446-3(g)(4) applies to the Prepay. This provision generally provides that a swap that contains significant non-periodic payments is treated as two separate transactions consisting of a loan and a swap.[14] As such, all of the payments made by ENA to Delta under the Prepay would be characterized as interest rather than periodic swap payments under § 1.446-3, thus requiring ENA to identify another withholding exemption.

Exemptions from Withholding[15]

(i) Short-term OID Exception

The § 1441 regulations generally impose a withholding obligation on payments representing original issue discount under I.R.C. § 871(a)(1)(C). However, an amount representing original issue discount that is payable less than 183 days from an obligation's date of issuance is not subject to the tax imposed under § 871(a)(1)(C) and thus is not subject to withholding under § 1441.[16] Here, the original Swaps executed on November 18, 1999 provided for a maturity of January 31, 2000 and did not provide for any payments to be made during this

[12] Under Treas. Reg. § 1.1441-6(a), a foreign taxpayer may claim a reduced rate of withholding or complete exemption from withholding pursuant to an income tax treaty between the U.S. and the taxpayer's home country. The U.S. and Cayman Islands do not currently have a negotiated tax treaty in place and therefore this withholding exemption would not be available to Delta for the payments it receives from ENA.

[13] *See* Treas. Reg. § 1.1441-1. For purposes of this discussion, the term "payer" is synonymous with the term "withholding agent" under § 1441 and the regulations thereunder.

[14] *See also* Treas. Reg. § 1.446-3(g)(6) example 3. It is not entirely clear how this provision would apply to the Prepay. However, the potential does exist that the Service could apply this provision in an attempt to recharacterize the transaction.

[15] The exemptions discussed below are dependent on a characterization of the Swaps as a loan for § 1441 withholding purposes.

[16] *See* I.R.C. § 871(g)(1)(B)(i).

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period.[17] Therefore, any interest component of the termination payment made by ENA to Delta is not subject to withholding since the payment contains OID payable less than 183 days from the Swaps' execution date.

(ii) The Portfolio Interest Exemption

Payments to foreign persons that constitute "portfolio interest" are generally not subject to withholding.[18] "Portfolio interest" includes interest paid on certain registered debt issued to unrelated non-bank persons. In order to be unrelated for purposes of the "portfolio interest" exemption, the foreign person may not own, either directly or indirectly, through application of the § 318 stock attribution rules, 10 percent or more of a corporate debt issuer's total combined voting power of all classes of stock entitled to vote. I.R.C. § 871(h)(3)(C) modifies the § 318 stock attribution rules by eliminating the 50-percent limitation.[19]

It is not entirely clear whether a withholding agent is required to look beyond the form of a transaction to reasonably rely on a foreign payee's claim of exemption from withholding. Here, the Service could potentially argue that ENA is required to acknowledge the economic substance of the transactions in the Yosemite structure for purposes of determining its withholding obligations under § 1441: This argument would effectively require that ENA, as a "withholding agent" under § 1441, determine the tax characterization of any transaction that ultimately determines whether it has an obligation to withhold on payments to foreign persons. In the context of payments made by ENA to Delta that constitute "portfolio interest", the Service's argument would require that ENA determine the tax character of the Delta Note held by Yosemite in order to determine whether Delta is a 10% or more shareholder in ENA under § 871(h)(3). Thus, the potential exists that the Service would disallow use of the "portfolio interest" exemption by asserting that Delta is a 10% or more shareholder in ENA.

If the Service were to attack ENA's reliance on the "portfolio interest" exemption, ENA should argue that Delta is merely an accommodation party used solely for accounting purposes and that the ultimate recipient and beneficiary of all payments made by ENA is Yosemite, who is a U.S. person. This argument should be at least somewhat persuasive because it serves as the foundation for the new but not yet effective § 1441 regulations. The new § 1441 regulations recognize that the status of the ultimate beneficiary of income should determine (as discussed further below) whether withholding is appropriate.

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[17] The Swaps, as drafted, retained provisions that provided for interest payments beyond the maturity date of the Swaps, effectively creating OID. This was done in anticipation of the early termination and issuance of new Swaps with similar terms and a maturity of October 26, 2004.

[18] *See* I.R.C. § 1441(c)(9).

[19] The § 318 stock attribution rules, as modified by § 871(h)(3)(C), could potentially apply to Delta as follows:

1. Yosemite's constructive ownership of the ENA stock owned by Enron
   - § 318(a)(3)(A), as modified by § 871(h)(3)(C), provides that stock (the ENA stock) owned by a partner (Enron) shall be considered as owned by the partnership (Yosemite).
   - Thus, through application of this provision, Yosemite is deemed to constructively own the ENA stock.
2. Reattribution of the constructively owned ENA stock by Yosemite to Delta
   - § 318(a)(5)(A) provides that the entity (Yosemite) deemed to "constructively" own stock (the ENA stock) from the first application of § 318 is deemed to "actually" own the stock (ENA stock) for purposes of applying the attribution rules a second time (i.e., continuing ENA stock attribution down the chain of ownership to Delta).
3. Delta's constructive ownership of the ENA stock "actually" owned by Yosemite for the purposes of § 318
   § 318(a)(3)(A), as modified by § 871(h)(3)(C), provides that stock (the ENA stock) owned by a partner (Yosemite) shall be considered as owned by the partnership (Delta).

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Reporting Position for Year 2000 Payments to Delta

Loan Characterization

Given the economic substance underlying the Swaps, the most advantageous position for ENA to take is that the Prepay is a loan for tax purposes but that § 1441 withholding should not apply based on the following arguments:

1. The Swaps possess a five-year tenor that straddles the effective date of the new § 1441 regulations. The transaction should be treated consistently over its outstanding life and since four of five years' payments under the Prepay will not be subject to withholding under the new § 1441 regulations, the first year payments under the Prepay should be treated similarly.

2. By promulgating the new § 1441 regulations, Treasury recognized that the aggregate theory of partnerships was appropriate for § 1441 withholding purposes in contrast to the entity theory utilized by the current § 1441 regulations. Since Yosemite is a U.S. partner in Delta for tax purposes and is allocated all of the income of Delta, payments made by ENA to Delta should not be subject to withholding by virtue of Yosemite's status as a U.S. person under the approach embodied by the new § 1441 regulations.

3. By giving effect to the new withholding certificates, the Service implicitly authorized the use of the new regulations since the new withholding certificates were created for use under the new withholding regulations.

4. The new regulations were originally expected to take effect on January 1, 1999, but were delayed for two years and therefore ENA should be allowed to informally adopt the new § 1441 regulations.

Even if the Service were to ignore all of the preceding arguments regarding the inapplicability of § 1441 withholding to payments made by ENA to Delta in calendar year 2000, ENA should argue that once the tax is paid it is abated and therefore ENA is only potentially liable for interest and penalties.[20]

§ 1441 Withholding in Calendar Years 2001-2004

New § 1441 Regulations

As discussed above, effective January 1, 2001, the withholding rules promulgated under § 1441 will change.[21] One of the major changes under the new regulations is the addition of the partnership look-through rules which recognize that payments made to partnerships generally flow through the partnership to its partners whom are the beneficial owners of income.[22] Thus, if a payment is made to a foreign partnership in which only U.S. persons are partners, the payment would not be subject to withholding because it would be considered a payment by a U.S. person to a U.S. person under the new regulations.

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[20] *See* I.R.C. § 1463.
[21] *See* note 5, *supra*.
[22] *See generally* Treas. Reg. § 1.1441-5.

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The new § 1441 regulations also contemplate payments to partnerships where another partnership is a partner.[23] In such a case, the regulations require that the payer look through only the partnerships that are foreign until it can identify a U.S. person, if any.[24] For purposes of the new § 1441 regulations, language was included in the Delta Note that acknowledges its treatment as a partnership for tax purposes. Therefore, Yosemite and the Trust would be treated as partners in Delta. Yosemite is a U.S. person and the Trust is a foreign person for tax purposes. Since Yosemite is allocated all of the income of Delta under the terms of the Delta Note, any payments made by ENA to Delta after the year 2000 would not be subject to withholding under the new § 1441 regulations since they would be considered made between ENA and Yosemite rather than between ENA and Delta.

§ 1441 Documentation

In 1998, the Service announced that it would be implementing the use of new withholding certificates in connection with the new § 1441 regulations that were finalized in 1997.[25] However, the Service announced that the new certificates would be valid under the current withholding regime.[26] Generally, a U.S. taxpayer must request the appropriate withholding certificate from a foreign payee in order to meet the reliance standard under § 1441 and the regulations thereunder. (*See* **Attachment A** for a summary of the required withholding certificates and other tax forms discussed below).

Portfolio Interest Exemption

A foreign payee claiming the "portfolio interest" exemption from withholding under § 1441 should provide the payer with Form W-8BEN. The purpose of the form is to establish that the payee is a foreign person and that it is the beneficial owner of the income. The payer reports the payment to a foreign person on Form 1042-S and claims an exemption from withholding as portfolio interest. If ENA relies upon the "portfolio interest" exemption Delta should provide ENA with Form W-8BEN to claim its status as a foreign person and beneficial owner of the income it receives.

The Look-through Rules under the New § 1441 Regulations

Under the look-through rules of the new § 1441 regulations, a foreign partnership that claims it is not subject to withholding must provide the payer with Form W-8IMY that indicates its status as a foreign partnership. In order for the payer to rely on the foreign partnership's claim of exemption from withholding, the partnership must also provide the payer with the withholding certificates of its beneficial owners evidencing each owner's distributive share and the owner's status for withholding purposes (e.g., U.S. person, foreign person, income effectively connected with a U.S. trade or business). For purposes of the new § 1441 withholding regulations, Delta is a foreign partnership and Delta's partners are Yosemite, a Delaware statutory business trust, and the Trust, a Cayman Islands exempt LLC. Yosemite should provide Delta with Form W-9 to

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[23] *See* Treas. Reg. § 1.1441-5(c).

[24] *See* parenthetical in Treas. Reg. § 1.1441-5(c)(1)(i). The documentation requirements for a withholding agent's reliance on a partner's U.S. or foreign status is discussed *infra*.

[25] *See* Announcement 98-15, 1998-10 I.R.B. 36; T.D. 8734, 1997-44 I.R.B. 5.

[26] *See* Notice 98-16, 1998-15 I.R.B. 12. The withholding certificates discussed herein refer to the new certificates.

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claim its status as a U.S. person. Delta should provide ENA with its Form W-8IMY and attach Yosemite's Form W-9 in order to satisfy the requirements under Treas. Reg. § 1.1441-5(c).[27]

CC: Jim Ginty
Dave Maxey
Morris Clark
Janine Juggins
Mathew Landy
Ed Osterberg

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[27] As a precautionary measure, ENA should obtain these forms during calendar year 2000 based on the discussion, *supra*, regarding year 2000 reporting. The Trust need not provide a withholding certificate since none of the money paid by ENA under the Swaps will be allocated to the Trust. The Trust's "accommodation fee" will be deducted from the initial prepayment made by Delta to ENA under the Prepay.

A.M. Tiller
10/28/99

Yosemite Financing
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1.) Two overall characterizations currently under consideration.
   a.) "Option #1." Each owner of a certificate of beneficial interest in the trust, treated as a partnership interest, is treated as owning directly its proportionate share of the assets of the trust and and having written its proportionate share of the default swap. The owners of the Certificates are Enron and the U.S. branch of a foreign bank. (Another alternative (referred to as Option #2) would have recognized Citibank as a partner as well, but Citibank is unwilling to report its participation in the transaction for any purpose, including tax, as anything other than as a swap counterparty.) As discussed below, Option #1 currently looks like the more likely characterization, but this characterization has the potential for creating [timing and/or character] mismatches.
   b.) "Option #4." The collateral asset and the default swap would be collapsed together and treated as though the trust held the debt of Enron. The Danielson language that would be necessary to treat the transaction contrary to its form has caused the accountants some discomfort and it is currently not clear that AA would agree. Based on research regarding the availability of the portfolio interest exemption (or the lack thereof), it appears that this option may not be the preferred approach. (Another alternative, referred to as Option #3, would have treated the trust as holding the debt of Citibank, but Citibank would not accept such a characterization and this characterization could potentially cause the debt to be treated as a contingent payment debt obligation.)

2.) Yosemite's characterization as a partnership and the accompanying tax consequences. Milbank is issuing a "will" level opinion in the Offering Memorandum for the Yosemite Notes, that
   a. The Notes will be treated as debt for U.S. federal income tax purposes, and
   b. The Trust will not be treated as a corporation or as a publicly traded partnership taxable as a corporation.

3.) Potential for OID on the Linked Enron Obligations ("LEOs") through an allocation of basis to the credit default swap.
   a. General rule for "investment units." If a debt obligation is issued to noteholders along with a separate property right, the combination of rights can be treated as an "investment unit" that has the potential for giving rise to original issue discount ("OID").

b. The portion of the purchase price paid by the holder which represents the FMV of the separate right must be allocated to the right, and the result of that allocation will cause the issue price of the debt obligation to be less than the price at which the debt was actually sold. Reg. section 1.1273-2(h).

c. Example: The Exchangeable Notes or ACES issued by Enron in 1995 were issued as an investment unit consisting of a debt obligation and a forward purchase contract although in the case of the ACES, the full purchase price of the notes was allocated to the debt obligation since the stated interest on the notes (6.25%) represented a yield higher than Enron's Mid-Term Borrowing Rate at the time of 5.90% thus indicating that the notes' full purchase price was attributable to the debt obligation.

d. In this case, the LEOs issued by the Yosemite Trust don't provide the noteholders with any separate property rights. Under the Indenture Agreement, the Noteholders acknowledge that Citibank is the Directing Party with respect to the Collateral for the notes under Collateral Security Agreement and the Indenture Trustee doesn't even have the right to elect to become the Directing Party with respect to an Enron Investment unless and until (1) an Indenture Event of Default has occurred, and (2) with the approval of 100% of the Noteholders of the related Series at which time the Citibank Swap immediately terminates. As a result, it doesn't appear appropriate to characterize the LEO's as being anything other than a debt instrument as opposed to an investment unit.

4.) Characterization and treatment of the credit default swap and the Enron-Citibank makewhole agreement. The swap between Yosemite and Citibank is probably best viewed as actually being two swaps: a cash flow swap and a credit default swap [although ... discuss the potential for the credit default swap to be better characterized as an option].

a.) A cash flow swap under which the Trust exchanges with Citibank the variable actual periodic receipts or yield it receives on the Enron and AAA Investments it holds and, in return, Citibank exchanges with the Trust the variable weighted average yield payable on the Notes and Certificates adjusted for .

1.) This cash flow swap doesn't qualify as a notional principal contract because not based on objective financial information. Reg. section 1.446-3(c).

2.) Query whether Enron's make-whole can be integrated with Yosemite's obligation under this cash-flow swap as a guarantee? If so, would we want to include a Danielson statement in the Enron Agreement to this effect?

5.) Citibank Swap.

a.) Tax uncertainty. In a 1997 article in The Tax Lawyer, Milbank Tweed partner, Bruce Kayle (who just happens to also be tax counsel for Citibank in this transaction) describes in some detail the uncertain tax treatment of a variety of transactions which Bruce describes generically as credit derivatives. 50 The Tax Lawyer, Will the Real Lender Please Stand Up? The Federal Income Tax

Treatment of Credit Derivative Transactions, 569-615 (Spring 1997). It is Bruce's premise that the tax uncertainly for these transactions doesn't pose a substantial risk for market participants who are banks or dealers but that these tax risks should be a serious consideration for other market participants.

b.) Three characterizations. Bruce's article indicates that the Citibank swap which is nominally documented as a swap (with an ISDA Master, a Schedule, and Confirmation) could actually be treated as one of three things for tax purposes, a credit default swap, an option, or a guarantee, each with distinct tax consequences.

c.) Characterization as a credit default swap.

1.) Notional principal contract. Although a credit default swap could generally be expected to qualify as a notional principal contract ("NPC"), this swap would not so qualify because it is not based on objective financial information. Because of the absence of guidance for swaps that don't qualify as NPCs, this discussion continues to focus on the factors, pro and con, for NPC treatment.

A.) Enron is expected to pay Citi's fee over the term of the swap at an annualized rate of 12.5 basis points per year for a total annual fee of $10M. Multiple payments support support swap treatment at least at a cosmetic level.

B.) There are technical questions about whether payments under a credit default swap really fit the definition of an NPC as set out in Reg. section 1.446-3(c).

C.) Bruce asks if a swap has provisions that make it sufficiently close to other arrangements such as an option or a guarantee, whether it should be allowed to be treated as an NPC to the extent that there are substantively different tax results to the counterparties.

2.) Timing. The discussion below is based on the premise that the credit default swap were treated as an NPC which it is not.

A. If Citibank's payment [in the event of a Enron Investment default] were characterized as a periodic payment, Citi would have a deduction and Yosemite would have income in the period in which the payment was made.

B. If Citibank's payment were treated as a non-periodic payment, the timing would probably be the same. Non-periodic payments are supposed to be spread out and taken into account over the periods to which they relate. Where a default is not imminent or threatened, Bruce concludes that an effort to quantify and allocate the Yosemite entity's payment would be an arbitrary exercise and recognition of this fact would cause one to conclude that the period the payment is made is the period to which it relates.

C. If Citibank chooses cash settlement, Yosemite would have to sell the underlying obligation and recognize the corresponding loss to avoid accelerating income.

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D. If Citibank chooses physical settlement, Yosemite should recognize the loss on the receipt of the substituted investment.

E. If Yosemite sold an Enron Investment prior to default and if the reference obligation were actively traded personal property, the loss on the Enron Investment could be deferred under the straddle rules. As a result, we should guard against Enron Investments that would qualify as actively traded personal property or ensure that they are not sold by Yosemite.

3.) Character.

A. Since the Trust can be expected to recognize a capital loss on the default of the Enron Investment, Yosemite will want to say that Section 1234A applies to make Citi's payment under the swap capital in character.

1.) The NPCs rules that are believed to accord ordinary character to periodic payments generally are inapplicable here.

2.) There is a concern about finding a satisfactory distinction for purposes of saying that a Citi payment under the swap is capital, but Enron's payment of Citi's fee is ordinary.

3.) Exposure. The biggest risk of this characterization appears to be the potential for the payment of Citi's fee to be treated as capital rather than ordinary. [If Yosemite is treated as having made this payment, capital losses will be allocated to the Certificateholders over the term of the deal that will not offset the ordinary certificate yield allocated to them. As a result, they will recognize capital gain on the conclusion of the transaction when their interests in Yosemite are redeemed.] Although there are also concerns about timing as well since the swap won't qualify as an NPC, it would seem the Service would have more difficulty making the case that another timing methodology would be more appropriate.

c.) Characterization as an option. Bruce's article notes that the absence of multiple payments being required of either party under a swap might put NPC characterization in jeopardy and justify a position that the contract is better characterized as an option. Bruce notes, however, that there is no reason why an option could not call for its premium to be paid in installments.

1.) Bruce observes that there is suprisingly little guidance regarding the essential elements that cause an economic relationship to be treated as an option for tax purposes.

2.) Timing. Yosemite's would neither deduct or amortize the payments to Citibank of its fee. Instead, Yosemite would offset these payments against any payment it actually received from Citibank under the credit default swap or it would recognize a loss

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at the expiration of the swap if Citibank were never required to make a payment.

3.) Character.

A.) Since the underlying obligation is a capital assets to Yosemite, Yosemite would have a capital loss equal to the aggregate payments it makes to Citi if the swap expires without any default. Section 1234.

B.) Citi's payment to Yosemite should be capital under Section 1234A.

4.) Exposure. As in the case of characterization of the swap as an NPC, it appears that the biggest risk is treatment of Yosemite's payment of Citi's fee as capital.

d.) Characterization as a guarantee.

1.) Bruce observes that just as there is no real guidance about what are the fundamental elements of an option for tax purposes, there is no real guidance about the fundamental elements of a guarantee.

A.) First fundamental element - is the requirement of a payment on the nonperformance by the primary obligor which is present in the credit default swap.

B.) A second fundamental element is that the payment by the "guarantor" must bear some relationship to the nonperformance by the primary obligor.

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5.)Characterization of the Make-Whole Agreement and "Magic Note."

a.) The "Magic Note" or other contractual agreement that is intended to make the Yosemite trust whole for any differential between the amount received by the Trust and ded to serve the function previously served by the Periodic Payments under the latest draft of the Enron Agreement or make-whole agreement. In other words, if the Scheduled Interest Receipts received by the Trust and transferred to Citi under the Citibank Swap are insufficient to pay interest on the Yosemite Notes and yield on the Certificates (Citi's obligation under the Citibank Swap), then Enron makes up the difference. Mark Spradling says that the Magic Note will have a $25M principal amount and a maturity date of four days prior to the maturity of the Notes [open issue – which tranche or will there be a separate Magic Note for each tranche?]

b.) The Enron Magic Note resembles a

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6.) Withholding on payments from Yosemite to U.S. branch of foreign bank.

a.) Any payments by Yosemite to the U.S. branch of a foreign bank will be subject to withholding.

1.) Non-ECI. If Yosemite income is non-effectively connected FDAP income or other income subject to withholding that is included in the foreign partner's distributive share of partnership income, the payments will be subject to withholding under Section 1442.

2.) ECI. Alternatively, if Yosemite income is effectively connected to a U.S. trade or business, any income allocable to the U.S. branch of the foreign bank will be subject to withholding under Section 1446. Withholding under either provision applies regardless of whether the distributive share of the foreign partner's income is actually distributed or not.

b.) Withholding on Non-ECI. With respect to the timing of withholding on non-ECI, Rev. Rul. 89-17, 1989-1 C.B. 289 provides that since a partner's undistributed distributive share of partnership FDAP income is deemed distributed on the last day of the partnership's taxable year, a partnership must withhold and pay the tax by the date on which the Schedule K or K-1 is sent to the foreign partners.

c.) Withholding on ECI. Yosemite must withhold at a rate of 35% in the case of its corporate partner, the foreign bank. The tax must be paid in quarterly estimated tax payments based on a computation of the foreign partner's allocable share of ECI and reported on Form 8813, Partnership Withholding Tax Payments (Section 1446). In addition, Yosemite must file an annual return on Form 8804, Annual Return for Partnership Withholding Tax (Section 1446) and a copy of Form 8805, Foreign Partner's Information Statement of Section 1446 Withholding, must be attached to the Form 8804 and also supplied to the foreign bank. The amount of the withholding tax paid by Yosemite on behalf of the foreign bank is allowed as a credit to the bank toward its U.S. income tax liability. In order to claim the credit, the bank must attach the Form 8805 furnished by Yosemite to its U.S. income tax return.

d.) Indemnities for timing mismatches. Counsel for Citibank implied that he thought at least some of Yosemite's income would be ECI and that a timing mismatch could occur between the quarterly estimated tax withholding dates and the date on which the bank would otherwise owe the tax, thus presumably justifying an indemnity for this timing difference. [Does this make sense? If the foreign bank is already a U.S. taxpayer (and presumably it will be), it will be obligated to make estimated tax payments anyway. Why should an estimated tax payment be a justification for an indemnity based on timing?]

e.) Potential for Yosemite to Generate ECI. [Open]

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6.) The tax treatment of Delta and Enron North America ("ENA") under the lower-tier swaps.

a.) Delta's treatment under its two swaps with ENA and Citibank.

1.) The notional principal contract ("NPC") periodic payments received by Delta from Citibank and paid by Delta to ENA based on the spot price of oil should offset one another or wash. It is generally understood that such periodic payments are ordinary in character.

2.) Delta's receipt of 8% quarterly [interest] payment annually should constitute ordinary income to Delta. This income should be offset by a similarly sized will be offset with a deduction for "interest" paid on the Delta Notes, but the Cayman Islands doesn't assess any tax on income anyway.

3.) Receives $800M at 10/2006.

4.) Embedded option contracts

A.) If both option contracts are treated as embedded, the prepaid premiums paid for each will be amortized using the "level payment mehtod" of Reg. section 1.446-3(f)(2)(iii)(A). Reg. section 1.446-3(f)(2)(v)(A).

B.) If the the option contract Delta sells is treated as embedded but the option contract it purchases is treated as a separate contract ... [plus describe basis for such a position...]

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*

b.) ENA's treatment under its two swaps with Delta and Citibank.

1.) Offsetting floating rate periodic payments

2.) Payment of 8% periodic payments annually.

3.) Receipt of $800M in prepaid amount either recognized in income over the life of the contract under Reg. section 1.446-3(f) OR entirely treated as receipt of a loan under Reg. section 1.446-3(g).

4.) Repayment of $800M at 10/2006 treated as a deduction.

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*

7.) Whether Delta is a CFC and the tax effects of such a characterization

a. Initially, Delta is deemed to be owned 50/50 by U.S. (Enron) and foreign entities (U.S. branch of a foreign bank) after applying the constructive ownership rules of Section 318(a)(2)(A) which look through Yosemite to its partners for purposes of applying the stock ownership rules of Section 957. Enron and the U.S. branch are expected to each contribute 50% ($37.5 M of the total capitalization of the trust). With this equilibrium, Delta might not be a CFC. If, however, Enron pays the various fees and expenses associated with the transaction (which is expected), Enron will probably be deemed to make a partnership contribution for those amounts and, as a result, Delta could potentially become a CFC EXCEPT for the fact that Enron should not be a

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U.S. shareholder because the Delta Notes are intended to be non-voting. Section 951(b).

b. If Delta is or were to become a CFC AND if the Delta Notes were treated as voting stock,
   1.) Delta's income from the notional principal contracts to which it is a counterparty would constitute foreign personal holding company income under Section 954(c)(1)(F), and
   2.) The stock of Delta is used as security for the and thus would constitute a pledge for the obligation of a U.S. person for purposes of Section 956(d) and Reg. section 1.956-2(c).

c. The business team has confirmed that the Delta Notes are intended to be non-voting.

8.) Whether Delta is a PFIC and the tax effects of such a characterization.
   a.) Delta can be expected to meet either or both of the income and asset tests for qualification as a passive foreign investment company or "PFIC" since all of its assets and income, at least initially, are expected to be foreign personal holding company income under Section 956(c)(1)(F).
   b.) For purposes of determining if the stock of a PFIC is owned by a U.S. person, the attribution rules of Section 1298(a)(3) provide that stock owned directly or indirectly by a partnership is treated as owned by its partners. As a result, Enron will be a U.S. person with respect to Delta. Although one would think a similar look-through concept would apply to the foreign bank which holds its interest through a U.S. branch, Section 1298(a)(1)(B) indicates otherwise since it appears that one is expected to stop the attribution process once one reaches a U.S. person (except to the extent otherwise provided in regulations of which there currently appear to be none).
   c.) [Discuss need to make a QEF election ...]
   *
   *

9.) Withholding on payments from ENA (a U.S. entity) to Delta (a foreign entity). *See separate memorandum by Brent Vasconcellos dated 10/27/99.*

10.) The overall effect of the Citibank/foreign bank total return swap on the characterization of the transaction.
   *
   *

11.) Tax treatment and structuring of transaction fees and expenses
   *
   *

12.) Texas franchise tax
   a.) Per discussion with V&E partner, Jim Penny, on 10/27/99, the Texas Comptroller has issued a ruling stating that derivative financial products,

regardless of the index on which they are based, are treated as intangibles. As such, the payments exchanged under such contracts should be sourced under the location of the payor rule.

1. Corporations and LLCs. For corporations and LLC payors, their location for purposes of this rule is determined by the state of their formation.
2. National banks. For a national bank like Citibank, N.A., its location for purposes of this rule is determined by the location of its principal office (which in this case is probably New York).
3. Trusts. For a trust like Yosemite, its location for purposes of this rule is determined by its principal place of business. In this case, we will want to take the appropriate steps to ensure that Yosemite's principal place of business is in Delaware by, for example, having Wilmington Trust Company handle its day-to-day operations and the hiring the services of a non-Texas office of a public accounting firm to handle the preparation of the Yosemite's tax return and other tax filings as well as any required financial reports.

b.) Trusts are non-taxable entities for Texas franchise tax purposes.

1. Grantor trusts. Jim indicates that the Comptroller is somewhat perplexed about how to treat grantor trusts, but we had already concluded that we probably couldn't treat Yosemite as a grantor trust anyway.
2. Qualification as a foreign LLC. Jim Penny said that he understands that Texas does not provide limitation of liability protection to foreign trusts like Yosemite and so people will sometimes qualify a foreign trust as a foreign LLC to provide it with that protection. The quid pro quo is that LLC status makes the entity a taxable entity for Texas franchise tax purposes and requires the filing of a Texas franchise tax report.

c.) Based on the formalistic approach adopted by the Comptroller in analyzing transactions, Jim indicated that even if we adopted a substance-over-form analysis for federal tax purposes (i.e., collapsing the structure and taking the position that Yosemite holds the debt of Enron), he thought there was a good chance that the Comptroller would still treat the various swaps as swaps and apply the beneficial location of the payor rule. Although we did not discuss the issue with Jim, a characterization of what Yosemite holds as debt of Enron would seem to still allow the application of the location of the payor rule for the sourcing of interest payments as well.

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Yosemite Financing Structure
Open Questions

* Financing Amounts
  - Economics of deal presumably require the amounts raised from sale of Notes and Certificates to all be invested in the Delta Notes and become a part of the notional on the underlying prepaid swaps
  - What is the size of the Yosemite Notes offering – the latest OM still contained blanks?
  - What is the size of the certificates offering – is it still an Enron/non-Enron split of 49%/50%, at least before the payment of expenses?

- Delta Energy Corp.
  - Who holds the beneficial interest in the Cayman Islands charitable trust that apparently holds the only equity in Delta?
  - Has Delta been checked open or closed?
  - Will AA get its representation and warranty that Delta holds "other assets" or will Delta require additional equity to avoid SPV status for accounting purposes?
- Enron Agreement
  - Do we have a more recent iteration than the version dated 9/15/99?

- Citibank Swap
  - Confirm that it is intended that Citibank receive periodic payments for its role as counterparty under this swap.
  -

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XV. USE OF FOREIGN ENTITIES

The following item is a memorandum provided by representatives of Enron to the Joint Committee staff in March 2000. In the memorandum, the company advocates a change in Federal tax law that would allow the company to establish and maintain fewer foreign entities in connection with its foreign infrastructure projects. The Congress did not enact the proposed change.

Specifically Exclude "Non-binding Intent Agreements" from Section 367(d)

Power (and Other Infrastructure) Industry Problem:

Many U.S. based utility and energy companies have recently been pursuing foreign power projects. U.S. based companies have also been pursuing other types of foreign infrastructure projects (e.g., pipelines, roads, dams, airports).

In the early stages of a foreign infrastructure development project, the potential developer will often sign one or more preliminary non-binding agreements (e.g., a Memorandum of Understanding (MOU), a Letter of Intent (LOI), a Heads of Agreement (HOA), a Joint Development Agreement (JDA)) with potential development partners and/or with the potential foreign customer.

Under the current Section 367(a)(3) and 367(d) rules relative to the outbound transfer of intangibles, there is arguably exposure to U.S. taxation if a U.S. corporation executes a preliminary non-binding agreement and final awarded contracts are executed by a foreign project company. In this case, the IRS might attempt to deem a transfer of the preliminary non-binding agreements from the U.S. company to the foreign project company. If the IRS were successful, the deemed transfer would be taxable to the extent of any gain.

Because of this theoretical Section 367 exposure, U.S. multinationals typically form separate foreign project company structures for each potential foreign infrastructure deal at a very early stage, and all project related agreements and contracts are executed by such foreign project companies. This approach is not just a conservative defensive position adopted by corporate tax department professionals, but is also advocated publicly by experienced counsel.

Many foreign infrastructure business opportunities never result in a final contract. The success rate for most U.S. multinationals is less than 10%. Thus, U.S. multinationals that are engaged in foreign development activities form numerous CFCs that will eventually become dormant and worthless.

The process of forming foreign corporations for opportunities that never materialize into awarded contracts is an administrative, legal, accounting and tax compliance burden. (For example, several major internationally accepted accounting systems cannot accommodate the number of legal entities often owned by infrastructure companies as a result of this issue.) Furthermore, because the potential foreign customer may take several years to decide who should be awarded the project, a U.S. multinational developer is forced to maintain its foreign structures for many years.

In summary, it is expensive, time consuming and counterproductive for U.S. multinationals to form, maintain and eventually liquidate foreign entities with respect to foreign business opportunities that do not progress beyond a preliminary stage. We

estimate that these entities each cost $5,000 to $10,000 per year in administrative and compliance costs.

Proposed Solution:

Specifically exclude preliminary non-binding agreements such as MOUs, LOIs, HOAs, and JDAs from the definition of "intangibles" for purposes of Sections 367 and 482.

Proposed Statutory Language Change:

The Section 963(h)(3)(B) definition of an intangible could be modified to exclude MOUs, LOIs, HOAs, JDAs and similar preliminary non-binding agreements from the definition of a "contract" by adding at the end a new sentence to read as follows:

> "Such term shall not include any preliminary agreement which is not legally enforceable."

The legislative history to this change should indicate that the change is intended to also apply for the cross-referenced purposes of Sections 367 and 482.

(Similar language was included as Section 306 of the International Tax Simplification for American Competitiveness Act of 1998 (S. 2231, H.R. 4173).)

Analysis, Tax Policy and Revenue Impact:

1. There are two key non-tax reasons for supporting this proposal. First, the proposal would reduce the administrative, legal, accounting, tax compliance and other out-of-pocket costs of forming, maintaining, liquidating, etc. foreign corporations for foreign business opportunities that do not progress beyond a preliminary stage.

Second, the current tax rules inhibit the ability of U.S. multinationals to react quickly and efficiently to foreign business opportunities. For example, in the early stages of a development project, a potential foreign customer (e.g., a governmental entity) may not want to execute preliminary agreements with a newly formed foreign affiliate of a U.S. multinational. This puts U.S. multinationals at competitive disadvantage vis-à-vis foreign competitors.

2. The proposed change is best viewed as a technical correction (or clarification of existing law), not a substantive change to Section 367. The proposal is consistent with U.S. tax policy for the following reasons:

> a. Preliminary non-binding agreements are the result of investigatory costs, not valuable intangible property that should be subject to the super-royalty provisions of Section 367(d).

b. Due to the contingent, non-binding nature of MOUs, LOIs, etc., these agreements should have little or no economic value. Thus, even if there were an actual assignment of a MOU, LOI, etc. from a U.S. company to a foreign project company, any Section 367 gain should be negligible.

c. Unlike most Section 367 intangibles, non-binding agreements (LOIs, MOUs, etc.) are usually project or country specific and do not have worldwide application.

d. This proposal would simplify and clarify a provision that is currently a "trap for the unwary".

e. The proposal would avoid tax audit disputes that could be costly and time consuming for both taxpayers and the IRS.

f. Bidding rights, awarded contracts and similar contracts that are executed with customers would continue to be subject to Section 367(d).

3. There should be no revenue cost to the U.S. Treasury since there is usually no tax paid under the current rules for a couple of reasons. First, most U.S. multinational groups cause their foreign project companies to execute all agreements and contracts such that any potential Section 367 taxation is avoided. Second, in the event that a preliminary agreement is inadvertently signed by a U.S. entity and subsequently transferred to a foreign project company, most appraisers would advise that there is little or no taxable gain.

Additionally, there should be no revenue loss since Section 367(d) applies solely to outbound transfers by U.S. transferors. Thus, there is no exposure that this proposal could be used by foreign-owned U.S. companies to avoid U.S. tax.

The proposal would also eliminate IRS and Treasury administrative time associated with processing Forms 5471 for foreign entities that are formed to execute the preliminary agreements.

4. The reference to Section 482 is necessary to avoid inconsistent treatment. For example, extending the change to Section 482 would be necessary to avoid any "whipsaw" to the U.S. Treasury by foreign investors into the U.S.

5. A similar change was included as Section 306 of the International Tax Simplification for American Competitiveness Act of 1999, introduced in the 1st session of the 106th Congress as S. 1164 by Senators Hatch and Baucus and as H.R. 2018 by Representatives Houghton and Levin.

March, 2000

XVI. OFF BALANCE SHEET PARTNERSHIPS

Interoffice Memorandum

To: R. Davis Maxey

From: AnnMarie Tiller and Brent Vasconcellos

Department: Corporate Tax Department

Subject: Talon Financing Transaction

Date: April 19, 2000

On April [24], 2000, Enron Corp. will borrow $[30]M from a Delaware limited partnership called LJM2-Talon, LLC ("LJM2"). The other major entities involved in the transaction include two wholly-owned limited liability companies of Enron Corp. named Talon I, LLC ("Talon") and Harrier I, LLC ("Harrier") both of which default to branches for federal income tax purposes. The commercial purpose for the transaction is to create a risk management program to hedge from a financial accounting perspective the volatility in value of equity positions Enron or its affiliates are expected to hold in various companies, both public and private, many or most of which are expected to be in the telecommunications and/or broadband communications areas.

Financial Accounting Goal.
For financial accounting purposes, the equity positions in telecommunications companies are [trading securities] under FAS 115, reported in Enron's balance sheet at their fair value with unrealized, as well as realized, gains and losses included in current period income. While the acquisition of these positions is expected to further Enron's announced goal of being the premier provider of high-bandwidth services and applications worldwide, ownership of these positions has the potential for causing significant and unwelcome fluctuations in Enron's financial statements.

This structure is designed to allow Enron to offset the mark-to-market gains and losses on Enron's long equity positions using derivatives that must also be marked-to-market for financial accounting purposes. The effect of the two positions is intended to allow Enron to reduce if not eliminate its exposure to book earnings fluctuations from its fair value equity positions. For example, if an Enron affiliate holds a stock or a partnership interest in a broadband enterprise, Enron (through Harrier) may decide to enter into, e.g., a price return (change in value) swap or total return swap with Talon in which Enron's position under the swap will vary inversely with Enron's long position in the equity interest. As a result, if the value of one of Enron's long positions depreciates and requires a writedown for book accounting purposes, Enron's position under the swap will appreciate in value, and vice versa.

Enron (through Harrier) is intending to report its equity interest in Talon under the cost method, meaning that its interest will be reported for book purposes at its amortized cost [and reduced only for nontemporary declines in fair value]. As a result, there will be no accounting effect to Enron from its member interest in Talon until there has been a realization event such as an actual sale or other monetization. Obtaining cost method treatment for Enron's interest in Talon is important because, otherwise, the earnings fluctuations the structure is intended to reduce or eliminate would affect Enron again (albeit indirectly) and Enron would be forced to enter into additional derivative contracts to hedge that financial statement exposure.

Lender

The lender, LJM2, is a Delaware limited liability company owned by LJM2 Co-Investment, LP ("LJM2 Co-Investment"), a Delaware limited partnership and certain other unidentified financial institutions or high net worth individuals (the "Coinvestors"). The general partner of LJM2 Co-Investment is another Delaware limited partnership called LJM2 Capital Management, LP whose general partner is a limited liability company wholly-owned by Andrew Fastow, Enron Corp's current Chief Financial Officer].

Transaction Mechanics

Enron (through Harrier) contemplates entering into price return and total return swaps with a notional amount of up to $[1.0B] and perhaps put options written by Talon with a notional amount of up to $[1.5B] under the transaction documents. Harrier's counterparty under the derivative contracts will be another wholly-owned subsidiary of Enron called Talon. In order for Talon to be viewed as an independent entity for financial accounting purposes, the $30M that LJM2 transfers to Talon will be exchanged for what will legally be called a member interest in Talon.

LJM2's interest in Talon (the "Loan") has a five year term because on a date on or before April [24], 2005, Talon must dissolve and wind up its affairs. The Loan is expected to be repaid in full in 6 months on October [ ], 2000, and the repayment provisions are provided for in the distributions section of the Talon LLC Agreement (the "Agreement"). Under the distribution provisions, LJM2 must receive 100% of Talon's distributions until LJM2 has received a fixed amount of $[41]M, prior to any distributions being made to Harrier. The second distribution step provides that LJM2 receive 100% of Talon's distributions until LJM2 has received an amount that, taken together with the amount it received under the first distribution step, results in LJM2 receiving an internal rate of return or IRR, as defined by the Agreement, of [30]%. Once LJM2 receives its fixed return, all remaining non-liquidating distributions are made 100% to Harrier.

Enron will capitalize Talon with Enron stock having a discounted value of $350M and a Promissory Note of $50,001,000 in return for a membership interest in Talon. First, Enron will exercise a forward purchase obligation on Enron common stock, dated January 16, 1996, (the "Forward") with the Union Bank of Switzerland ("UBS") and direct UBS to deliver to Talon 3.4 million shares of Enron common stock having a discounted value of $[175] million. Second, Enron (through Harrier) and Talon will enter into a stock purchase agreement that will allow Talon to purchase [4.3] million shares of Enron common stock (the "Harrier shares") having a discounted value of [$175] million from Harrier for a purchase price of [$100]. (The discounted valuation of Enron shares is attributable to the fact that Talon will be restricted from either selling or pledging the shares for [three/five?] years.)

After Enron (through Harrier) capitalizes Talon with property and a note totaling $400,001,000, Harrier is treated, for accounting purposes, as receiving a distribution or loan of $400M leaving Harrier with only a $1,000 membership interest. Talon's loan to Harrier takes the form of a revolving $1 billion grid note whose initial principal amount is $400M. (The revolving promissory grid note serves primarily as a balancing mechanism in the transaction for the book accounting gains and losses realized by Talon on its swaps with Harrier.) For example, if Talon recognized a book loss on a particular "swap" running between Talon and Harrier (i.e., the 'swap" is in the money to Harrier), then Talon would add increase the loan for the amount of the loss rather than being obligated to make a cash payment to Harrier. Conversely, if Talon recognized a book gain on such a transaction, the Talon loan would be reduced.

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Notwithstanding the legal form or title given to the interest LJM2 holds in Talon (which as described above was necessary solely for financial accounting purposes), Talon's Loan to LJM2 has all the important indicia of debt.

- Fixed maturity date. LJM2's loan to Talon has a five year term since the Agreement provides that Talon will dissolve on or before April [24], 2005. It is intended that LJM2 will receive a return of its principal and accrued interest on October [ ], 2000. Talon's obligation is to make quarterly cash distributions until LJM2 has received its required IRR assuming Talon has retained earnings to cover the payment and at least $30M of cash or cash equivalents on hand. If at the time of Talon's liquidation on or before April 24, 2005, Talon has sufficent funds to repay its other debts, liabilities, and obligations, Talon is required to distribute to distribute another $30M to Talon in the manner of contingent interest along with a $1,000 distribution to Harrier.

- Adequate capitalization/source of payments. Talon's funding source for LJM2's return of principal and accrued interest in October [24], 2000 comes from the initial capitalization Talon receives from Enron in the form of contributions of stock (as discussed above) as well as a put option premium. The put option is an American style put on [7 to 8M] shares of Enron stock with a strike price [of $57 to $60/share] for a premium of $[41M]. (See simplifed Talon balance sheet below) The maturity of the option will coincide with the Loan payment on October [ ], 2000.

  Since the option will be out of the money to Enron by $[ ]/share, and since Talon will be restricted structurally from entering into any derivative transactions with Harrier of the type described above until LJM2's loan is repaid, Talon should have the funds to repay LJM2's loan in October. (Analogizing to the special purpose entity accounting rules in the context of leases, i.e, EITF 90-15 and EITF 90-21, Enron's outside auditor, Arthur Andersen, will not allow Talon to enter into additional derivative contracts until the Enron put lapses. The investment by LJM2 is required to roughly equal 3% of Talon's balance sheet footing plus 3% of the notional amount of any derivatives that run between Talon and Harrier.)

Talon Balance Sheet
April [24], 2000
(in millions)

Assets		Liabilities and Equity	
Cash (from LJM2)	30	Note payable to LJM2	30
Cash for put premium	41	Put option obligation	41
Enron stock	350	Harrier (Enron) equity	400
Note receivable (Harrier)	50		
	471		471

- Right to enforce payment of principal and interest. If LJM2 has not received a return of its principal plus interest on October [ ], 2000, LJM2 has a right, analagous to an acceleration right and exercisable by notice, to sell its interest to Harrier or one of its affiliates.

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Form 000-469-1 (5/92)

- Participation in management. Talon is manager managed by a wholly-owned subsidiary of Lord Securities Corp. called BSCS XXIII, Inc.whose fees and expenses will all be paid directly by Enron. Enron personnel will perform accounting, tax, and other day-to-day services on Talon's behalf under a Management Services Agreement that runs directly between Enron and Talon. BSCS XXIII will have a separate Management Services Agreement with LJM2 Co-Investment, LP (the "Servicer") under which the general partner of the Servicer will determine whether Talon should accept the terms of a derivative transaction proposed by Enron (via Harrier). The general partner of the general partner of Servicer, a Delaware LLC wholly-owned by Enron's CFO, will make these derivative decisions, thereby ensuring that Enron personnel control all aspects of Talon's management activities.

  If Enron's CFO is removed as general partner of the upper tier entity and another non-Enron person would otherwise be making decisions regarding the terms of proposed derivative transactions, Enron has the right under the transaction documents to dissolve Talon, terminate all prospective derivative transactions, and designate an early termination event with respect to outstanding derivative transactions.

- Status of the contribution in relation to regular creditors. Repayment of the Loan on October [ ], 2000 will have priority over all other distributions of Talon. Talon is also prohibited from incurring or guaranteeing any debt other than debt incurred under the transaction documents.

- Intent of the parties. The parties' intent to treat both Harrier and Talon as wholly-owned entites of Enron and LJM2's investment in Talon as debt is set forth in a separate "Tax Matters" section in the Agreement.

Tax Accounting and Reporting

From a tax accounting perspective, Enron will reverse the mark-to-market book adjustments made both to Enron's equity positions in its investments in telecommunications or broadband entities as well as Harrier's derivative contracts with Talon. In the latter case, the book entries need to be reversed because the derivative transactions occur between branches of Enron Corp. and are, therefore, not respected for tax purposes. In the former case, Enron doesn't report its equity positions at fair or market value for tax purposes and so this adjustment is inappropriate. Because these different reporting methods for book and tax will result in different book and tax bases in the investments, Enron will want to record deferred taxes on these differences.

The premium Enron pays for the Enron put option will be initially be recorded for book purposes with a debit to put premium and a credit to cash to record Enron's payment of the option premium. For book purposes, the transaction will remain open until the option lapses or is exercised. If the put expires worthless, Enron would record the expiration event with a debit to equity and a credit to put premium. Here again, for tax purposes, these transactions will not be respected since they occur between branches of Enron Corp. [and, as a result, Schedule M-2 adjustments will need to be made to reverse the book entries?]

From a tax reporting perspective, Enron expects to report an interest payment for the $[11]M interest component of the distribution expected to be made to LJM2 in October [ ], 2000 [and Enron will provide a projected payment schedule in compliance with Reg. section 1.1275-4(b)(4) and provide that schedule to LJM2 as set forth in Reg. section 1.1275-2(e)]. *[Need to review and revise, as necessary, the schedule prepared by LJM2.]* Enron will file the appropriate Forms 1099-INT to both the Service and LJM2 for these interest payments. *[Discuss with Danny Wilson who should do the Form 1099-INT filing.]*

EC 000850878

cc: Ed Coats
Dave DeGabriele
Stephen Douglas
Jim Ginty
Jordan Mintz
Greek Rice

EC 000850879

ENRON

Interoffice Memorandum

To: Ben Glisan

From: AnnMarie Tiller and Brent Vasconcellos

Department: Corporate Tax Department

Date: August 19, 2000

Subject: Talon I, LLC

Confidential: Attorney-Client Privilege

We understand that a proposed amendment to the Talon I, LLC Agreement would characterize LJM2-Talon LLC ("LJM2") as making an additional $6M investment in Talon I, LLC ("Talon"). The proposal contemplates that LJM2 would not receive a return of its additional $6M investment until the end of the transaction on or before April 18, 2005 and, even at that time, Talon would have to have sufficient retained earnings (as well as cash) to make the distribution. In the intervening period, Talon is supposed to receive a 12% return on its investment [although it is unclear to us whether that return would be paid currently in cash or would be capitalized and added to LJM2's investment].

Our earlier conclusion that we could treat LJM2's original investment in Talon as debt solely for tax purposes was in large measure based on Talon's capitalization or wherewithal to pay some few months after the closing. Talon's ability to pay was derived from the capitalization it received from Enron (via Harrier) in the form of Enron stock as well as a $41M put option premium (later revalued on the option termination date to equal $[36]M). Since Talon was restricted structurally from entering into any derivative transactions with Harrier until LJM2 received a payment of $41M, we felt comfortable in characterizing this payment as a return of LJM2's investment for tax purposes and characterizing any subsequent return as a contingent return on LJM2's investment.

Since we have indicated the new changes put pressure on our tax characterization of the LJM2 interest in Talon as a financing, you have asked us to identify and quantify the risks of Talon becoming a partnership for federal income tax purposes. A quick-and-dirty analysis of the potential tax exposure follows below:

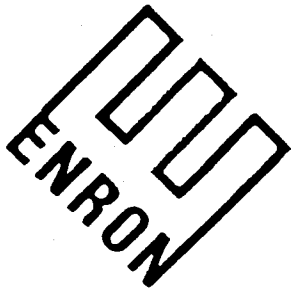
- ***Approx. $305M capital gain.*** **Taxable transfer of property by Enron to Talon (via Harrier).** Contributions to a partnership are not tax-free if made to an entity that meets the definition of an "investment partnership." If over 80% of Talon's assets qualify as readily marketable securities and LJM2's transfer results in what is referred to as the diversification of its interest, then any unrealized appreciation in the Enron stock contributed by Enron will be triggered. [($175 - $1) + [($68/share - $20/share) x 3,876,755 shares x 30% discount] = $305M]

- ***$ [Unlimited gains].*** **Constructive sales of investments of various Enron affiliates.** Under tax rules we have discussed verbally on numerous earlier occasions, the derivative contracts running between Harrier and Talon could cause a constructive sale and acceleration of any unrealized gains on the approximately $1.4B in notional amount of investments that are the subject of both structures. Although there would be no earnings effect if deferred taxes have been recorded on the investments, the

potential exposure here could only be estimated after conversations with those persons responsible for the underlying investments. Also, although cash taxes would be avoided to the extent that (a) the investments are held by entities that are part of the group of entities filing a consolidated tax return with Enron Corp. and assuming (b) Enron Corp's consolidated return reflects a net operating loss to offset the gains, it is our understanding that some investments will be held by entities outside the consolidated group (e.g., by partnerships, foreign, and less than 80% owned, entities).

- ***[SUnknown]*. Constructive sale of Enron stock.** If the portion of Enron's contribution to Talon of Enron stock under the Stock Purchase Agreement were characterized as a forward sale rather than a partnership contribution, then this stock could also be treated as constructively sold. Although any gain on this particular stock should receive non-recognition treatment to Enron, a related party provision in these rules might deem Enron stock held in other partnership structures to be constructively sold. The resulting gain triggered on stock held in those structures and allocable to persons who don't qualify for non-recognition treatment would cause tax liabilities that would be unexpected and may be the subject of indemnification agreements.

XVII. OTHER COMPANY MATERIALS RELATED TO THE STRUCTURED TRANSACTIONS GROUP



Structured Transactions Group
Overview

EC2 000038311

Introduction

- Boutique Group. The Structured Transactions Group is patterned after similar groups established by various financial institutions and a select group of corporations (e.g., Citibank, BOA, Chase, Deutsche Bank, GE, AIG, Microsoft and Merck).

- Focus. The group originates transactions utilizing the tax attributes of Enron Corp. and its counterparties and operates the resulting structures.

- Capabilities. The group synthesizes tax, finance, legal and accounting principles to enhance returns in the context of Enron's commercial transactions. Successful implementation of transactions depends upon sound technical analysis and effective communication across business units. We successfully plan, implement and operate our structures by creating sophisticated models and utilizing Enron's diverse I.T., accounting and tax systems.

- Risk Management. The group manages risk through diligence and care in:

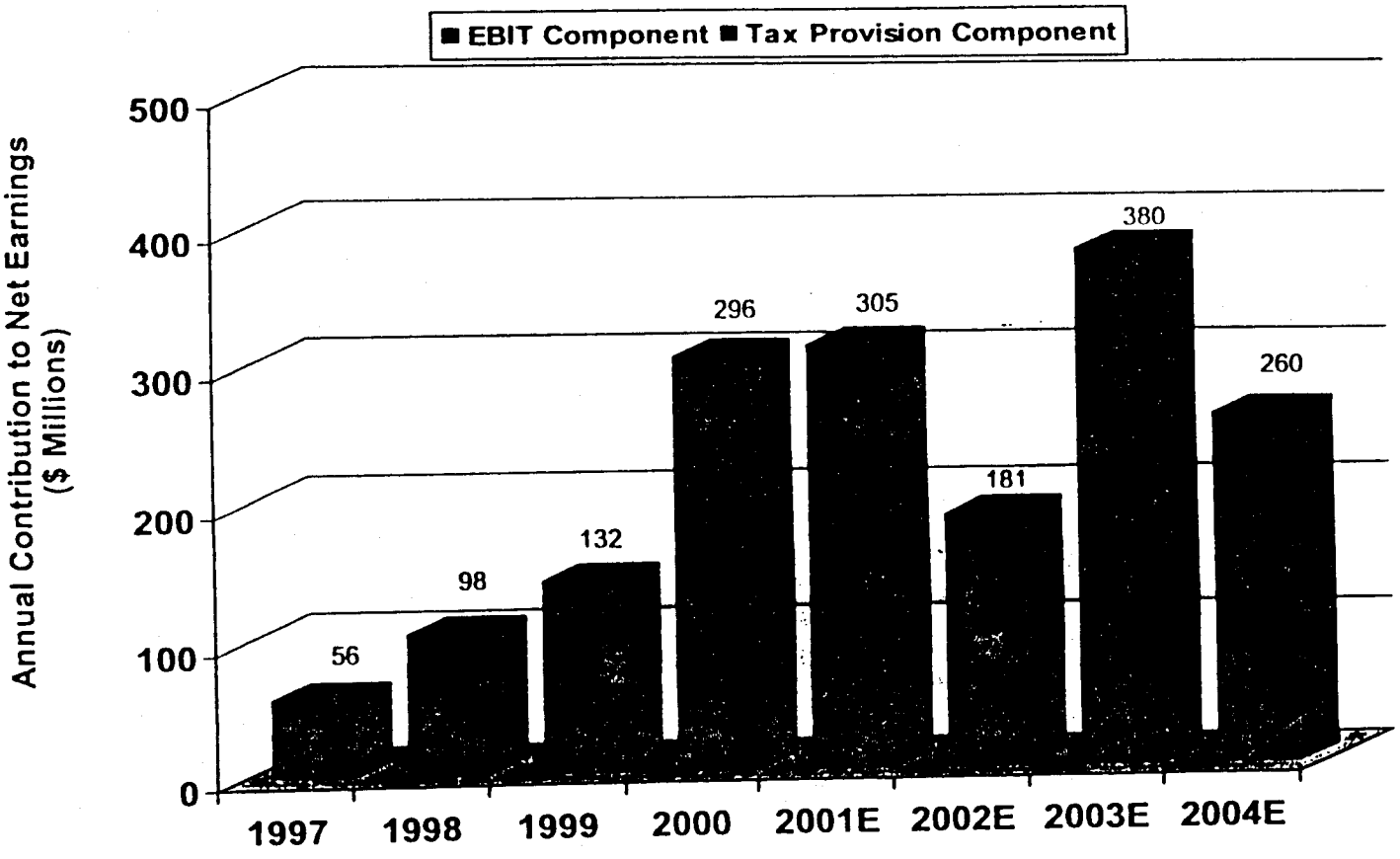
    - Selecting transactions to pursue
    - Engaging appropriate professional staff
    - Diversifying the portfolio of structures
    - Sizing transactions reasonably
    - Avoiding widely-marketed structures
    - Refraining from replicating existing structures
    - Managing and controlling information strictly
    - Maintaining the ability to act (and react) quickly

- Personnel. The group consists of fourteen individuals responsible for the front and back office aspects of each deal. Seven group members are CPAs, four are attorneys, four are MBAs and four have masters degrees in finance, accounting or tax.

- Recent Activities. In the first half of 2001, the group initiated three new projects, significantly modified one structure and operated nine existing structures.

EC2 00003831 2

Contribution to Enron's Annual Net Income (millions)

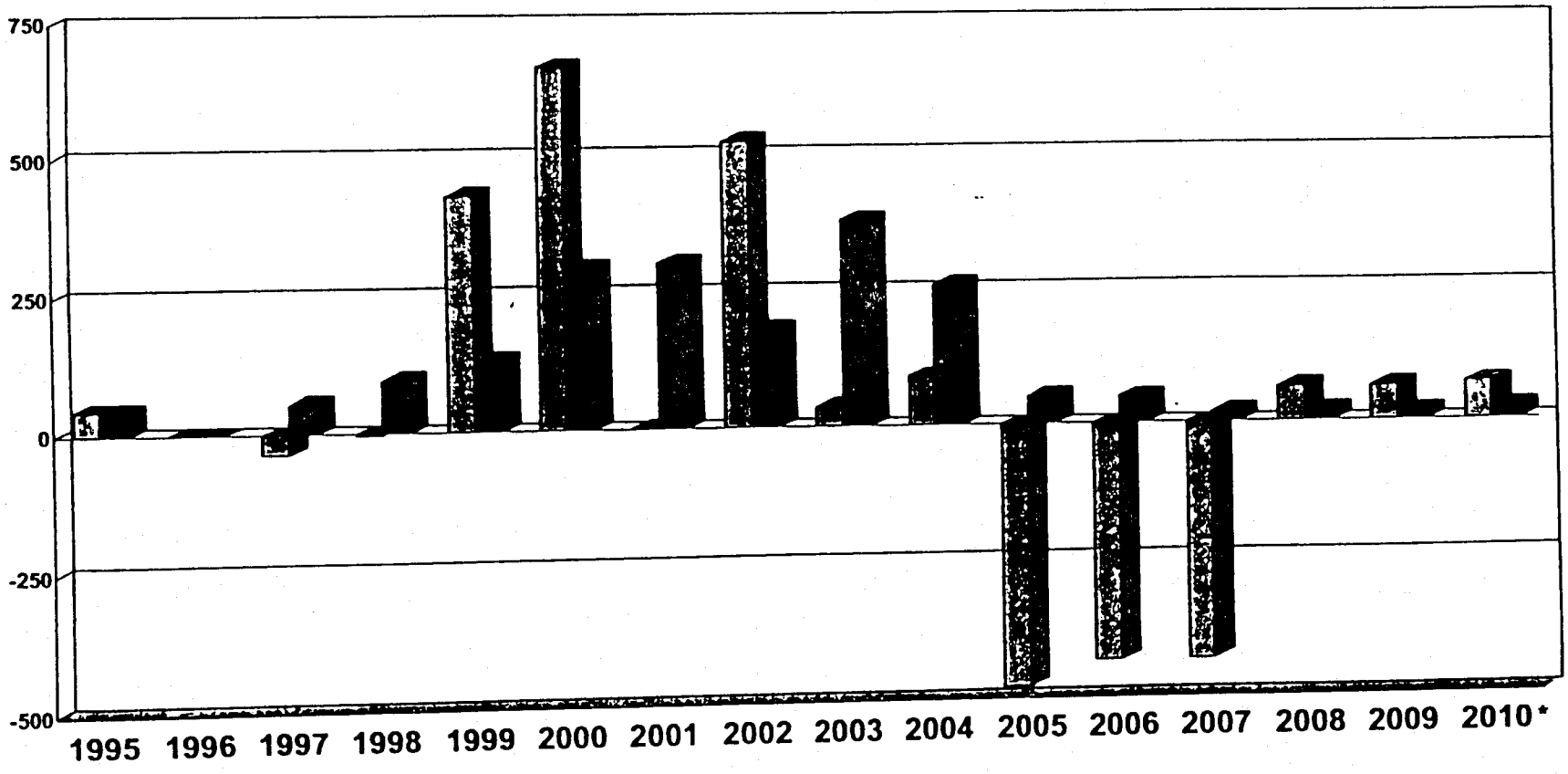


NOTE: The tax provision component reflects tax benefits generated by structured transactions, less tax expenses generated by the EBIT component of structured transactions.

EC2 00003813

Structure Overview - Aggregate

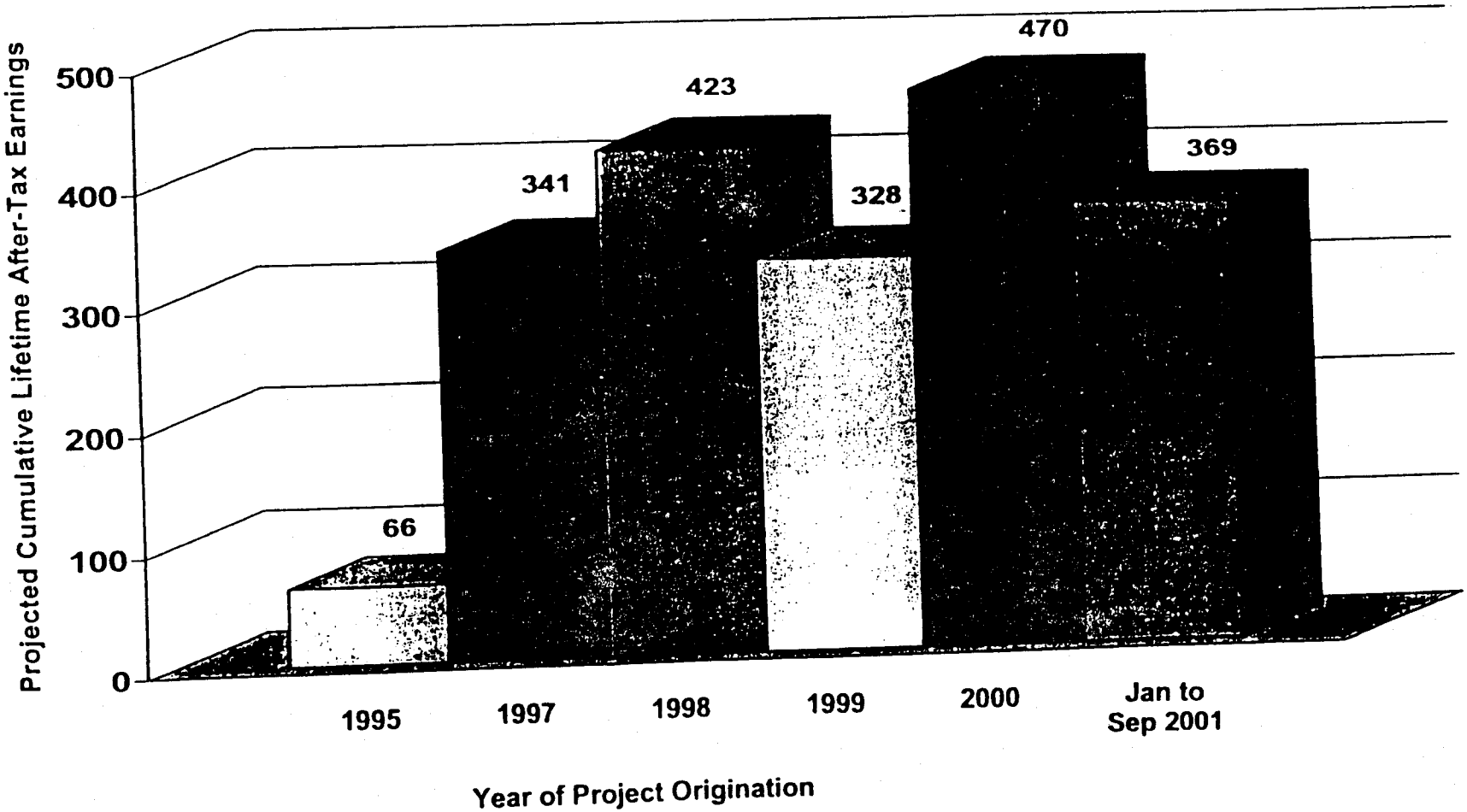
Net Income and Cash Flow Summary
(In Millions)



*There is additional net income of $62.85 million and positive cash flow of $1,381.71 million from 2011 through the year 2046 resulting from the various projects.

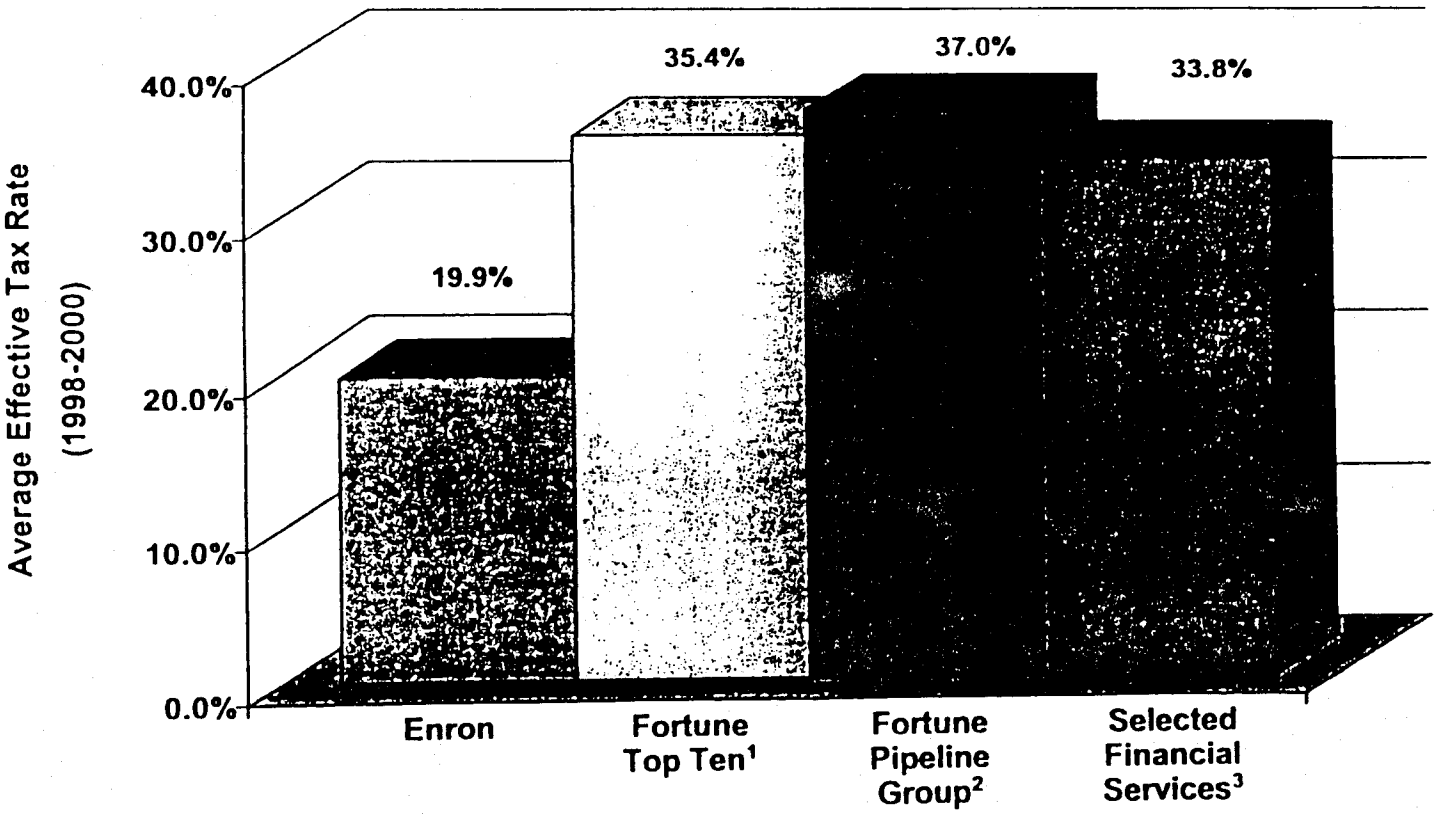
EC2 000038314

Projected Cumulative Earnings by Year Originated (millions)



EC2 00003815

Comparison of Effective Tax Rates (Average for Years 1998 – 2000)



[1] Includes Exxon Mobil (33%), Wal-Mart (37.7%), General Motors (34.6%), Ford Motor (33.7%), General Electric (31.1%), Citigroup (35.9%), IBM (31.4%), AT&T (42.2%) and Verizon (39.1%).

[2] Includes Dynegy (33.3%), El Paso (31.3%), Williams (43.9%), Transmontaigne (37%), Kinder Morgan (40%) and Western Gas (36.5%).

[3] Includes CitiGroup (35.9%), DeutscheBank (40.3%), JP Morgan/Chase (35.2%), AIG (30.2%), Merrill Lynch (33.4%) and Barclays (27.8%).

EC2 000038316

Key Project Metrics

Project (year closed)	Projected Cumulative Earnings ($1000's)	Net Present Value at 7% ($1000's)	Internal Rate of Return
Tanya (1995)	65,800	65,800	N/A
Teresa (1997)	257,100	(2,100)	6.8%
Steele (1997)*	83,423	28,500	23.5%
Renegade (1998)*	800	800	N/A
Tomas (1998)*	112,843	53,700	301.2%
Cochise (1998)*	143,200	50,300	17.4%
Apache (1998)	167,000	116,800	3565.8%
Condor (1999)	327,537	66,700	20.9%
Valhalla (2000)*	63,983	50,700	1747.6%
Tammy I (2000)	406,477	85,500	27.8%
Tammy II (2001)	369,209	86,600	72.1%
Totals	**1,997,372**	**603,300**	

* These projects contribute to EBIT.

EC2 000038317

Enron Balance Sheet Perspective

Enron Corp. and Subsidiaries
December 31, 2000
(in millions)

	Enron Corp. Consolidated	Structured Transactions	% of Enron Assets
ASSETS			
Current Assets			
Trade Receivables	$10,396	$2,013	19.4%
Assets From Price Risk Management Activities	12,018	279	2.3%
Other	7,968	1,652	20.7%
Total Current Assets	$30,381	$3,944	13.0%
Investments and Other Assets	$23,379	$3,959	16.9%
Property, Plant and Equipment, at Cost	$15,459	$7,972	51.6%
Less Accumulated Deprec, Depletion and Amortization	(3,716)	(3,108)	83.7%
Property, Plant and Equipment, Net	$11,743	$4,863	41.4%
TOTAL ASSETS	$65,503	$12,766 *	19.5%
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities	$28,406	$1,338	4.7%
Long-Term Debt	8,551	3,715	43.4%
Deferred Credits and Other Liabilities	13,759	1,387	10.1%
Minority Interests	2,414	1,018	42.2%
Company-Obligated Preferred Securities of Subsidiaries	904	162	18.0%
Shareholders' Equity	11,470	4,717	41.1%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$65,503	$12,336 *	18.8%

* Not all structures utilize equal amounts of assets and liabilities.

Action Plan for 2001

Ajax	Develop and implement project to generate EBIT via acquisition of high basis, low value financial assets in a large carry-over basis transaction.
Apache	Structure new common equity for Dutch partnership, thereby increasing investment capacity of a vehicle currently holding over $1.5 billion of Enron assets. This structural modification could significantly accelerate the $167 million net income benefit from this transaction.
Hitchcock	Research and develop project that will generate depreciation deductions, lowering Enron's effective tax rate, using foreign lease transaction.
Tammy I	Use proceeds of asset sales to finance purchase of preferred stock. Expected earnings benefit in 2001 of approximately $200 million.
Tammy II	Develop and implement a minority interest financing structure using $2 billion of non-core Enron assets.
Tomas	Conclude negotiations resolving fee dispute with former manager of PGH's portfolio of leveraged assets. Monetize additional assets.
Valhalla	Valkyrie partnership will be liquidated so as to simplify overall structure.

EC2 000038319

Appendices

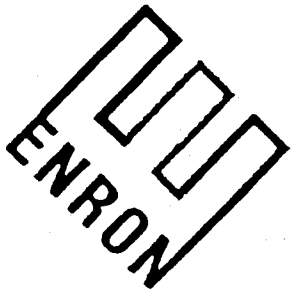
EC2 000038320

Net Income Detail by Project and Year Recognized (Thousands)

Project	Tanya	Teresa	Steele	Renegade	Tomas	Cochise	Apache	Condor	Valhalla	Tammy I	Tammy II	Total
1995	46,500	-	-	-	-	-	-	-	-	-	-	46,500
1996	-	-	-	-	-	-	-	-	-	-	-	-
1997	-	52,100	3,860	-	-	-	-	-	-	-	-	55,960
1998	-	26,000	14,800	800	55,993	-	-	-	-	-	-	97,593
1999	19,300	21,200	16,300	-	9,846	34,300	11,300	20,000	-	-	-	132,246
2000	-	120,100	15,700	-	51,290	53,000	20,600	37,100	7,381	(8,726)	-	296,445
2001	-	10,000	15,600	-	(4,049)	22,300	18,800	31,700	12,797	198,305	(926)	304,527
2002	-	-	11,207	-	(7,644)	17,600	20,000	26,367	12,797	100,889	74	181,290
2003	-	27,700	794	-	(3,020)	12,002	21,300	22,767	12,797	100,889	184,993	380,222
2004	-	-	712	-	(1,216)	3,998	22,700	20,666	12,797	14,930	184,994	259,581
2005	-	-	638	-	1,705	-	24,100	19,666	5,414	191	74	51,788
2006	-	-	571	-	2,997	-	28,200	18,071	-	-	-	49,839
2007	-	-	507	-	162	-	-	17,500	-	-	-	18,169
2008	-	-	459	-	167	-	-	17,500	-	-	-	18,126
2009	-	-	335	-	171	-	-	17,500	-	-	-	18,006
2010	-	-	294	-	6,441	-	-	17,500	-	-	-	24,235
2011	-	-	247	-	-	-	-	17,500	-	-	-	17,747
2012	-	-	211	-	-	-	-	17,500	-	-	-	17,711
2013	-	-	189	-	-	-	-	17,500	-	-	-	17,689
2014	-	-	169	-	-	-	-	8,700	-	-	-	8,869
2015	-	-	150	-	-	-	-	-	-	-	-	150
2016	-	-	133	-	-	-	-	-	-	-	-	133
2017	-	-	118	-	-	-	-	-	-	-	-	118
2018	-	-	104	-	-	-	-	-	-	-	-	104
2019	-	-	91	-	-	-	-	-	-	-	-	91
2020	-	-	79	-	-	-	-	-	-	-	-	79
2021	-	-	68	-	-	-	-	-	-	-	-	68
2022	-	-	54	-	-	-	-	-	-	-	-	54
2023	-	-	31	-	-	-	-	-	-	-	-	31
2024+	-	-	2	-	-	-	-	-	-	-	-	2
Total	65,800	257,100	83,423	800	112,843	143,200	167,000	327,537	63,983	406,477	369,209	1,997,372

Cash Flow Detail by Project and Year Incurred (Thousands)

Project	Tanya	Teresa	Steele	Renegade	Tomas	Cochise	Apache	Condor	Valhalla	Tammy I	Tammy II	Total
1995	46,500	-	-	-	-	-	-	-	-	-	-	46,500
1996	-	-	-	-	-	-	-	-	-	-	-	-
1997	-	8,535	(44,924)			-	-	-	-	-	-	(36,389)
1998	-	(17,669)	8,216	8,768	(3,268)	-	-	-	-	-	-	(3,953)
1999	19,300	(25,861)	17,380	(1,927)	(6,701)	(62,739)	500,594	(7,709)	-	-	-	432,337
2000	-	(33,272)	6,116	(2,004)	86,354	42,903	18,792	616	56,566	491,274	-	667,347
2001	-	(62,574)	29,928	(2,124)	6,449	393	20,316	616	13,000	(1,695)	(926)	3,383
2002	-	(29,690)	6,958	(1,914)	11,169	1,313	22,544	616	13,000	889	500,074	524,959
2003	-	(17,502)	6,968	0	2,921	3,698	25,432	616	13,000	889	74	36,096
2004	-	25,596	6,626	0	2,715	17,083	27,326	-	13,000	889	74	93,310
2005	-	25,596	6,538	0	2,476	(764)	29,360	-	(44,583)	(499,809)	74	(481,112)
2006	-	25,596	6,178	0	3,786	7,351	(477,366)	-	-	-	-	(434,454)
2007	-	25,596	5,812	0	162	15,425	-	-	-	10,190	(490,898)	(433,713)
2008	-	25,596	5,773	0	167	13,459	-	-	-	10,616	9,483	65,094
2009	-	25,596	5,285	0	171	13,899	-	-	-	10,616	9,483	65,050
2010	-	25,596	4,455	0	6,441	14,616	-	-	-	10,616	9,483	71,207
2011	-	25,596	3,434	0	-	13,685	-	-	-	10,616	9,483	62,814
2012	-	25,596	(11,059)	0	-	12,392	-	-	-	10,616	9,483	47,028
2013	-	25,596	2,573	0	-	10,843	-	-	-	10,616	9,483	59,110
2014	-	25,596	1,758	0	-	9,367	-	-	-	10,616	9,483	56,819
2015	-	25,596	1,559	0	-	8,530	-	20,051	-	10,616	9,483	75,835
2016	-	25,596	1,516	0	-	7,489	-	37,119	-	10,616	9,483	91,819
2017	-	25,596	1,488	0	-	4,468	-	31,736	-	10,616	9,483	83,387
2018	-	25,596	1,455	0	-	3,216	-	27,383	-	10,616	9,483	77,749
2019	-	25,596	1,436	0	-	2,293	-	23,796	-	10,616	9,483	73,220
2020	-	25,596	1,414	0	-	1,781	-	21,720	-	10,616	9,483	70,610
2021	-	-	1,395	0	-	1,529	-	20,747	-	10,616	9,483	43,770
2022	-	-	(130)	0	-	979	-	19,105	-	10,616	9,483	40,053
2023	-	-	1,356	(3)	-	402	-	17,497	-	10,616	9,483	39,351
2024+	-	-	3,919	-	-	(411)	-	113,627	-	233,996	209,014	560,145
Total	65,800	257,100	83,424	800	112,843	143,200	167,000	327,537	63,983	406,477	369,209	1,997,373



Project Tanya

Business Review

Structure Overview

Assets/Risk Management

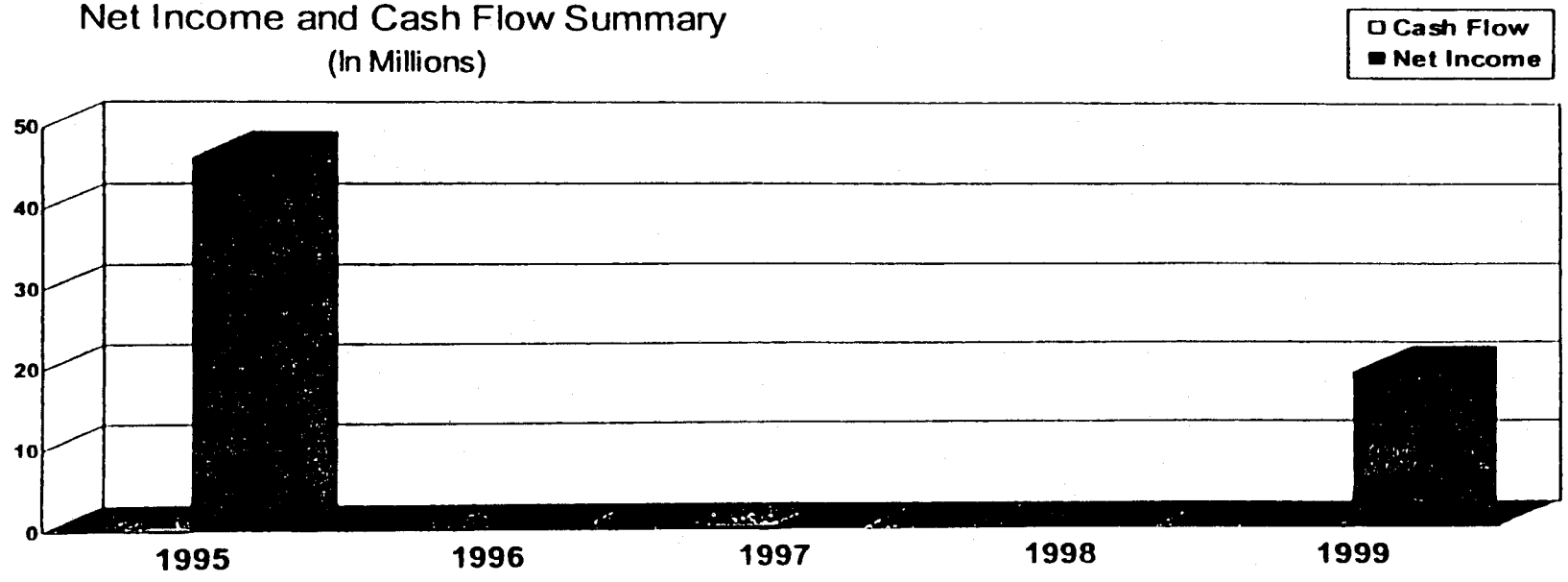
- The SFAS 106 liabilities assumed by EMI (valued at $187.1 million at date of transfer) continue to be managed by the Human Resources Department.
- During 2001, Enron reacquired the outstanding preferred stock held by the management of EMI.
- It is anticipated that in 2002, EMI will be liquidated and the SFAS 106 liabilities distributed to Enron.

Transaction Description

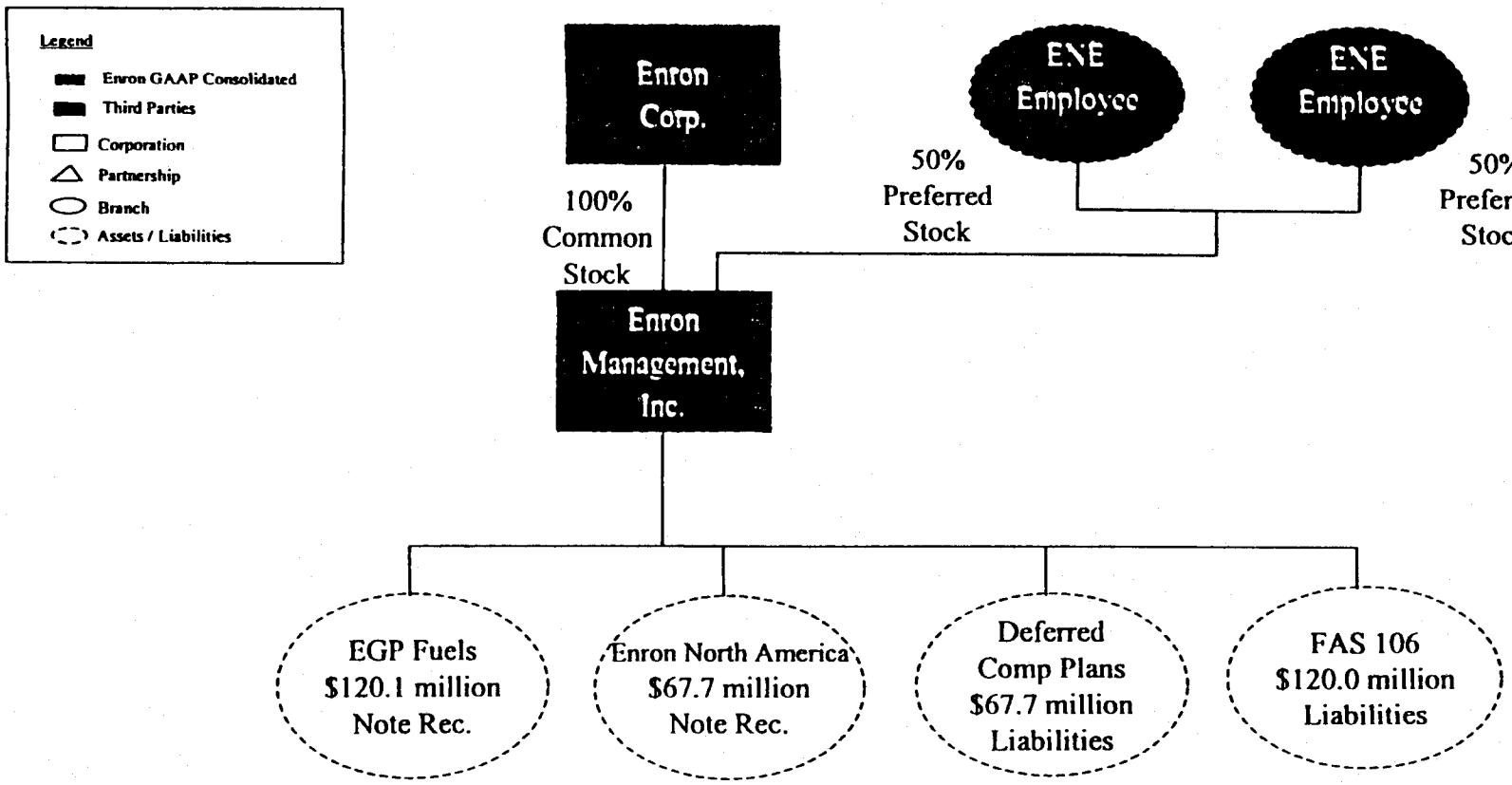
- The transaction involves the creation of an entity (Enron Management, Inc. "EMI") to assume and manage Enron's deferred compensation and post-retirement benefit obligations ("SFAS 106 liabilities").
- In 1995, the sale of preferred stock received by Enron during the formation of the structure generated a capital loss of $185.5 million which was used to offset capital gains from a secondary offering of EGO common stock.
- As a result of the audit group's successful defense of the structure, the IRS declined to challenge Enron's 1995 return position.

Net Income and Cash Flow Summary

(In Millions)



Transaction Structure



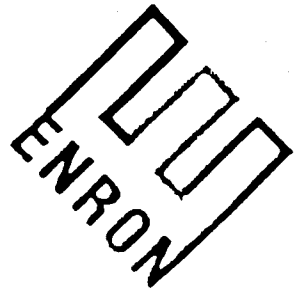
Time to execute	2 months
Closing date	December 1995
Total earnings	$66 million

EC2 00003825

Summary and Progress Report

December 1995	On December 1, 1995, Enron Corp. ("Enron") capitalized Enron Management, Inc. ("EMI") with Notes Receivable from operating subsidiaries of $187.1 million, subject to a contractual assumption of Enron's deferred compensation and post retirement benefit obligations. In exchange for the transfer, Enron received all of a newly created class of voting participating preferred stock in EMI. On December 28, 1995, Enron sold the preferred stock in EMI to two officers responsible for the management of the compensation and benefits group to provide the officers with an incentive to control costs and share in the rewards of these cost containment efforts.
July 1998	One of the preferred stockholders resigned from Enron and contractually transferred her shares to the remaining officer. Pursuant to the applicable Stock Purchase & Sale Agreement ("Agreement"), the remaining shareholder acquired the stock of the departing manager.
1999	The $185.5 million capital loss generated by this transaction was reviewed by the IRS during the audit of Enron's 1995 Federal tax return. As a result of the audit group's successful defense of the structure, the Service declined to challenge the 1995 return position.
April 2001	Pursuant to the terms of the Agreement, the remaining preferred shareholder put her shares back to Enron Corp.

EC2 00038326



Project Teresa

Business Review

EC2 000038327

Structure Overview

Asset/Risk Management

Assets Held:
- Enron Building North — $300 million subject to a long-term lease may not be transferred out of structure
- Pipeline Companies
- Hawker N5734 — $10 million
- Hawker N5732 — $12 million

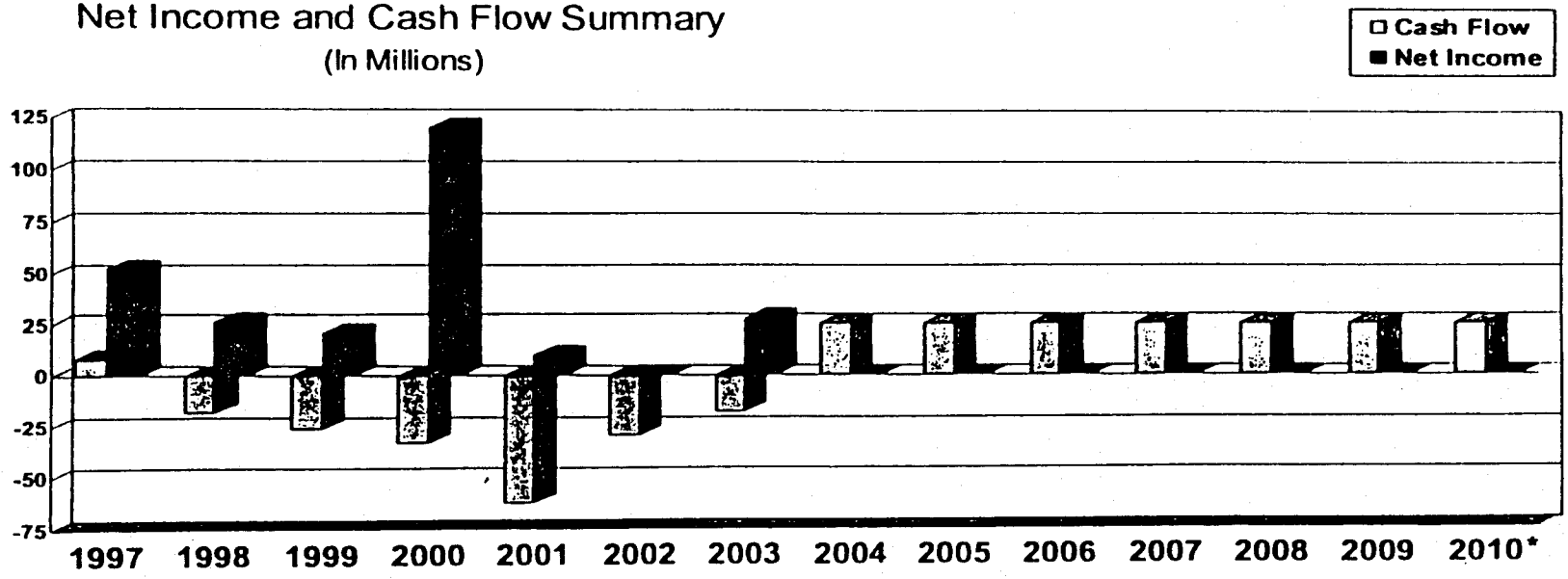
Other Issues:
- In 2003, minority interests valued at $33 million will be redeemed out of the structure.
- Assets held in the structure will be distributed back up to Enron Corp. affiliate at that time.

Transaction Description

- This transaction creates tax deductions in the form of enhanced depreciation deductions on the Enron Center North.
- The tax basis of the building is effectively written up through a series of stock transactions that flow through a partnership with minority interest equity.
- The stock transactions are economically supported by earnings and profits generated in the ordinary course of business by the pipeline companies.

Net Income and Cash Flow Summary

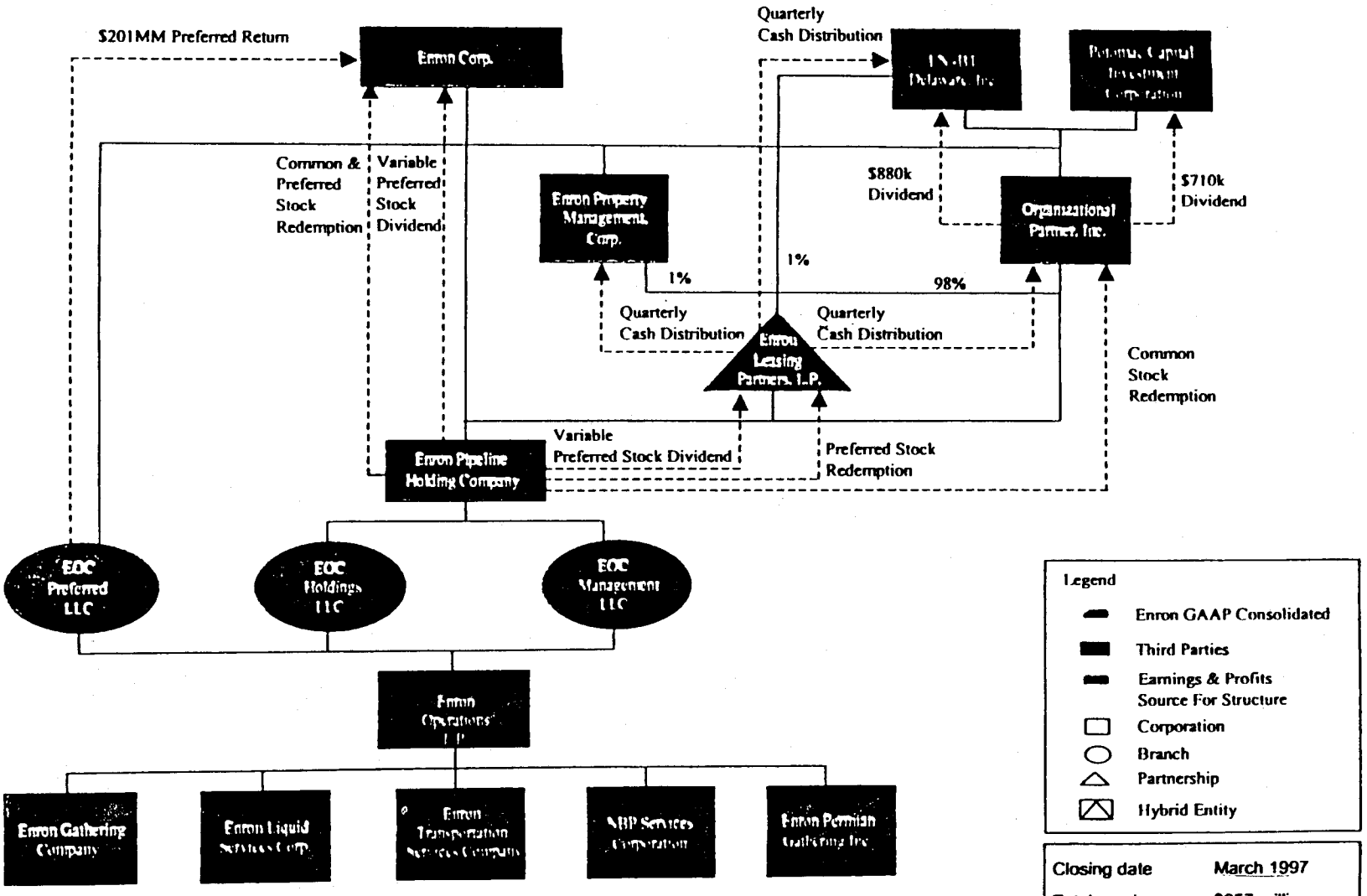
(In Millions)



*There is additional positive cash flow of $255.96 million from 2011 through the year 2020 resulting primarily from tax depreciation on an increased basis in Enron Center North.

EC2 000038328

Transaction Structure



Summary and Progress Report

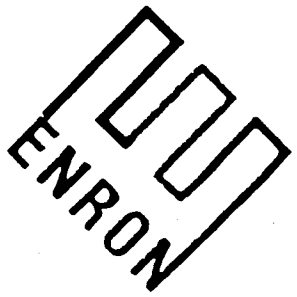
March 1997	Enron Corp. and Bankers Trust Company (now Deutsche Bank) formed Enron Leasing Partners, L.P. (the "Partnership"). Enron Corp.'s interest in the Partnership was primarily held by a tax deconsolidated entity, Organizational Partner, Inc. ("OPI"). The Partnership's investments include tax ownership of the Enron Building and preferred stock issued by Enron Pipeline Holding Company ("EPHC"). Potomac Capital and Deutsche Bank hold interests in OPI.
Quarterly March 1998 - present	Periodically, EPHC redeems its preferred stock held by the Partnership in a transaction which is treated as dividend income by EPHC to the Partnership for tax purposes but is not treated as income for GAAP purposes. The partners' outside tax basis in the Partnership is increased ratably with each distribution.
November 1999	A restructuring was implemented to increase the earnings and profits of EPHC by transferring ownership of the pipeline companies held by Enron Operations Corp. into EPHC. Certain partnership conversions and other formalities were necessary to prevent an increase in Texas franchise tax exposure as a result of the restructuring. This restructuring created a large, intercompany preferred class of stock in Enron Operations, L.P.
Second Quarter 2000	A $1 billion note payable by HPL to EPHC was transferred as a payable to Enron Corp. in connection with the sale of HPL. This had no material effect on the structure.
2001-2002	Additional earnings and profits must be generated through a tax restructuring to support the dividend payments out of the structure.
2002	The preferred stock of EPHC will be completely redeemed out of the structure leaving the Partnership with a high tax basis, low fair market value preferred stock of EPHC. This stock will be an asset of Enron which may be used in other structures.

EC2 00003830

Operational Issues and Action Items

Operational Issues	Action Items
It is probable that the structure will run out of earnings and profits before all of the preferred stock can be redeemed in 2002. Approximately $28MM in benefits may become stranded in the structure.	We have looked at various strategies to increase the available earnings and profits in the pipeline companies but regulatory restraints currently make this impractical. We are researching other planning opportunities.
Quarterly dividend payments must be structured, authorized and executed appropriately.	Legal Department pays careful attention to the details of notice, approval and execution. Delays in reporting of the transaction by the corporate secretary's office often prevent accurate reflection of the transactions in databases and other internal documentation.
The dividend payments require sufficient earnings and profits to satisfy certain tax tests and sufficient earned surplus to count as dividends under Delaware law.	Earnings and profits from the pipeline companies are carefully monitored in coordination with Greek Rice and Rod Hayslett's groups to determine whether they are sufficient to support the dividend. Separate tests are conducted to meet the Delaware legal requirements.
The Partnership Agreement requires quarterly cash distributions to its Partners.	Calculate, review and pay distributions.
Sufficient earnings and profits must also be available to support Enron Operations, L.P.'s preferred stock dividends.	Cash, earnings, and profits are all carefully monitored at the EPHC and EOLP levels.
Closing and monthly journal entries required for more than 10 separate entities each month. Review general ledgers of each entity to verify appropriate booking of entries.	Coordination with accounting and tax departments to appropriately reflect activity.

EC2 000038331



Project Steele

Business Review

Structure Overview

Asset/Risk Management

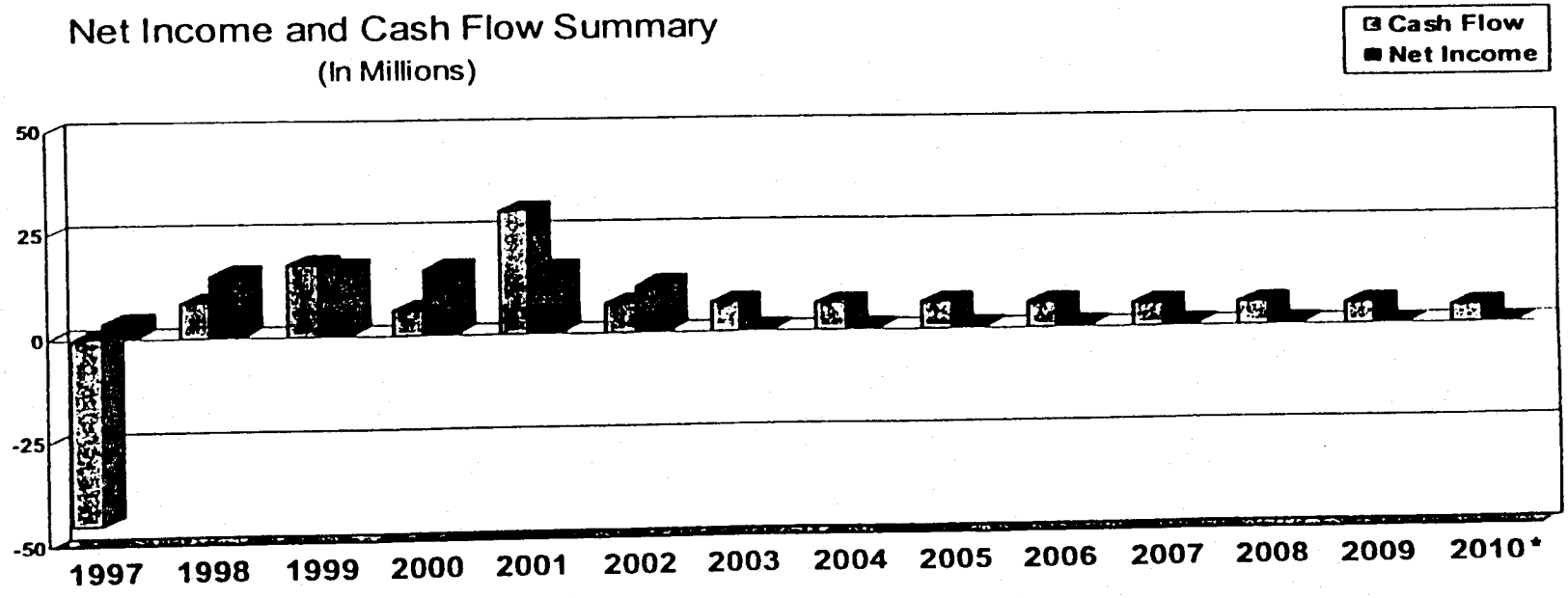
Assets Acquired:	
- REMIC Residual Interests	$ 7.5 million
- Corporate Bond Portfolio (rated AA or better)	$50.0 million
Current Status of Assets:	
- Outstanding principal on bonds (the portfolio will be fully amortized by the end of 2003)	$34.0 million
- REMIC Residuals – 20% average annual cash yield during 1998-2000	$ 1.5 million

Transaction Description

- In October 1997, Enron acquired a portfolio of financial assets (corporate bonds and REMIC residual interests) from Bankers Trust Company. The portfolio augments a company-operated hedge fund.
- Because of the attributes of the REMICs (i.e., high tax basis and low fair market value), financial accounting rules allowed Enron to recognize operating income resulting from the amortization of a deferred credit over the five-year life of the bond portfolio.

Net Income and Cash Flow Summary

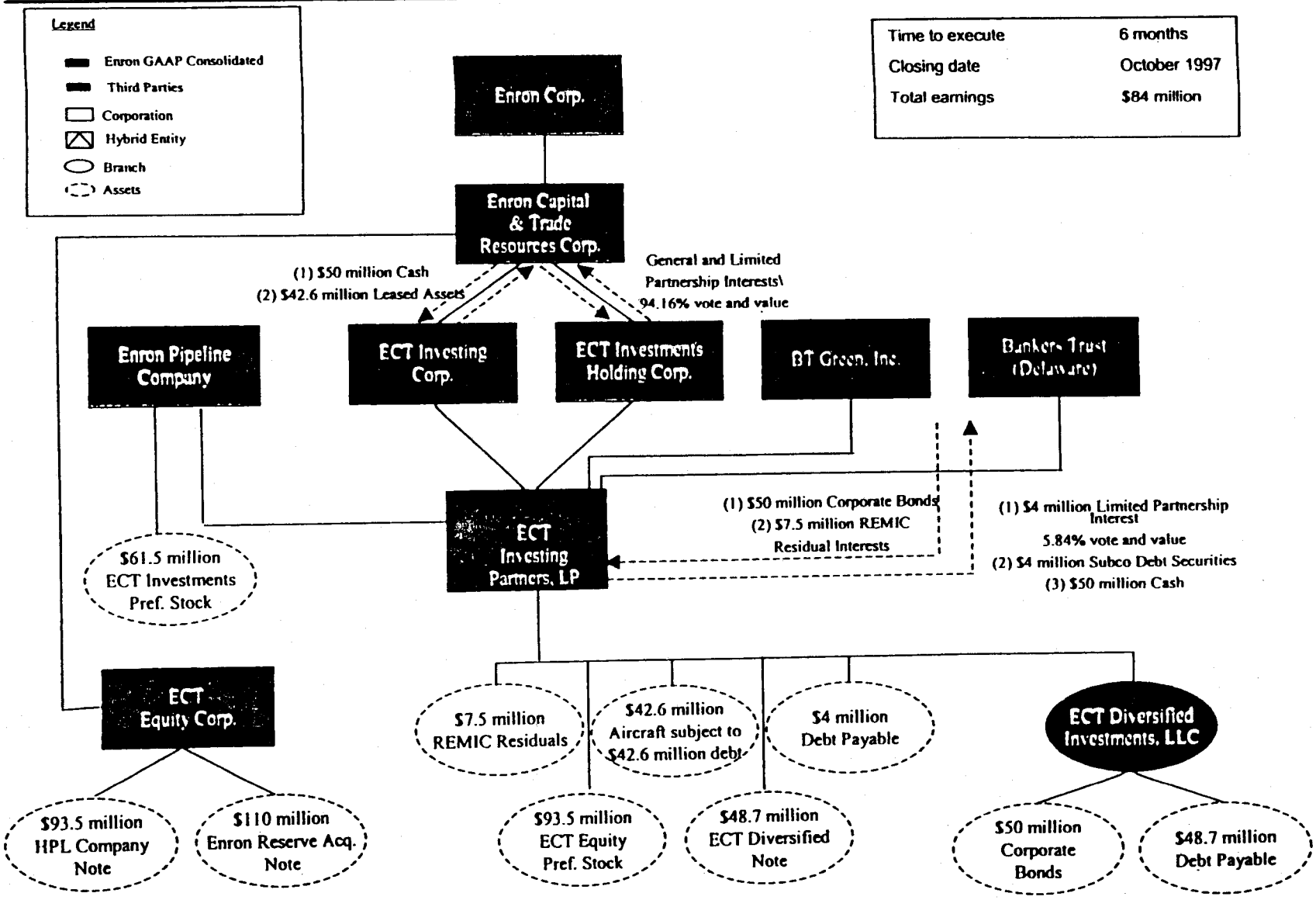
(In Millions)



*There is additional net income of $1.65 million and positive cash flow of $12.11 million from 2011 through the year 2025 resulting primarily from tax losses from REMIC residual interests.

EC2 00003833

Transaction Structure



Summary and Progress Report

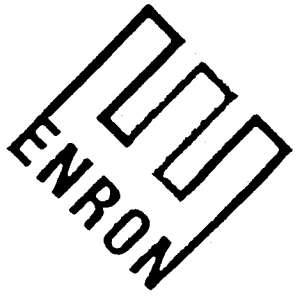
October 1997	Enron Corp. and Bankers Trust (now Deutsche Bank) formed ECT Investing Partners, L.P. (the "Partnership"). Enron and various subsidiaries contributed cash and leased assets (corporate aircraft) to the Partnership while BT transferred various investment securities (corporate bonds and REMIC residual interests). The Partnership's acquisition of a high tax basis / low book basis REMIC portfolio resulted in the creation of deferred tax assets. The Partnership amortizes an offsetting deferred credit into pre-tax income over a relatively short time frame.
February 2000	Falcon 50 aircraft sold to Raytheon resulting in taxable income of $14 million.
March 2001	Falcon 900 aircraft sold to Enron Corp. and refinanced.
Quarterly	Quarterly dividend and fee payments to be made to BT. Over 200 quarterly statements (REMIC Schedule Q's) of taxable income / loss are received and recorded.
Monthly	Monitor monthly bond portfolio brokerage statements and reconcile the accrued interest to brokerage receipts.
October 2002	Mandatory cash distribution to Deutsche Bank based upon excess retained earnings.
2002 and Beyond	Next year is the final year of accelerated pre-tax income. In 2002, the projected pre-tax earnings are $18 million but are expected to decline to about $1 million annually through 2011.
After October 2002	Deutsche Bank may elect to recapitalize its preferred interest into debt instruments ("Recapitalization Notes").
After October 2004	Deutsche Bank receives an unassignable right to put its Recapitalization Notes back to Enron.
After April 2009	Deutsche Bank receives an assignable right to put its Recapitalization Notes back to Enron.

EC2 00003835

Operational Issues and Action Items

Operational Issues	Action Items
Maintain custody of REMICs and monitor quarterly taxable income/loss and basis calculations.	REMIC certificates are stored in Enron vault on 48th floor. Structured Transactions group tracks taxable income/loss by REMIC and maintains tax basis for each.
Ensure proper custody and management of cash generated by the structure.	ST group works with Treasury and accounting to monitor cash activity in checking and brokerage accounts and makes arrangements to transfer cash to Enron Corp. as needed.
Must monitor acquisitions and dispositions of assets in structure; e.g. aircraft and U.S. Treasury securities.	ST group works closely with Enron Legal, Enron commercial groups and outside counsel to safeguard against adverse effects of asset acquisitions and dispositions on structure and ensures adherence to reps and warranties.
Closing and monthly journal entries required for nine separate entities each month. Review general ledgers of each entity to verify appropriate booking of entries.	Coordination with accounting and tax departments in various business units to appropriately reflect activity.

EC2 000038336



Project Renegade

Business Review

Structure Overview

Asset/Risk Management

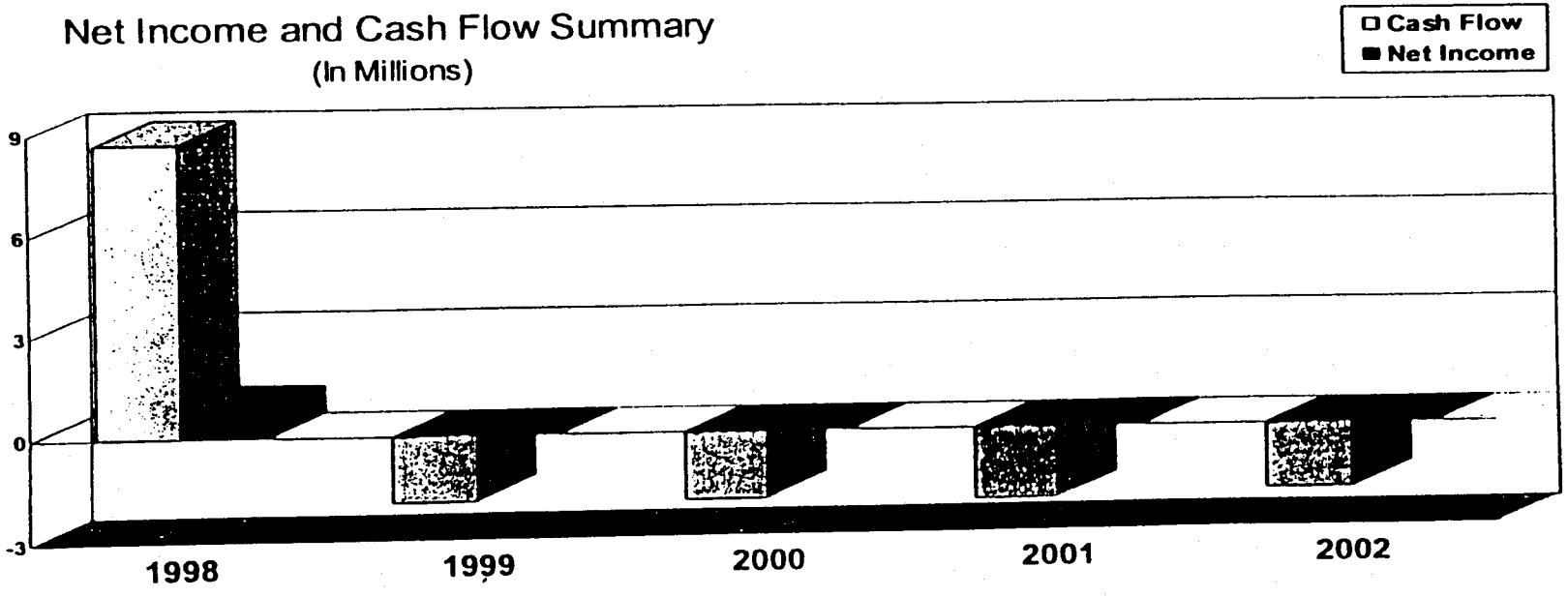
- Deutsche Bank acquired $8 million of preferred securities from the FASIT.
- The principal balance of these securities will be fully amortized in December 2002.

Transaction Description

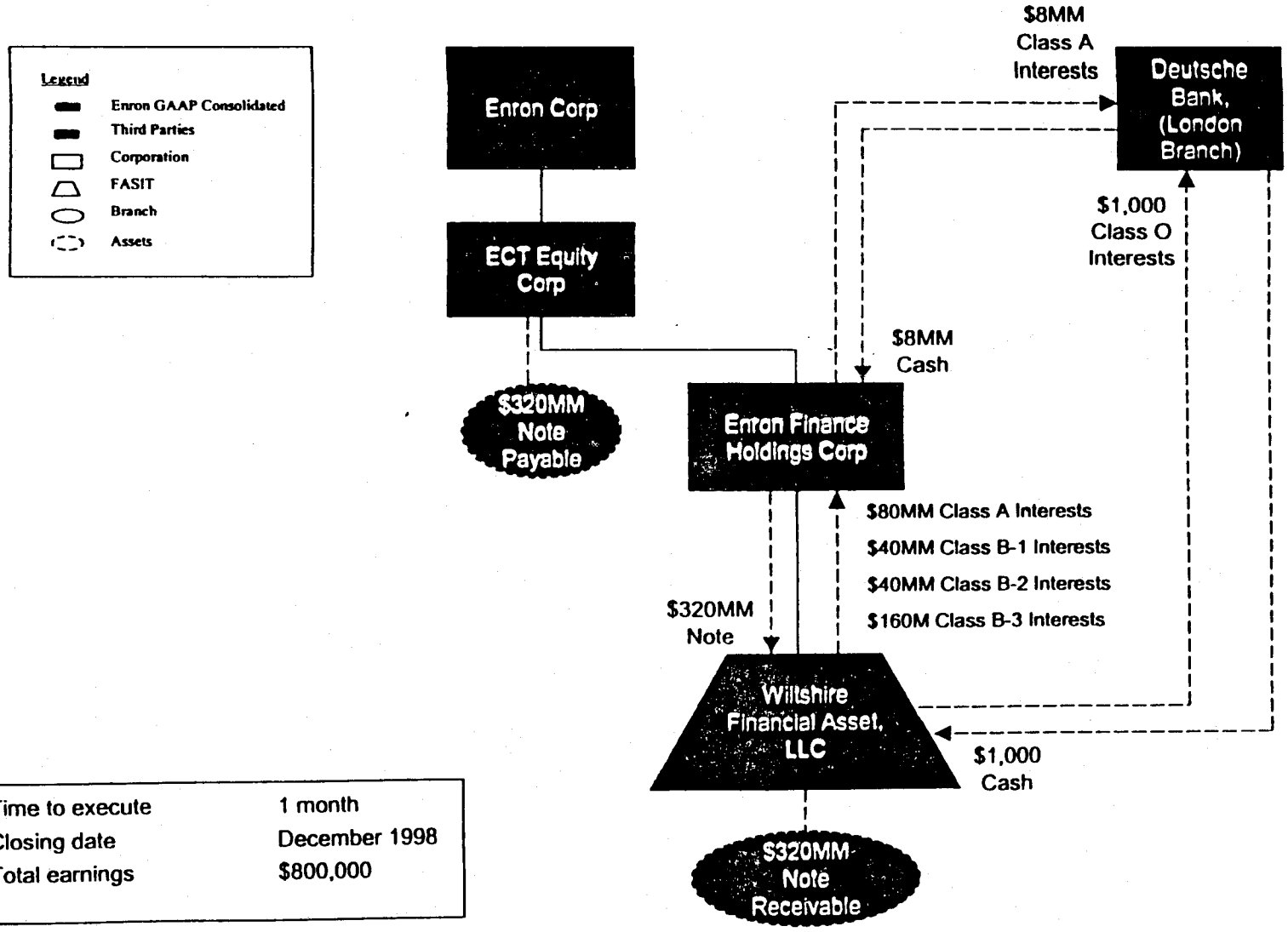
- In December 1998, Enron created a structure to facilitate the issuance of securities at below market interest rates.
- The transaction also had collateral year-end tax planning benefits for Deutsche Bank. In consideration for its counterparty role in structuring the transaction, Enron received a $1.3 million fee.

Net Income and Cash Flow Summary

(In Millions)



Transaction Structure



Time to execute	1 month
Closing date	December 1998
Total earnings	$800,000

EC2 00038339

Summary and Progress Report

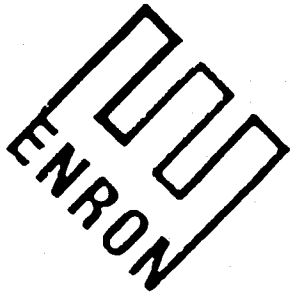
December 1998	ECT Equity Corp created a $320MM intercompany note with Enron Finance Holdings Corp. Enron Finance Holdings Corp. created Wiltshire Financial Asset, LLC, a special purpose limited liability company that elected to be treated as a financial asset securitization investment trust (FASIT) for U.S. federal income tax purposes. Enron Finance Holdings Corp. contributed the $320MM intercompany note to Wiltshire Financial Asset, LLC in exchange for 100% of the Preferred Interests in Wiltshire. Enron Finance Holdings Corp. sold $8MM of the Class A interests to Deutsche Bank. Enron Corp. recorded pre-tax fee income of $1.3MM from Deutsche Bank.
June 1999 – December 2002	Wiltshire Financial Asset, LLC makes semi-annual principal and interest payments on the Class A interests to Enron Finance Holdings Corp. and Deutsche Bank.
December 2002	Class A interests will be fully amortized.
Monthly	Prepare accounting entries for all entities to accrue interest income and expense.
Semi-annually	Pay accrued interest and principal on Class A Interests.

EC2 00038340

Operational Issues and Action Items

Operational Issues	Action Items
Class A interests require semi-annual payment of principal and interests to Deutsche Bank.	Coordinate cash flows with Accounting and Treasury.
Marketing of remaining Class A interests held by Enron Finance Holdings Corp.	Work with Deutsche Bank to sell remaining Class A interests.

EC2 00003834



Project Tomas

Business Review

Structure Overview

Asset/Risk Management

Assets Held:
- Aircraft leased to United (747) $13.6 million book value
- Aircraft leased to Continental (DC-9) $11.6 million book value

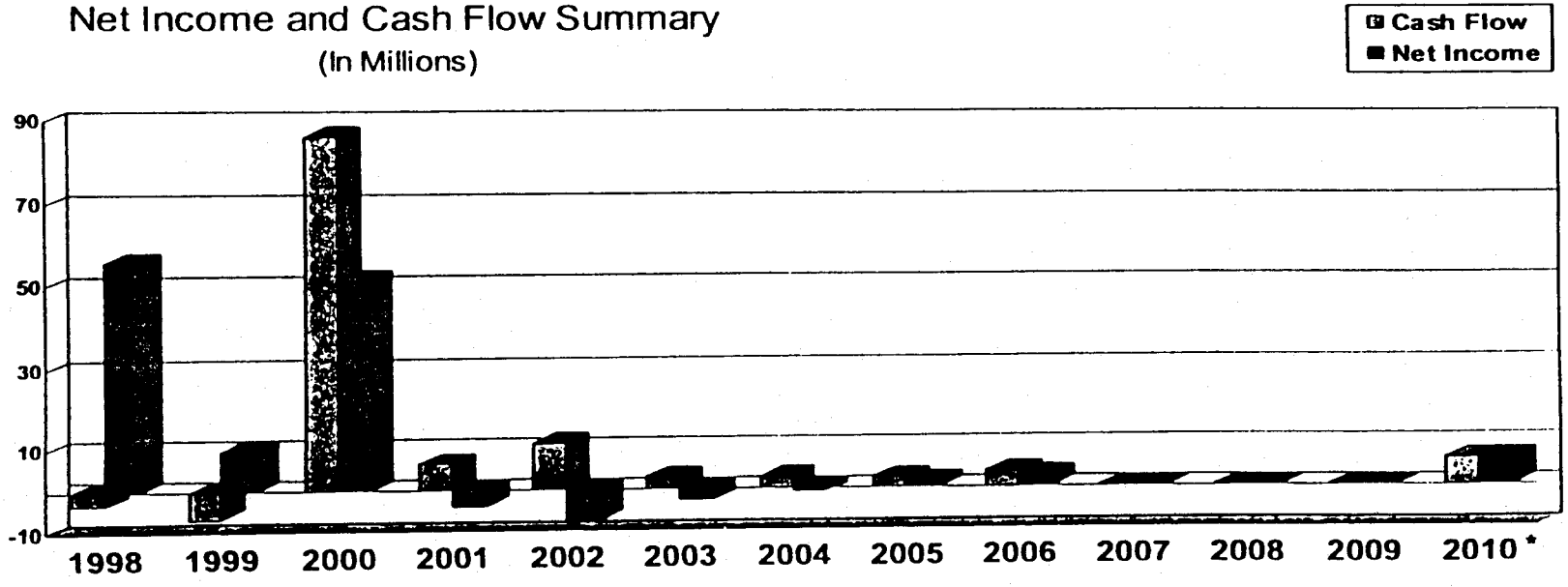
Risks:
- Extremely poor aircraft resale market
- Credit risk for lessee has increased due to airline industry distress

Transaction Description

This structure generated tax basis in a portfolio of "burnt out" leveraged lease assets, which Portland General originally acquired and provided a mechanism for liquidating the portfolio at a substantial gain.

Net Income and Cash Flow Summary

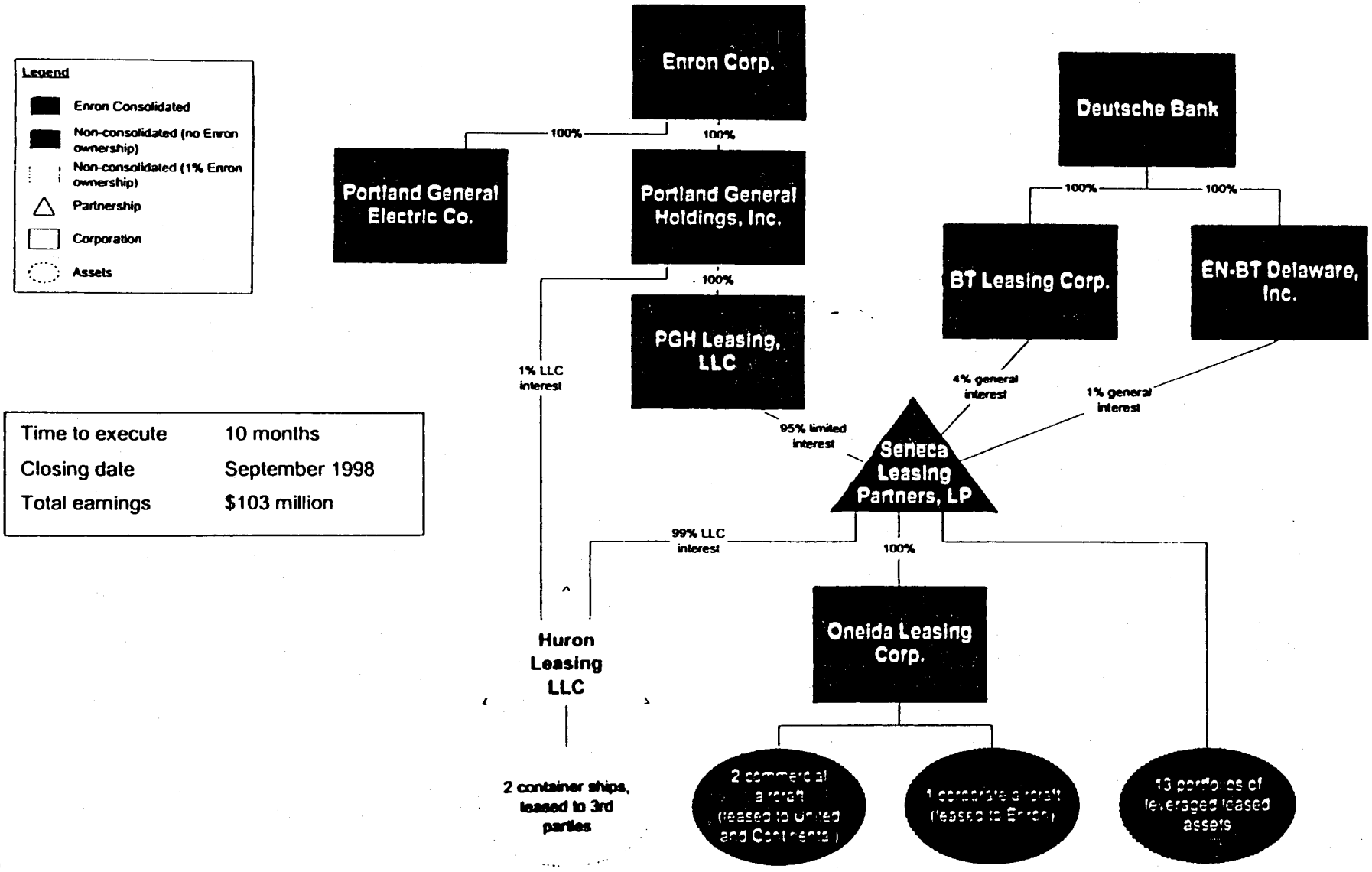
(In Millions)



*This project ceased to produce income or cash flow after 2010.

EC2 000038343

Transaction Structure



Time to execute	10 months
Closing date	September 1998
Total earnings	$103 million

EC2 00003834

Summary and Progress Report

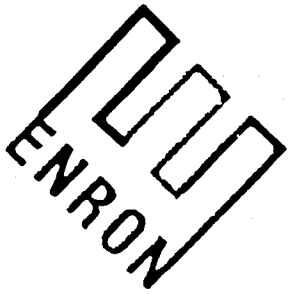
September 1998	Portland General and two Bankers Trust subsidiaries formed Seneca Leasing Partners, LP, to hold Portland General's 17 portfolios of leveraged lease assets, among other things.
April 1999	Two leased assets were sold to lessees and a third lease was renegotiated and renewed.
July 1999	The two containership assets were transferred to Huron Leasing LLC, which is owned 99% by Seneca and 1% by PGH Holdings, LLC, to address maritime citizenship concerns caused by Deutsche Bank's acquisition of Bankers Trust.
June 2000	PGH Leasing gave notice of its intent to withdraw from Seneca, triggering a public bid valuation process to determine the retirement price due to PGH Leasing.
July 2000	Oneida Leasing, a subsidiary of Seneca, purchased two commercial aircraft that Deutsche Bank had acquired earlier in the year from an Enron subsidiary, ECT Investments Holding Corp.
October 2000	Enron retired from the Seneca partnership, receiving the stock of Oneida Leasing (which held a large receivable from Deutsche Bank, the two commercial aircraft, and an Enron corporate aircraft).
December 2000	Oneida collected on the large Deutsche Bank receivable.
January 2001	Began negotiations with United Airlines regarding return conditions of aircraft.
June 2001	PGH Leasing settled a management fee dispute with GATX, related to GATX's original contract with Portland General.

EC2 00003834S

Operational Issues and Action Items

Operational Issues	Action Items
Aircraft residual value. Oneida Leasing holds two commercial aircraft which have suffered significant unexpected declines in residual value. The 747 comes off lease in April 2002.	Have been exploring options regarding disposition of aircraft.
Lease specifics. One of the commercial aircraft, a 747, has been taken out of service by the lessee (United). The United lease ends in April 2002. Interpretation of lease provisions regarding return conditions in the lease agreement with United are in dispute.	Have been negotiating with United to resolve the disputed issues, in consultation with the Aircraft Group, a consulting firm.
Windup of Huron Leasing. The two ships held by Huron Leasing have been sold to third parties, leaving Huron holding minimal remaining assets. Seneca has guaranteed all contractual obligations of Huron to third parties.	Now confirming with outside advisors that liquidation will not adversely affect their previous opinions or advice. Following confirmation, will proceed to liquidate Huron Leasing, which should have no material impact on Enron.
Portland General Holdings. The remaining Tomas assets (Oneida and PGH Leasing) are accounted for through Portland General Holdings, creating certain systems issues.	The group communicates regularly with Portland General accounting to insure correct record keeping. If Portland General Electric is sold, will need to have a plan for moving the accounting for Portland General Holdings to Houston.
Portland General Holdings board members. Many of the board members of Portland General Holdings are unfamiliar with Tomas and its remaining assets.	Recent efforts to move management of the Tomas entities to Houston should help eliminate some of these difficulties.

EC2 000038346



Project Cochise

Business Review

Structure Overview

Asset/Risk Management

Assets Held:
- REMIC Regular Interests $26 million
- REMIC Residual Interests $0 book value

Current Status:
- All of the assets are held in a REIT which is subject to complex tax compliance rules.
- In 2004, the minority interest valued at $2 million will be redeemed. After that time, Enron will be allowed to unwind the REIT and dispose of the REMIC portfolio in due course.
- The REMIC Regular Interests are rated AA. There is a liquid market for these securities.
- The REMIC Residual Interests have a high tax basis which facilitates the recognition of tax deductions over their 20-year term.

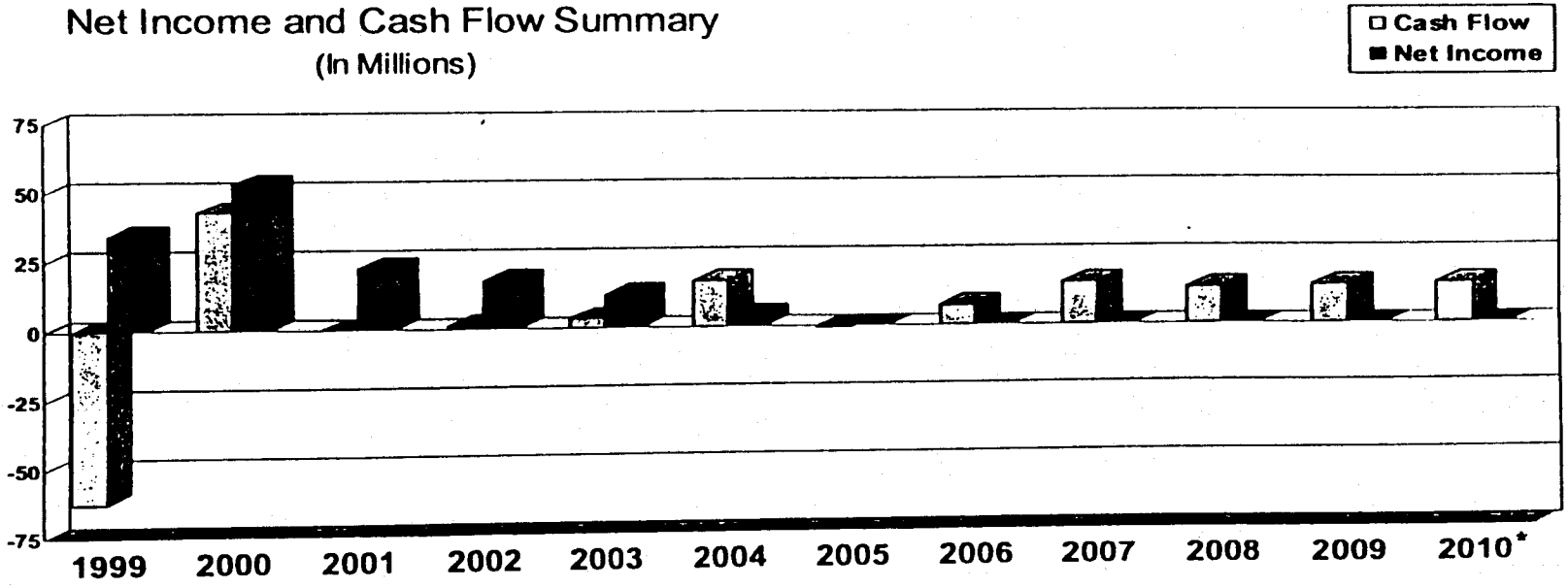
Transaction Description

- In 1998, Enron acquired a diversified portfolio of financial instruments consisting of REMIC interests and equipment leases (commercial aircraft). Acquisition of the portfolio was consistent with Enron's wide-ranging strategy of searching for opportunistic financial investments.

- Certain financial accounting rules allowed Enron to write-down the tax basis in the leased aircraft by the amount of built-in loss in the REMIC Residual Interests thereby eliminating depreciation charges above the line on the leased aircraft.

Net Income and Cash Flow Summary

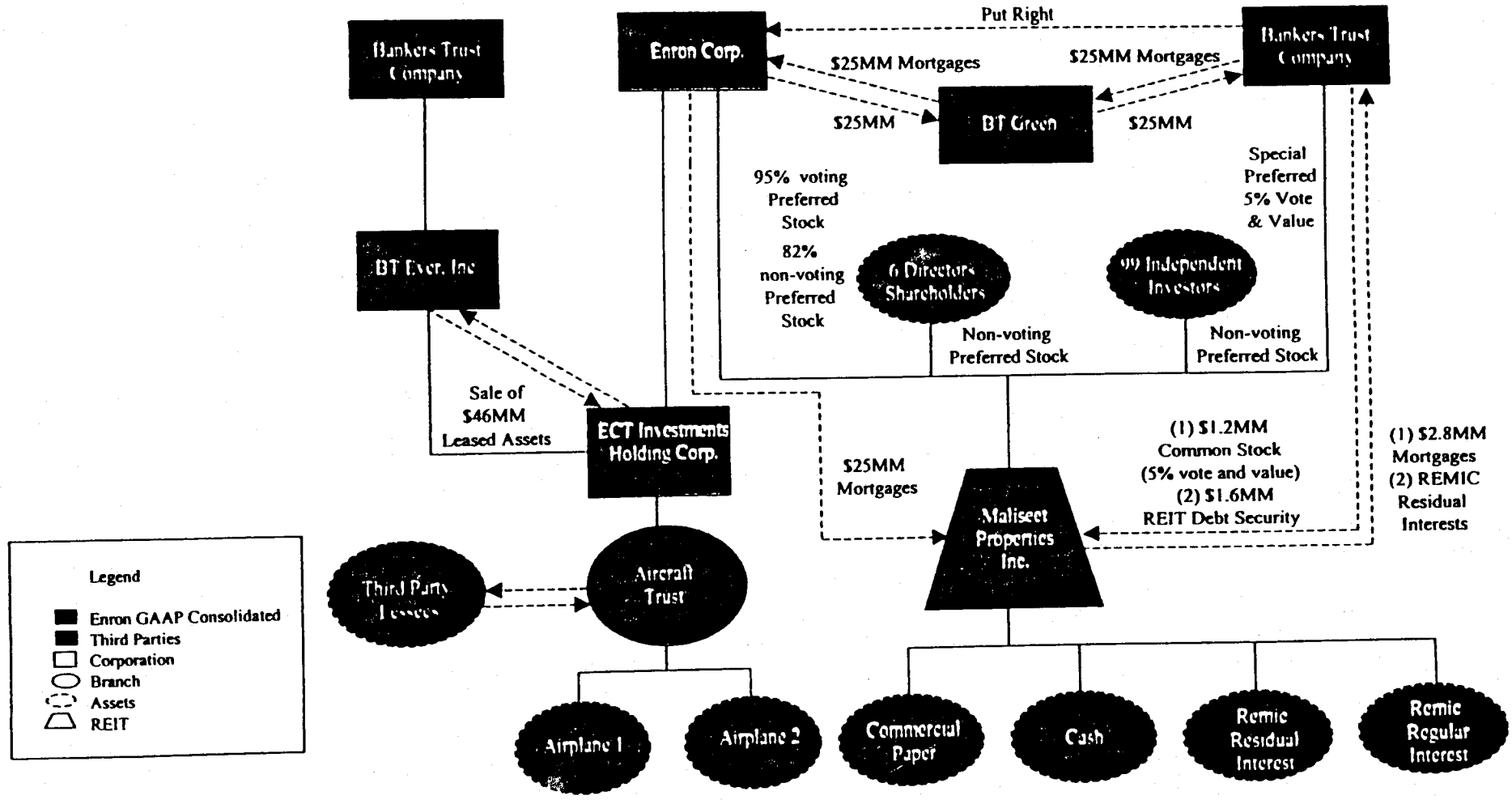
(In Millions)



*There is additional positive cash flow of $76.56 million from 2011 through the year 2025 resulting primarily from tax losses from REMIC residual interests.

EC2 000038348

Transaction Structure



Closing Date	December 1998
Total earnings	$143 Million

Summary and Progress Report

January 1999	Enron Corp. recapitalized and renamed Enron Interstate Pipeline Company into Maliseet Properties, Inc. and elected to treat Maliseet as a REIT for federal income tax purposes. Enron Corp., a Bankers Trust Subsidiary, and 99 independent investors and 6 Enron officers capitalized Maliseet with REMIC Residual Interests, mortgages, and cash.
January 1999	In an integrated transaction, ECT Investments Holding Corp. acquired ownership of two commercial aircraft leased to third parties.
June 2000	ECT Investments Holding Corp. sold its aircraft for approximately $36MM.
Quarterly	Over 200 quarterly statements (REMIC Schedule Q's) of taxable income/loss are received and recorded.

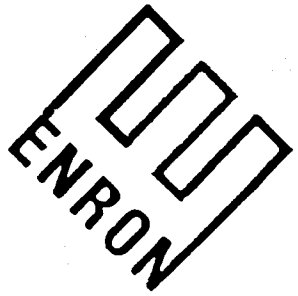
Annual Tests	75% Gross Income must be derived from real estate transactions.	95% of Gross Income must be derived from real estate transactions plus dividends and interest	Limited to 5% of total asset value invested in securities of a single issuer.
Quarterly Tests	75% of the value of total assets must consist of real estate, cash or government securities.	No more than 25% of the REIT's assets may be held in securities.	Limited to 5% of total asset value invested in securities of a single issuer.

EC2 00003835O

Operational Issues and Action Items

Operational Issues	Action Items
Cash dividend payments must be made quarterly.	Legal, accounting, and tax procedures are in place to appropriately declare and pay dividends. We have contracted with a management company to pay the private investors and handle tax reporting requirements.
Annual consent dividends of income are required to maintain REIT status and achieve financial accounting benefits.	Work with Arthur Andersen and Deutsche Bank to obtain Deutsche Bank's agreement.
Must show ownership by at least 100 shareholders each year.	Receive documentation from management company supporting ownership by 100+ individual shareholders annually. Approval is required prior to ownership.
Must maintain a qualifying portfolio of real estate assets generating real estate income to maintain REIT status.	Cash management is coordinated with Mary Perkins' group. Plan to purchase additional REMIC interests in September. Arthur Andersen reviews portfolio and reports regularly.
Maintain compliance with quarterly REIT tests.	Manage assets and income monthly to ensure that quarterly tests are met.
Prepare REIT tax return.	Work with Arthur Andersen and Deutsche Bank to fairly report income.

EC2 00003835



Project Apache

Business Review

Structure Overview

Asset/Risk Management

Assets Used:
- Third-party receivables regenerated monthly in EWS Operations, valued at $1,300 million.

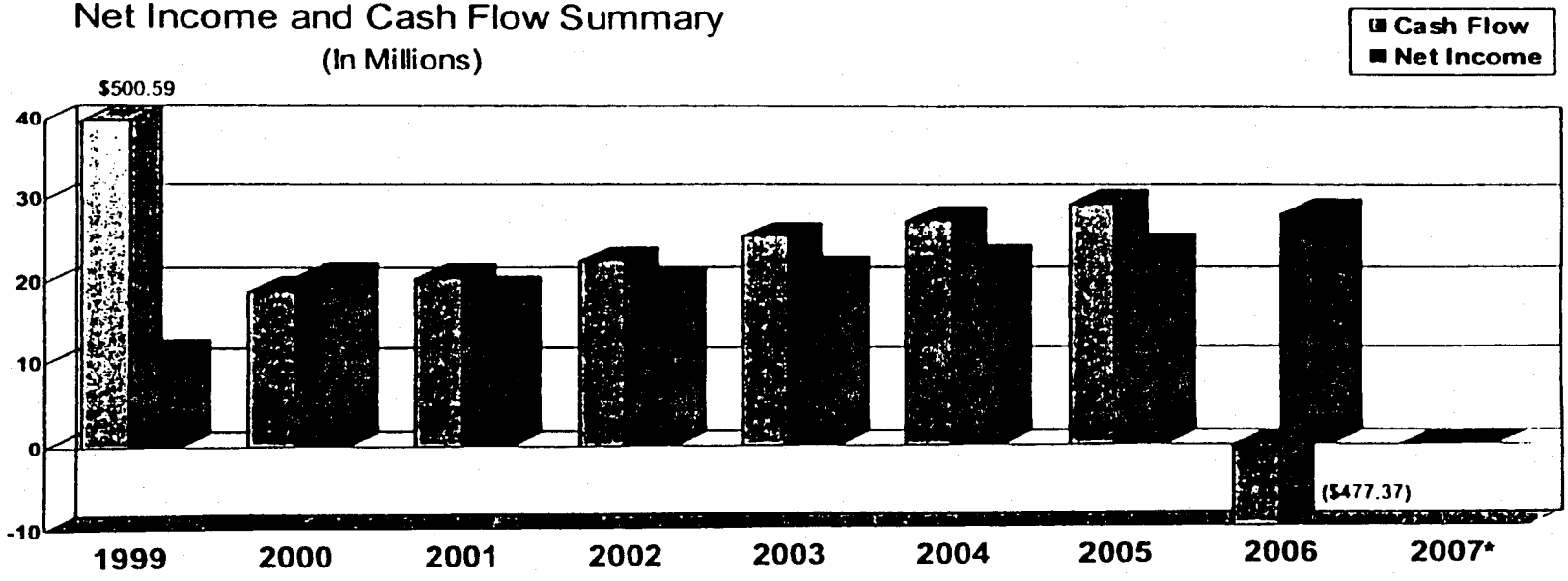
Liabilities:
- Minority interest financing of $500 million; project ends in 2006.

Transaction Description

This structure provides minority-interest financing and generates tax benefits related to factoring 3rd party receivables generated by Enron North America.

Net Income and Cash Flow Summary

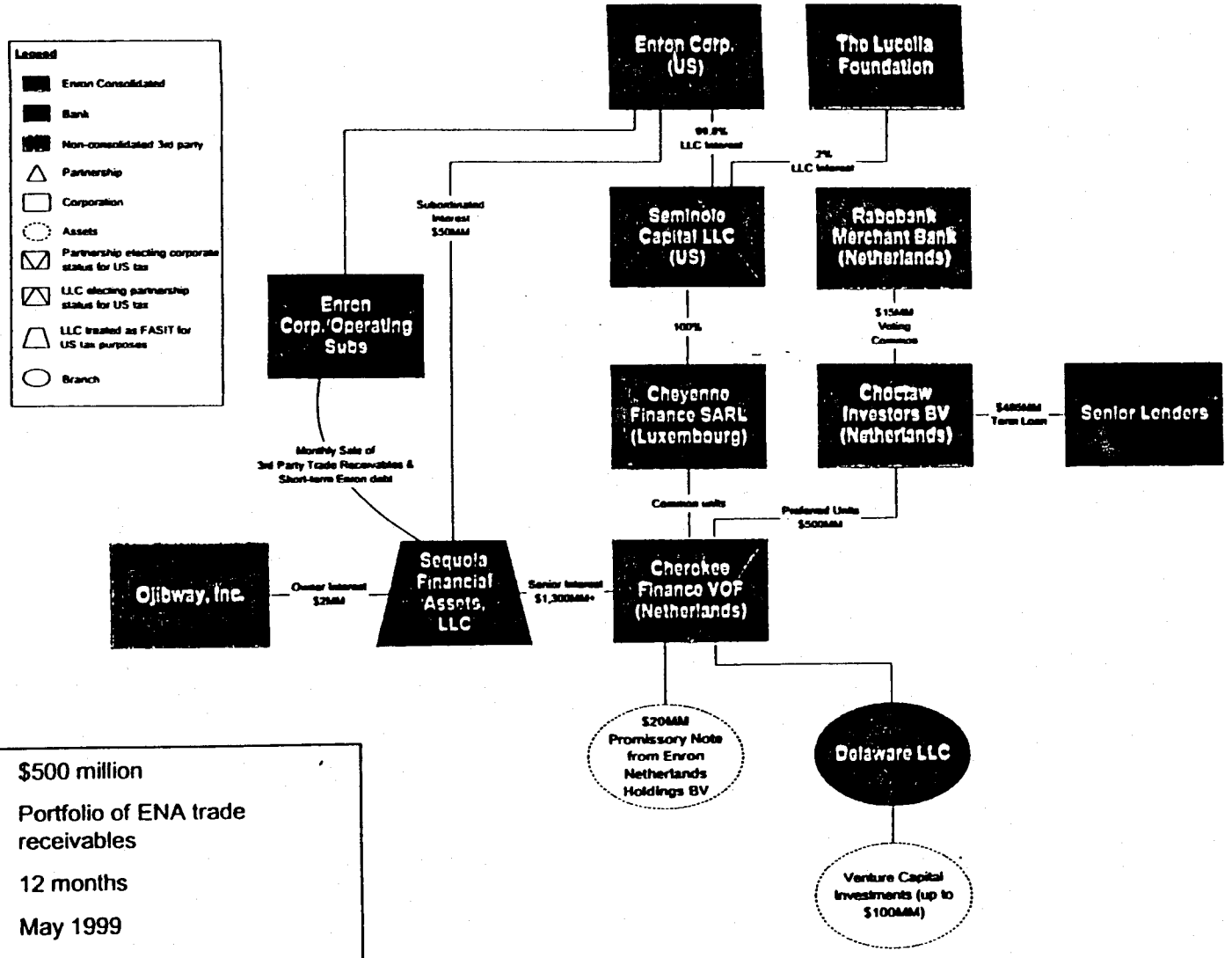
(In Millions)



*This project will cease to produce income or cash flow after 2007.

EC2 00003853

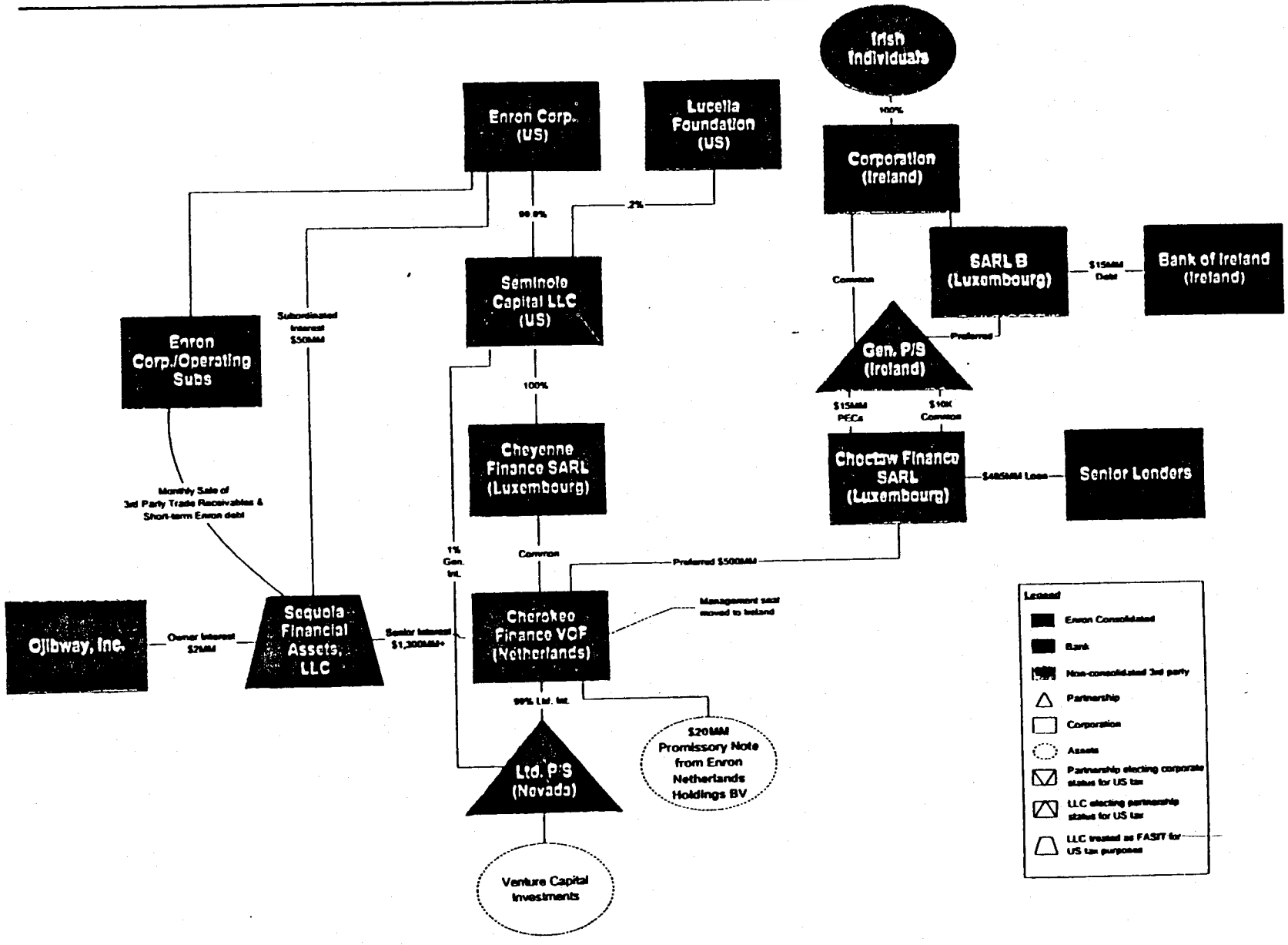
Current Structure



Transaction size	$500 million
Assets used	Portfolio of ENA trade receivables
Time to close	12 months
Closing date	May 1999
Total earnings	$167 million

EC2 000038354

Anticipated Restructuring



Summary and Progress Report

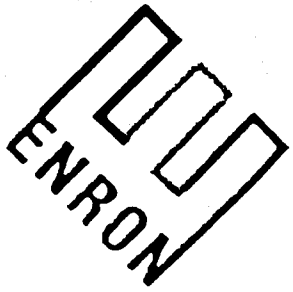
May 1999	Cherokee Finance VOF and Sequoia Financial Assets, LLC were formed. Cherokee began investing monthly in Sequoia senior notes; the funds of the investment are used by Sequoia to purchase 3rd party receivables generated by Enron in its trading business.
December 2000	Amendments allowed Enron Finance Partners (part of Project Tammy) to invest in Sequoia senior notes alongside Cherokee. Amendment also expanded permitted investments in Cherokee to include equity investments (such as venture capital) to some extent.
January 2001	Three venture capital investments of Enron Broadband were placed in the Cherokee structure.
4th Quarter 2001 (anticipated)	The equity of Choctaw will be restructured to bring in new ownership. - The change will allow Cherokee to increase the value of equity investments held in the structure. - Until completion of the restructuring, such investments are capped due to limitations placed by the current Choctaw equity holder.
Monthly Activities	Analysis and identification of receivables Generation of 300+ accounting entries Preparation and distribution of monthly receivables reports Preparation of Form 8811 for Ojibway Distribution to Ojibway
Quarterly Activities	Distributions to Sequoia noteholders Financial statement preparation Certification of compliance with ratios

EC2 00003835

Operational Issues and Action Items

Operational Issues	Action Items
Restrictions on the amount of equity investments which can be included in the structure.	Currently in the process of replacing Dutch equity with non-institutional holders who will be more amenable to the structure holding additional equity investments in the structure.
Potential Luxembourg taxation upon distribution of proceeds of an equity sale by Cherokee.	Restructuring to convert current LLC's to a more efficient vehicle, probably a Nevada limited partnership.
Pressure from other Enron groups to use 3rd party receivables in other structures – exacerbates difficulties of monthly tracking of receivables, which is a crucial element in maintaining minority interest financing status.	Exploring using "gross" receivables amount rather than "net" positions currently used.
Separate Cherokee audit produced two issues: (1) identification of receivables; and (2) calculation of return on interim notes	Refining procedure for identifying receivables on 1st of the month. Correcting the calculation of interim debt going forward.
Offshore management issues for Cherokee and Seminole.	Significant decisions are made only after board meetings held in the Caymans.

EC2 000038357



Project Condor

Business Review

Structure Overview

Asset/Risk Management

Assets Used:

- Bammel Assets $930 million

Status of Assets:

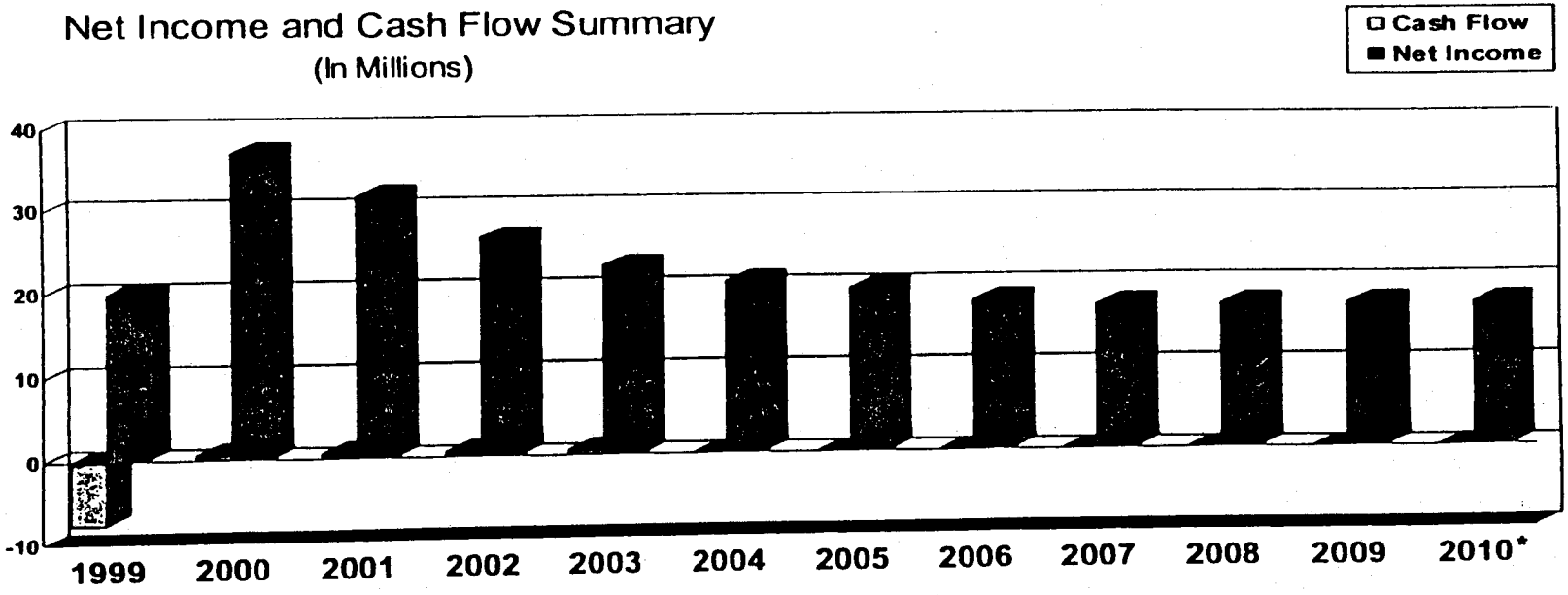
- HPL was sold to AEP in 2001. Legal ownership of the Bammel assets were retained by Enron and subleased from the Condor structure to AEP.

Transaction Description

- In November 1999, Houston Pipe Line Company ("HPL") contributed its interest in the Bammel storage field and the Houston distribution loop ("Bammel Assets") to Whitewing Associates, L.P. The collateral provided by this transaction facilitated the $1.0B Osprey Trust financing.
- A collateral benefit of the transaction is the accretion of additional tax basis for the Bammel Assets upon unwind of the structure.

Net Income and Cash Flow Summary

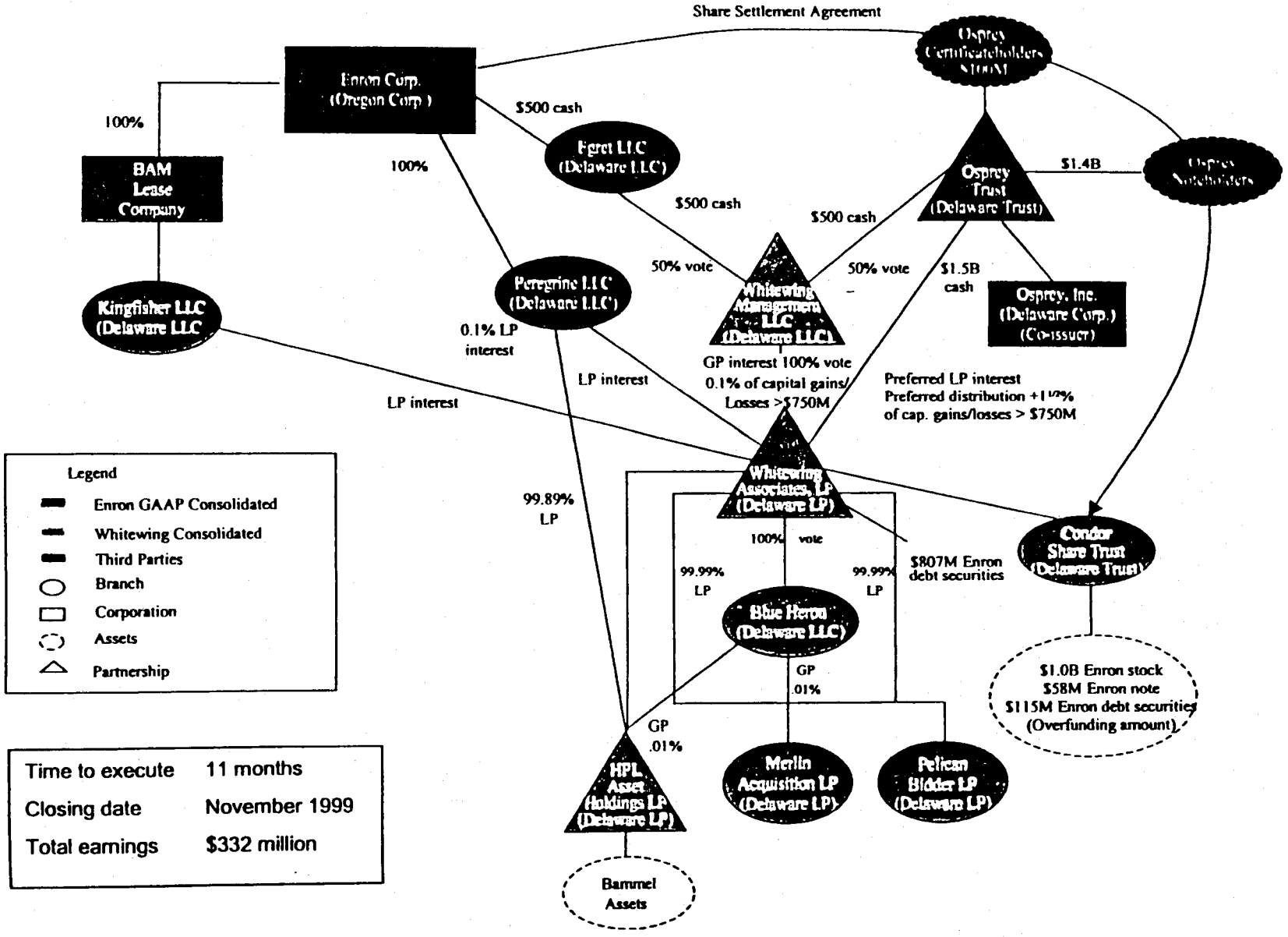
(In Millions)



*There is additional net income of $61.2 million and positive cash flow of $332.78 million from 2011 through the year 2030 resulting primarily from tax depreciation on a pipeline asset.

EC2 000038359

Transaction Structure



Time to execute	11 months
Closing date	November 1999
Total earnings	$332 million

Summary and Progress Report

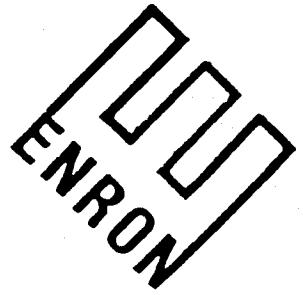
September 1999	Whitewing Associates, L.P. ("Whitewing") received a $1.5 billion partnership contribution from Osprey Trust in exchange for a preferred LP interest.
November 1999	Houston Pipe Line Company ("HPL") contributed its interest in the Bammel assets to a Delaware limited partnership called HPL Asset Holdings LP ("Asset Holdings") for an LP and GP interest. HPL contributed its LP interest and its indirect GP interest in Asset Holdings to Whitewing in exchange for a preferred LP interest. Asset Holdings leased the Bammel assets to HPL on a 18-year, triple-net lease.
November 1999	The yield payable by Whitewing on the preferred LP interest held by Osprey Trust was reduced as a result of the enhanced collateral provided by the cashflow from the lease of the Bammel assets.
September 2000	Osprey Trust contributed assets valued at approximately $1 billion to Whitewing in exchange for an increased LP interest.
June 2001	Enron sold the stock of HPL subject to a Section 338(h)(10) election. In connection with the sale, HPL transferred its Whitewing interests, its leasehold interest in the Bammel assets, and selected other assets to BAM Lease Company (BAM). The original lease running between Asset Holdings and BAM was extended an additional 31 years to accommodate a 31-year sublease by BAM of the Bammel assets to the new owner of HPL. Also, Asset Holdings' name was changed to ENA Asset Holdings LP.
Quarterly	HPL and BAM (as HPL's successor) make lease payments to Asset Holdings. Whitewing makes preferred partnership distributions to BAM pursuant to the terms of its LP interest.
Annually	Whitewing's partnership tax return reflects certain allocations of income and deduction to BAM and Enron Corp. These allocations result from differences between FMV and the tax basis of the Bammel assets that existed at the time of their contributions to Whitewing.

EC2 000038361

Operational Issues and Action Items

Operational Issues	Action Items
Whitewing's Global Finance activities must be continually monitored to analyze their impact on the Condor structure.	Planning & Reporting personnel must interact regularly with Global Finance.
Enron Corp. must loan BAM sufficient funds to allow BAM to make lease payments to Asset Holdings on a quarterly basis.	Treasury, accounting, and tax personnel are aware of this quarterly requirement and have put procedures into place to ensure it is done.
Whitewing must make preferred partnership distributions to BAM on a semiannual basis.	Treasury, accounting, and tax personnel monitor the distribution status and maintain related systems.
Proper computation and recording of the special Partnership allocations required by the Condor structure.	Tax personnel prepare the annual Whitewing tax return and make the appropriate allocations to the Whitewing partners.
Enron Corp's partnership interest in Whitewing must not be reduced below zero or Enron Corp. will recognize taxable income.	Tax Department personnel monitor Enron Corp.'s tax basis in its Whitewing interest including the effects of distributions on the required special allocations. At some time, modifications of the structure will be needed to increase the outside of tax basis of Enron Corp. in Whitewing Associates by $500MM.
Upon unwind of the structure, Whitewing Associates must distribute at least $1 billion of the portfolio preferred stock to Enron Corp. in redemption of its partnership interest.	Monitor structure to ensure that sufficient preferred shares remain in Whitewing to facilitate unwind.

EC2 000038362



Project Valhalla

Business Review

Structure Overview

Asset/Risk Management

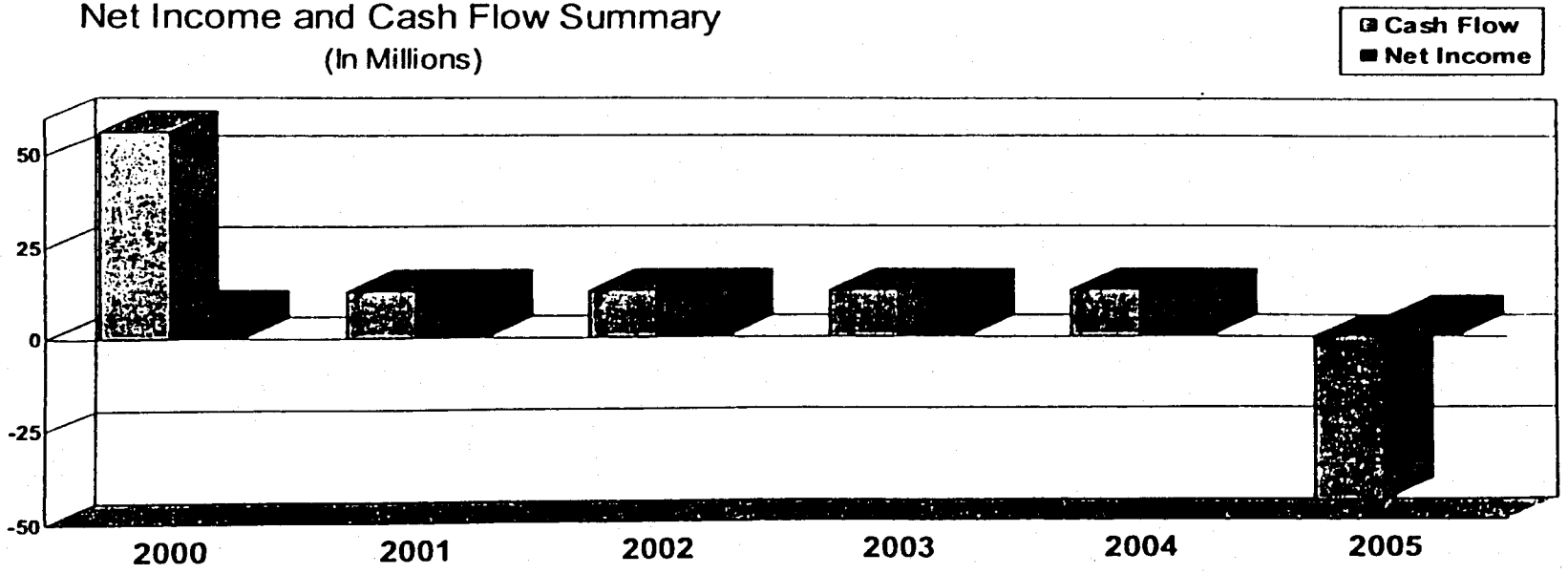
- Enron's credit exposure on $1.95B of funds deposited with DB's London affiliate is mitigated by legal set-off against the $2.0B security held by DB.
- The 5-year structure is subject to annual renewal. Changes to DB's German tax position could cause them to unwind the structure early.

Transaction Description

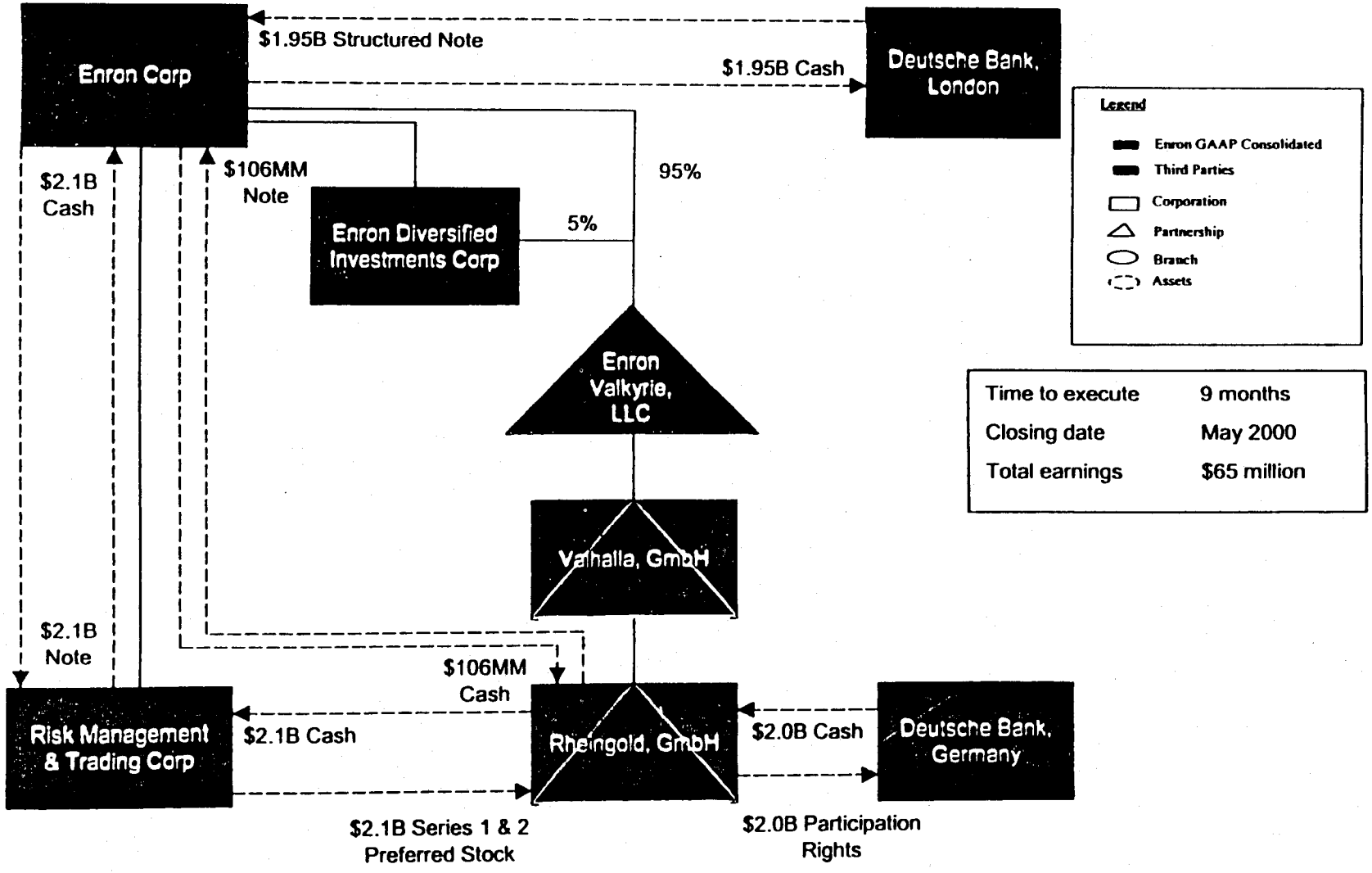
- In 2000, an Enron affiliate issued a $2.0B fixed-rate, 5-year preferred security to Deutsche Bank ("DB") in Germany. Simultaneously, Enron deposited $1.95B with DB in London with a yield based upon a package of Treasury and commodity indexes. This transaction creates commodity and interest positions that are integrated into and augment Enron's trading books.
- The Note and the Debt are offset in the Enron Corp. consolidated financial statements.
- The rate differential on the Debt and the Note generates $20MM in interest income (before tax) per year for the next 5 years.

Net Income and Cash Flow Summary

(In Millions)



Transaction Structure



Time to execute	9 months
Closing date	May 2000
Total earnings	$65 million

EC2 000038365

Summary and Progress Report

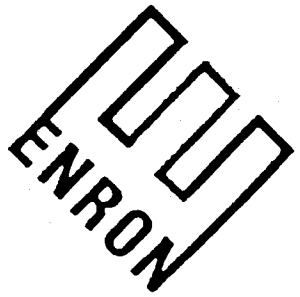
December 1999 – May 2000	Enron Corp. and Enron Diversified Investments Corp., a wholly owned subsidiary, formed Enron Valkyrie, LLC. Valkyrie formed two wholly owned German subsidiaries, Valhalla Gmbh and Rheingold GmbH. Rheingold issued $2.0B in 'Participation Rights' to Deutsche Bank (DB), and purchased $2.1B in preferred stock from Risk Management & Trading Corp (RMT). RMT invested the $2.1B received from the preferred stock sale with Enron Corp., who purchased a $1.95B Structured Note Receivable from DB. The Note is offset against the Rheingold 'Participation Rights' in the Enron Corp. consolidated financial statements. In addition, Enron Corp. and DB entered into a $50MM interest rate swap.
December 2000	The Structured Note was transferred from Deutsche Bank – New York to Deutsche Bank – London.
Monthly	Enron Corp. accrues interest income on the $1.95B Structured Note Receivable at 8.74%. Rheingold accrues interest expense on the $2.0B 'Participation Rights' at 7.7%. Intercompany interest income and expense is accrued on all intercompany notes.
Quarterly	Enron Corp. makes variable payments to DB on the $50MM interest rate swap.
Annually	Rheingold receives dividend income from RMT, which is used to pay the accrued interest expense on the 'Participation Rights' to DB. Enron Corp. receives payment from DB for the accrued interest income on the Structured Note Receivable. Enron Corp. receives fixed payment from DB on the $50MM interest rate swap. Intercompany accrued interest is paid.

EC2 00003836

Operational Issues and Action Items

Operational Issues	Action Items
Valhalla, GmbH and Rheingold, GmbH must be recognized as residents in Germany under German law.	The primary books and records for these entities are prepared in Germany, and office space is maintained in Eschborn. Quarterly office visits are made to these offices, and various management activities are performed while there.
Rheingold must have dividend income from RMT (as opposed to a return of capital) in order to maintain the proper German tax characterization.	The intercompany note receivable of $2.1B generally provides sufficient income for the desired dividend treatment. Other RMT losses, however, could erode RMT's dividend paying ability. Tax personnel must, therefore, monitor RMT's other activities.
The $1.95B Structured Note Receivable from Deutsche Bank must continue to be offset against the $2.0B 'Participation Rights' owed to Deutsche Bank in Enron's financial statements.	Legal and accounting opinions regarding the offset were received and the related assumptions are monitored for their continued applicability.
A material downgrade in Deutsche Bank's credit rating would force the structure to be unwound.	Tax department personnel monitor the credit rating of Deutsche Bank to verify that it has not been downgraded.
We must properly coordinate the required cash distributions, related declarations of dividends, and preparation of US and German books and records.	Systems have been established for these activities and tax personnel interact with Legal, Treasury, and Accounting to coordinate the cash flows and related events.
The use of the Valkyrie partnership creates a theoretical US tax issue associated with the use of preferred intercompany dividends.	Elect to treat EDIC as a branch of Enron Corp., thereby dissolving the Valkyrie partnership and removing the related US tax exposure.

EC2 000038367



Project Tammy I

Business Review

EC2 000038368

Structure Overview

Assets/Risk Management

Assets Held:
- Ecoelectrica
- EOG India Limited
- Enron Renewable Energy Corp.
- Proceeds from the sale of East Coast Power
- Minority interest financing invested in Sequoia Notes
- Intercompany Harris Indenture Debt
- Other Intercompany Receivables

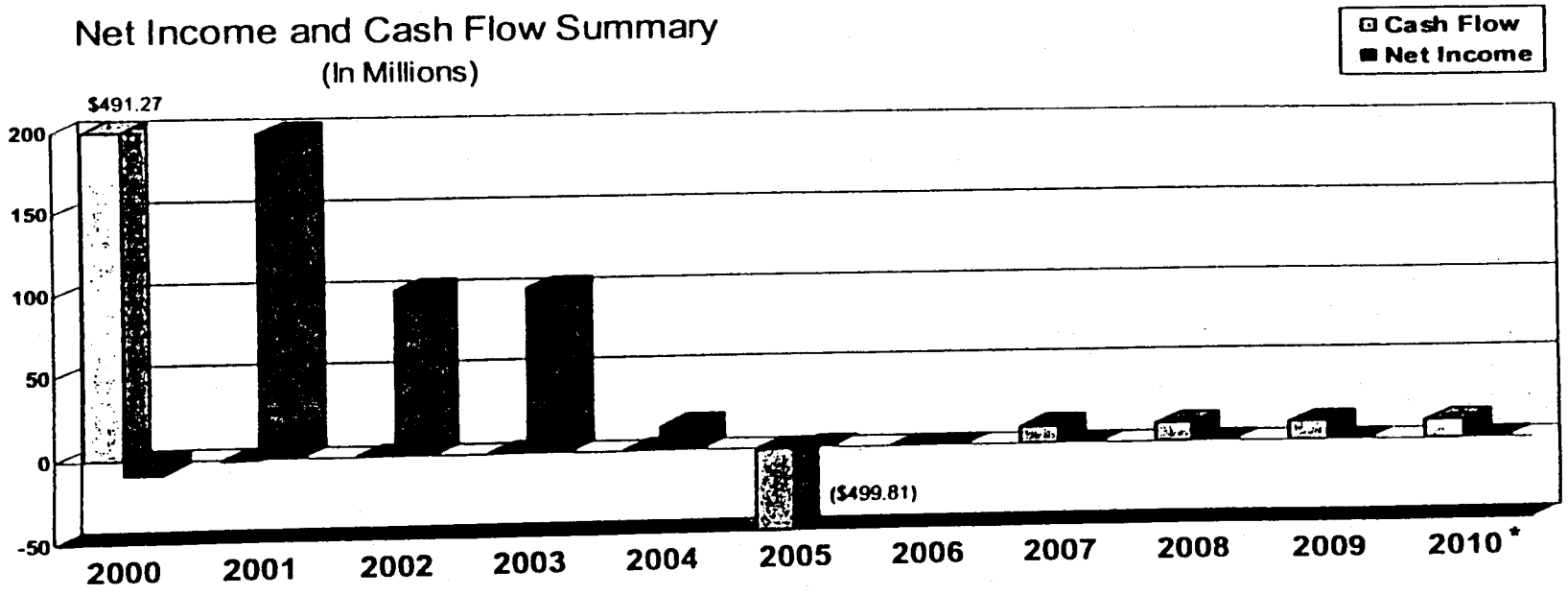
Current Status:
- Any sales or restructurings of finance or ownership of these assets requires coordination with the Structured Transactions Group to preserve the benefits.
- Minority interest financing of $500MM will be repaid in 2005.
- Periodically, invested proceeds from the sale of assets are used to purchase Enron Corp. preferred stock. Additional proceeds will eventually be used to purchase Enron Center South.

Transaction Description

- This is a minority interest financing transaction raising $500 million and supported by a contributed portfolio of low basis, high fair market value equity investments.
- The transaction creates tax deductions in the form of enhanced depreciation deductions on the Enron Center South. The deductions are created through a shift in tax allocation of certain tax gains imbedded in the contributed assets.
- The enhanced depreciation deductions in the building are taken over the depreciable life of the building but the benefits are included in the tax provision in earlier years as preferred stock is purchased.

Net Income and Cash Flow Summary

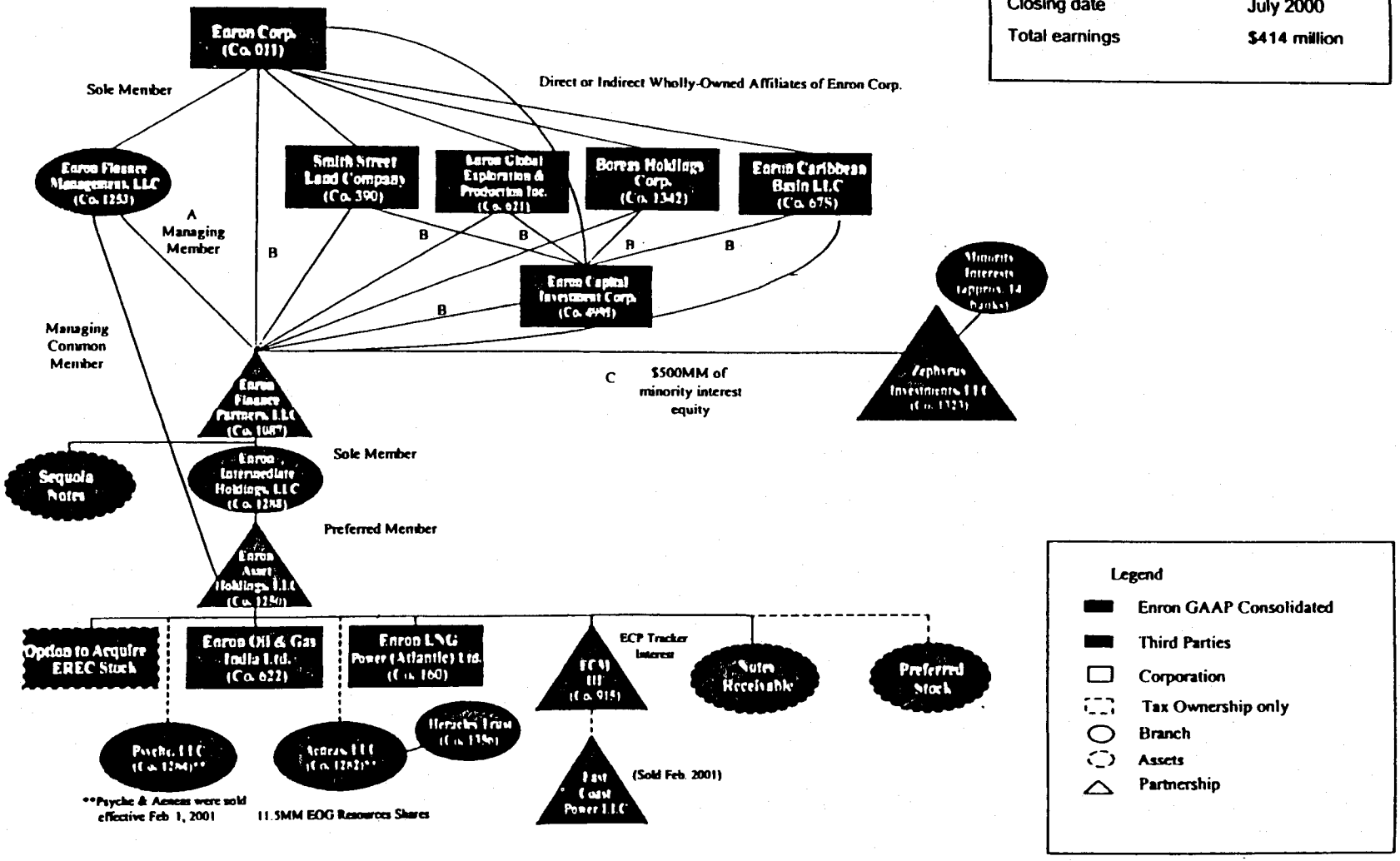
(In Millions)



*There is additional positive cash flow of $372 million from 2011 through the year 2046 resulting primarily from tax depreciation on Enron Center South.

Transaction Structure

Time to execute	18 months
Closing date	July 2000
Total earnings	$414 million



Summary and Progress Report

July-December 2000	Enron Finance Partners, LLC ("EFP") was formed and funded in the third and fourth quarters of last year. Minority interest financing in the amount of $500MM was sold to a consortium of banks led by Chase in the fourth quarter.
January 2001	Enron restructured its financing of EOG Resources shares in a transaction yielding $477MM in tax gain in the Tammy I structure.
February 2001	Enron, through Jedi II, sold its shares of East Coast Power yielding $252MM in tax gain to the structure.
May 2001	Board authorized issuance of $1 billion of blank-check Preferred Stock.
September 2001	Enron Asset Holdings, LLC will purchase approximately $630MM of Preferred Stock from Enron Corp. using $520MM in proceeds from the monetization of EOG Resources stock and the ECP Tracker interest valued at $110MM representing the proceeds from the sale of East Coast Power.
2001	The sale of Enron Renewable Energy Corp. ("EREC") is in negotiation with a sale planned in 2001. If this sale is not completed, it is possible that the EREC stock will be held as an investment asset with a plan to initiate a public offering of a portion of the shares in the future. An IPO of the EREC shares would yield the same benefits with respect to the shares sold as would a sale to a third party. However, the total benefit from the sale of EREC shares may not be realized until there is a disposition of all of the shares.
2001	Enron LNG (Atlantic) Ltd. II is currently on the market. We have been actively involved in discussions with the business teams regarding any necessary pre-sale structuring to meet the needs of buyers while preserving the estimated benefits through the structure.
2001-2002	The sale of Enron Oil & Gas India, Ltd. is currently in negotiation. We have been in contact with the business team and should know the outcome of the negotiations within a month. If the sale is not completed, this asset will be held in inventory for a sale in the future.
Quarterly	Preferred dividend payments to minority interest investors.

EC2 00003837

Operational Issues and Action Items

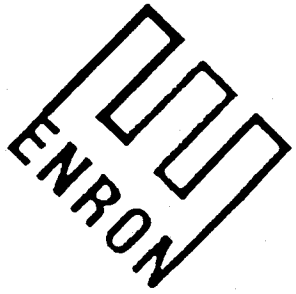
Operational Issues	Action Items
Issuance of Preferred Stock	September 2001 – Approximately $630MM preferred stock issued resulting in the recognition of approximately $200MM of project earnings in 2001. Possible additional issuances later in 2001 and 2002.
We must create cash flows within the structure to insure that there is no default on debt instruments or on the minority interest financing facility.	From time to time, it may be necessary for Enron to lend additional funds into the structure to facilitate liquidity. As projects sell and cash is received, the cash flow issues should reverse themselves in the ordinary course of business.
Deconsolidation of EREC creates potential for cash tax cost if EREC becomes a U.S. federal taxpayer prior to sale.	We are currently working with Tax Planning to develop a pre-sale structure that would preserve Tammy I gain and allow EREC to continue to sell development projects. In the alternative, we are considering selling this asset intra-company.
Potential purchasers of the EREC stock have requested consideration of a 338(h)(10) election as a part of the sale.	Pre-sale structuring and purchase price adjustments will accomplish the same end goal without impairing the structure; so the denial of the 338(h)(10) election is not a serious impediment to sale.
The sales price of various assets is different from the fair market value of such assets on contribution.	Some depreciation in value between the contribution date and the sales date is hedged through a preferred return mechanism built into the structure.
The EOG India Ltd. Asset has declined in value since it was contributed.	The preferred return structure combined with a pre-sale appreciation in the value of certain other assets will cover the current decline in value without an impact to the benefits from the structure.

EC2 000038372

Operational Issues and Action Items

Operational Issues	Action Items
The Ecoelectrica asset was significantly undervalued by the business teams at the time of contribution.	It will be necessary to restate the fair market value from inception on this asset, but there will be no corresponding increase in benefit as a result.
Enron provides services under a Management Agreement for Zephyrus Investments, LLC.	Preparation of separate, unaudited financials, tax returns and regular reporting to Zephyrus minority interest investors.

EC2 000038373



Project Tammy II

Business Review

EC2 000038374

Structure Overview

Assets/Risk Management

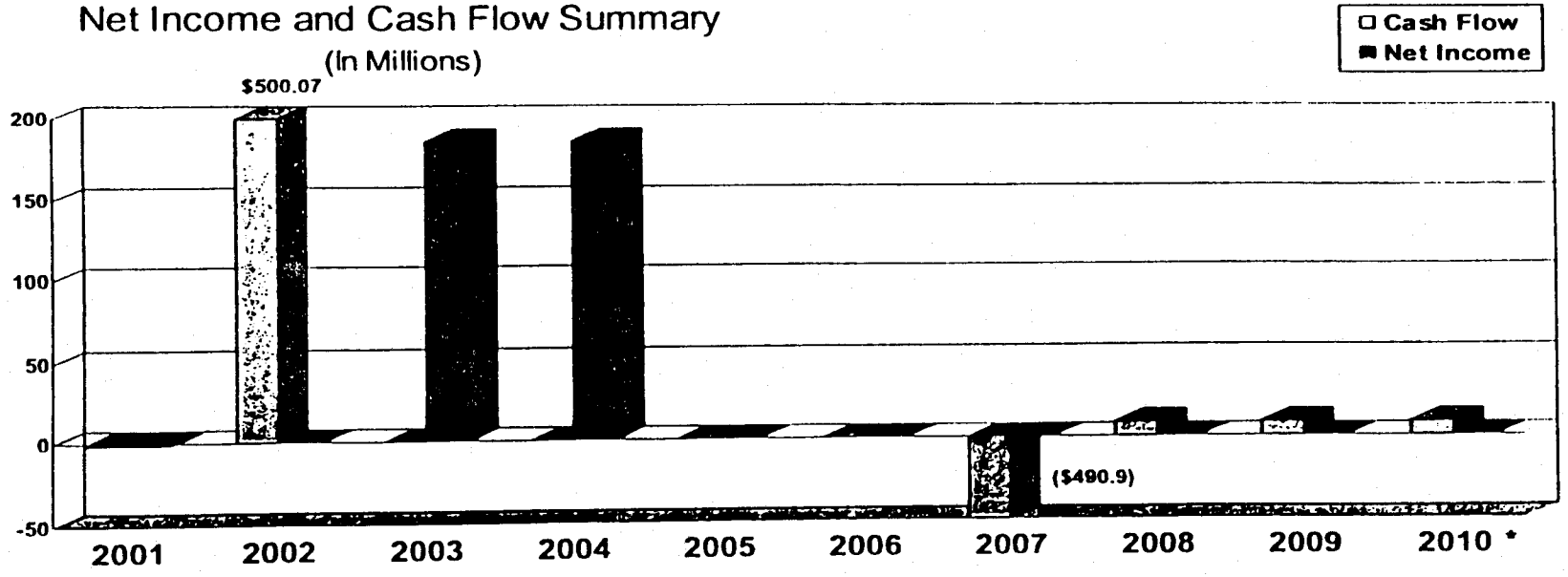
Assets Held:
- Tax Ownership of Portland General Electric
- Proceeds from the sale of EOTT common units
- Proceeds from the sale of Hanover Compressor shares
- Intercompany Harris Indenture and similar long-term debt
- Other Intercompany Receivables

Current Status:
- The contribution of PGE into the structure deconsolidated PGE for federal income tax purposes.
- Issuance of $500 million of minority interest financing has been delayed pending further developments in the disposition of PGE.

Transaction Description

- This is a minority interest financing transaction raising $500 million and supported by a contributed portfolio of low basis, high fair market value equity investments.
- The transaction creates tax deductions in the form of enhanced depreciation deductions on a long-lived depreciable asset. The deductions are created through a shift in tax allocation of certain tax gains imbedded in the contributed assets.
- The enhanced depreciation deductions in the building are taken over the depreciable life of the asset but the benefits are included in the tax provision in earlier years as preferred stock is purchased.

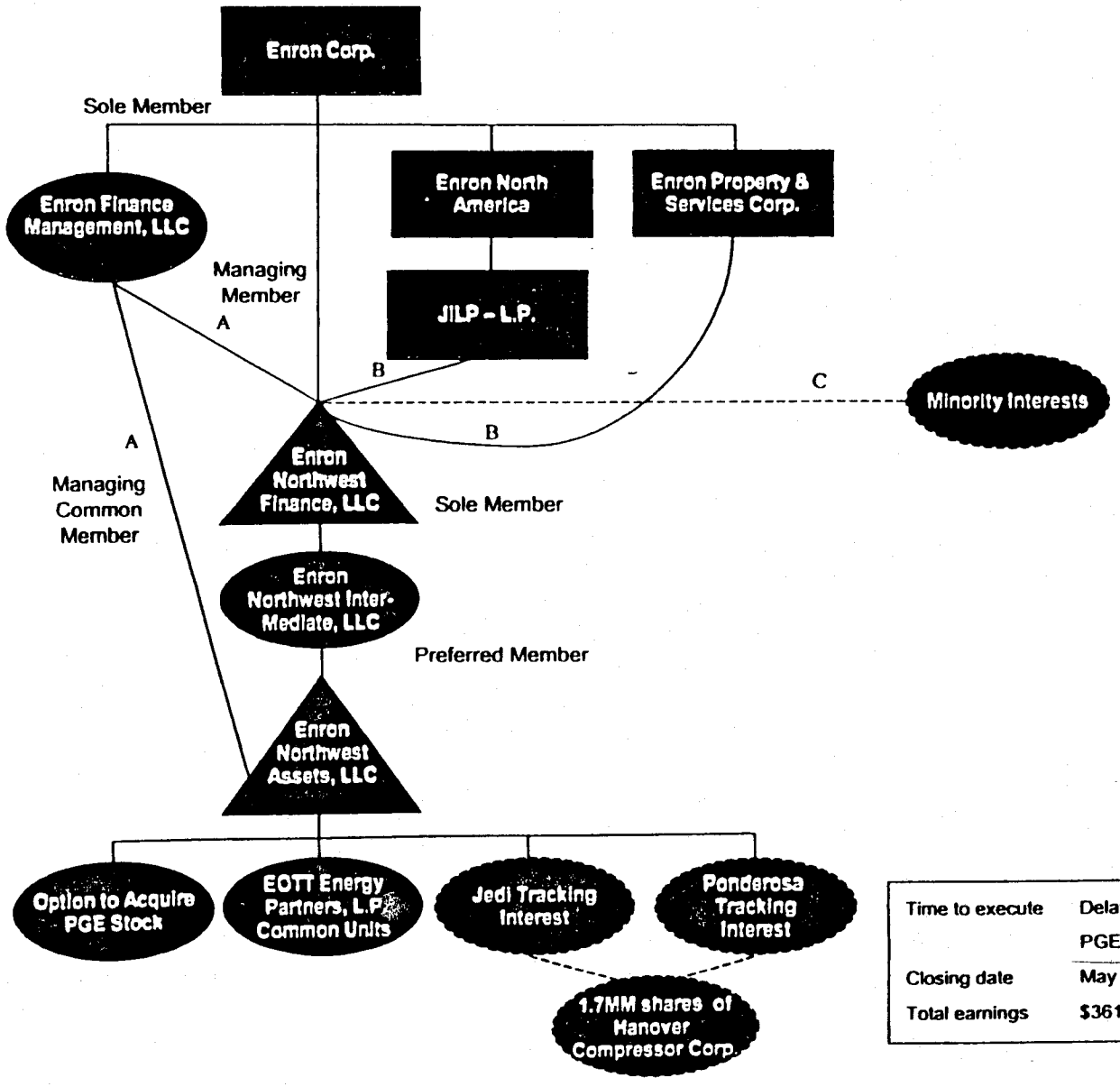
Net Income and Cash Flow Summary



*There is additional positive cash flow of $332.29 million from 2011 through the year 2046 resulting primarily from tax depreciation on a long-lived asset.

EC2 00003837S

Transaction Structure



Time to execute	Delayed pending PGE Transaction
Closing date	May 2001
Total earnings	$361 Million

EC2 000038376

Summary and Progress Report

May 2001	On May 7, 2001, Enron Corp. ("Enron") created a purchase option (the "Option") on the common shares of Portland General Electric Company ("PGE") and contributed that Option together with certain other assets into Enron Northwest Finance, LLC ("Finance") in exchange for a membership interest in Finance. Finance contributed its debt and assets to two additional companies: Enron Northwest Intermediate, LLC (debt) and Enron Northwest Assets, LLC (assets). Certain other companies contributed cash and demand notes into the structure to provide substance and liquidity. Enron received Board approval for this and related transactions on May 1, 2001.
June 2001	Enron Corp. contributed the common units of EOTT Energy Partners, L.P. into the structure together with debt as an additional contribution to capital.
August 2001	Tracking interests were created out of Joint Energy Development Investments Limited Partnership ("JEDI") and out of Ponderosa Assets, L.P. ("Ponderosa") reflecting economic ownership of 1.7mm shares of Hanover Compressor Corp. stock. Enron contributed the JEDI tracking interest; and JILP-L.P. contributed the Ponderosa tracking interest into the structure as contributions to capital. These parties also contributed additional debt to the structure. Subsequently, Enron and JILP contributed a fraction of their respective interests in Finance to Enron Property and Services Corp. in exchange for additional stock in that entity.
2001-2002	The contribution of the assets was the first of several integrated steps intended to result in the issuance of minority interest equity out of Finance. Certain additional tax benefits may be realized out of the minority interest financing structure following a sale of the PGE common shares and other contributed assets.
2001-2002	This contribution of the Option deconsolidated PGE from Enron for federal income tax purposes. It did not deconsolidate PGE from Enron for financial accounting purposes. If necessary, this project can be unwound at its current stage of development in a manner that would permit PGE to reconsolidate with Enron.

EC2 00003837

Operational Issues and Action Items

Operational Issues	Action Items
Continue to monitor progress of PGE sale to determine whether an unwind may be appropriate.	Meet regularly with Mark Metts. Discuss options regularly with Rick Causey.
Actively monitor the sale of shares in Hanover Compressor Corp. and manage the resulting cash flows and income to insure proper routing to the project.	Promptly analyze any transactions that occur; ensure the consistent book and tax treatment for all parties involved. Coordinate cash flows with the tracker interests.
Actively monitor the restructuring of EOTT to insure that any tax sale is appropriately accounted for and to insure that the structure does not incur any additional liabilities.	Meet regularly with ETS management for updates on restructuring. Assess and reflect the impact on the Tammy II structure.
Perform preliminary analysis on minority interest financing.	Work closely with Global Finance on developing a structure for minority interest financing.
Legal & Tax compliance concerns.	Draft amended limited liability company agreements for operational entities.
Accurate and timely identification of cash, tax, and financial accounting issues.	Continue to develop model to accurately anticipate tax, cash flow, and financial accounting impact of various activities.

EC2 000038378

Special Minority Interest Transactions

October 2001

Confidential

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EC2 000038380

Other Minority Interest Transactions

October 2001

Confidential

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EC2 00003382

Enron Management Inc.

- In December 1995, Enron Corp. ("Enron") implemented a strategy to manage the contingent liabilities from two of its non-qualified benefit plans. Ultimately, the strategy involved the following steps:
  - Enron Management, Inc. ("EMI") contractually assumed Enron's deferred compensation and post retirement benefit obligations ("the Liabilities").
  - Employees in the Compensation and Benefits Departments were transferred to EMI. These groups are directly responsible for managing these plans and the Liabilities.
  - Pursuant to a Stock Purchase & Sale Agreement ("the Agreement"), the two department heads responsible for the management of the Compensation and Benefits Departments (Mary K. Joyce and Patricia Edwards) acquired EMI participating preferred stock with a face value of $40,000. The terms of the preferred stock were designed to provide the department heads with an incentive to control costs and allowed them to modestly share in the rewards of these cost containment efforts.
  - In 1998, Ms. Edwards resigned from Enron and sold her shares to Ms. Joyce for the then fair market value of $85,000.
  - In 2001, pursuant to the terms of the Agreement, Ms. Joyce exercised an option to put her shares back to Enron Corp. for $440,000. As a result of the successful cost containment efforts of Ms. Joyce and Ms. Edwards, Enron realized cost reductions in the Liabilities in excess of $40 million.

ECT Strategic Value Corp.

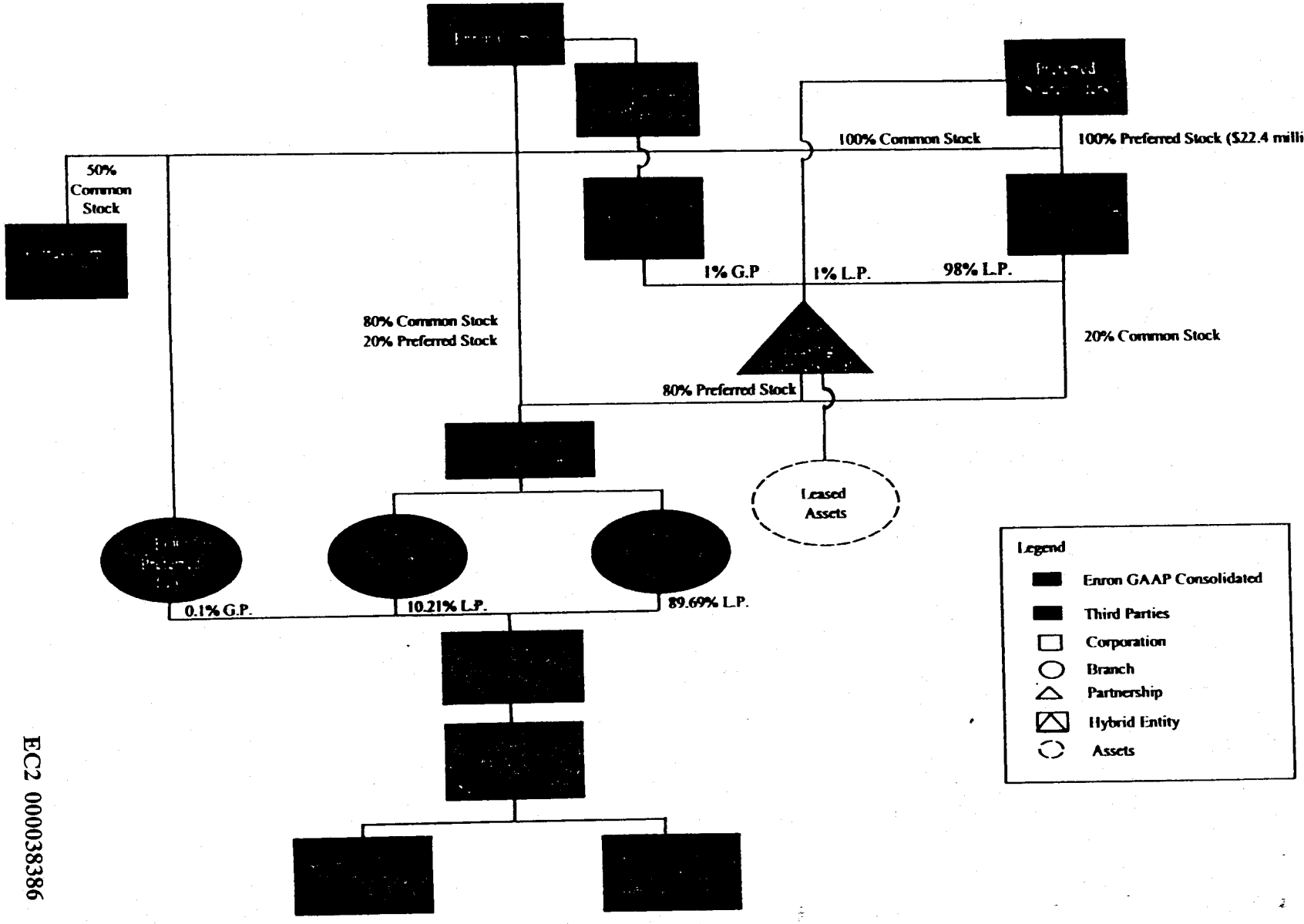
- In 1996, Enron North America Corp. ("ENA") implemented a strategy to manage the reserve liabilities generated in its trading business.
- ECT Strategic Value Corp. ("ESCV") contractually assumed ENA's deferred compensation and post retirement benefit obligations ("the Liabilities").
- Pursuant to an agreement ("the Agreement"), members of ENA management with expertise in the resolution of reserve liabilities acquired "tracking equity" in ESCV.
- The terms of the tracking equity were designed to provide these members of senior management with an incentive to control costs and allowed them to modestly share in the rewards of these cost containment efforts enjoyed by ENA.

Enron Leasing Partners, LP

- In March of 1997, Enron Corp. and an investor formed Enron Leasing Partners, L.P. ("ELP") to own and manage a portfolio of leased assets used in the ordinary course of Enron's business.
- The investor brought certain lease management skills to the structure and helped identify and manage a portfolio which includes Enron Center North and various aircraft.
- The liquidity and yield to the investor is in part funded by ELP's preferred stock interest in Enron Pipeline Holding Company, the holding company for Enron's interstate natural gas pipelines.

EC2 00003385

Enron Leasing Partners Structure



ECT Investing Partners, LP

- In October 1997, Enron Corp. and an outside investor ("the Investor") formed ECT Investing Partners, L.P. (the "Partnership").
- The purpose of the venture was to acquire and manage a diversified portfolio of investment assets.
- With the assistance of the Investor, the Partnership procured a portfolio of corporate debt securities with an initial fair market value of $50 million.
- Currently, as a result of the partial liquidation of the portfolio, the current fair market value of the portfolio is about $24 million.

EC2 000038387

Wiltshire Financial Assets, LLC

- In December 1998, Enron created Wiltshire Financial Asset, LLC ("Wiltshire") to facilitate the issuance of debt securities at below market interest rates.
  - The transaction involved the capitalization of Wiltshire by Enron Finance Holdings Corp. ("EFHC") with a $320 million intercompany note ("the Note").
  - In exchange for the Note, EFHC received four tranches of securities ("the Interests"), each with a declining degree of seniority in its claims upon the Note's proceeds.
- As a result of the waterfall created by the progressive subordination of the Interests, the most senior $80 million security ("Class A Interests") would receive four-to-one coverage in the event of an Enron bankruptcy.
  - It was anticipated that the over-collateralization and principal amortization features of the Class A Interests would result in their trading at a premium over similar Enron obligations.
  - To date, EFHC has sold $8 million Class A Interests and continues to hold remaining unamortized balance thereof and all of the tranches of subordinated Interests.

Maliseet Properties, Inc.

- Maliseet Properties, Inc. (the "Company") is a Real Estate Investment Trust formed in 1999 to manage a diversified portfolio of real estate-based financial investments on behalf of Enron Corp. and other investors.

- The interplay between certain tax rules requiring that the Company have at least 100 shareholders; certain securities rules restricting the number of investors who are eligible to purchase in a private offering made it prudent to include some officers of Enron Corp. among the shareholders.

- Of the 104 individual shareholders in the Company, six are Enron officers: Robert J. Hermann, Richard A. Causey, James V. Derrick, Jeffery McMahon, Robert H. Butts, and Andrew S. Fastow.
  - The securities held by these officers are $1,000 non-voting, non-participating preferred interests that bear a 15% annual dividend.
  - No officer was compelled to purchase shares in the Company.
  - Each officer was offered the opportunity on the same terms offered to other accredited outside investors.
  - The shares are not transferable but may be redeemed by Enron Corp. after January 28 of 2004.

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EC2 00003838

Cherokee Finance VOF

- Cherokee Finance VOF and Sequoia Financial Assets, LLC were formed in May 1999, with involvement of minority interest financing (Choctaw Investors BV).
- Cherokee began investing monthly in Sequoia senior notes; the funds of the investment are used by Sequoia to purchase 3rd party receivables generated by Enron in its North American gas and power trading businesses.
- Amendments in December 2000 allowed Enron Finance Partners to invest in Sequoia senior notes alongside Cherokee.
- Amendment also expanded permitted investments in Cherokee to include equity investments (such as venture capital) to some extent. In January 2001, three venture capital investments of Enron Broadband were placed in the Cherokee structure.

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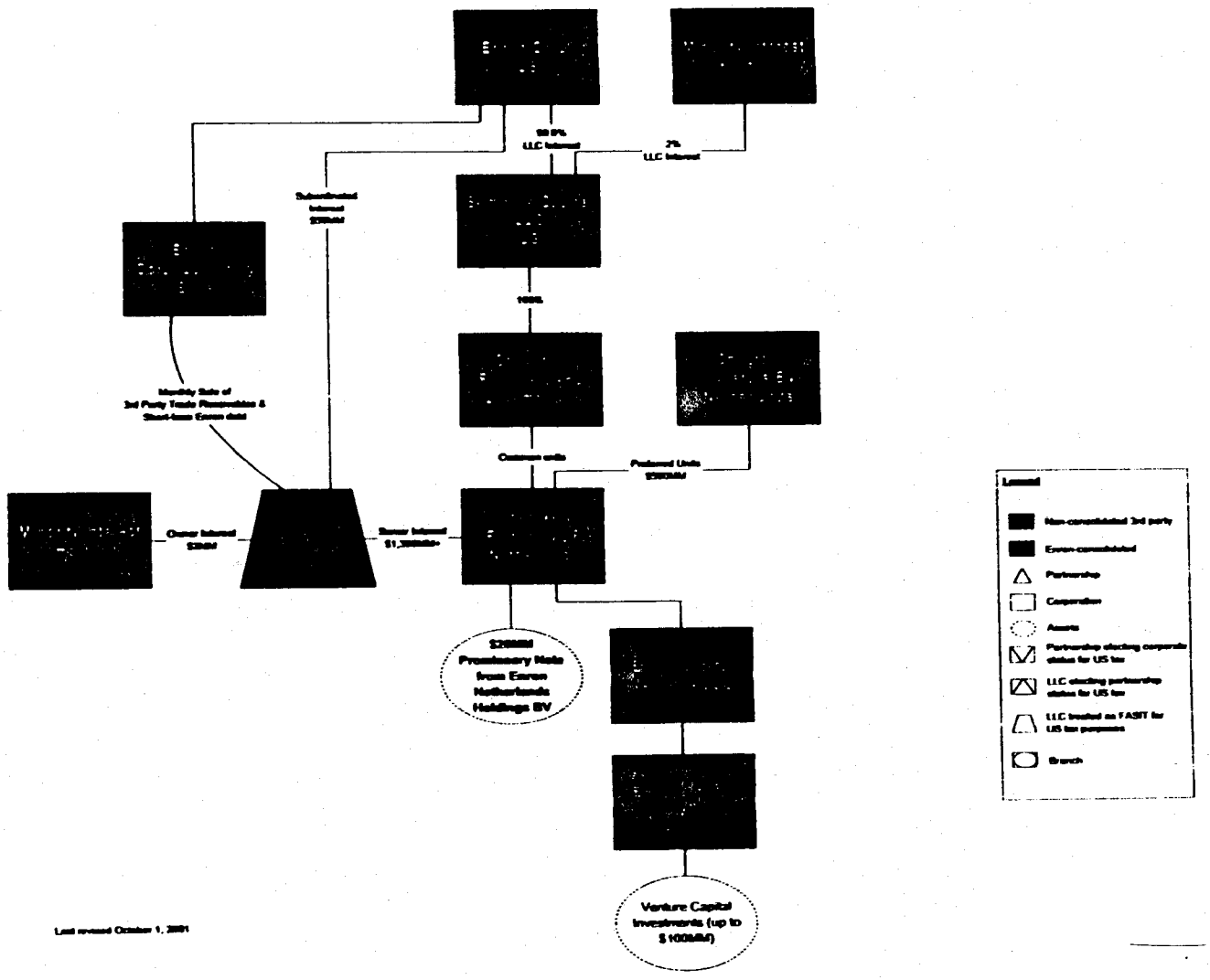
EC2 000038390

Cherokee Finance VOF Structure



Last revised October 1, 2001

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EC2 000038391

ENA Asset Holdings, LP

- In November 1999, Enron Corp. sponsored Whitewing Associates, L.P. ("Whitewing") as a financing vehicle for various investment opportunities.
  - To support Whitewing's credit capacity, Houston Pipe Line Company ("HPL") contributed its interest in the Bammel assets to a Delaware limited partnership called HPL Asset Holdings LP ("Asset Holdings") for LP and GP interests.
  - HPL contributed its LP interest and its indirect GP interest in Asset Holdings to Whitewing in exchange for a preferred LP interest.
  - Asset Holdings leased the Bammel assets to HPL on a 18-year, triple-net lease.
  - The yield payable by Whitewing on the preferred LP interest held by Osprey Trust was reduced as a result of the enhanced collateral provided by the cashflow from the lease of the Bammel assets.
- In June 2001, Enron sold the stock of HPL to AEP.
  - In connection with the sale, HPL transferred its Whitewing interests, its leasehold interest in the Bammel assets, and selected other assets to BAM Lease Company (BAM).
  - The original lease running between Asset Holdings and BAM was extended an additional 31 years to accommodate a 31-year sublease by BAM of the Bammel assets to the new owner of HPL.
  - Also, Asset Holdings' name was changed to ENA Asset Holdings LP.

EC2 00003392

Rheingold, Gmbh

- In May of 2000, Enron Corp. ("Enron") formed a German subsidiary Rheingold, GmbH ("Rheingold").
- Rheingold issued $2.1 billion in "participation rights" and used the funds to acquire preferred equity in Risk Managing and Trading Corp. ("RMT"), a wholly owned Enron subsidiary.
- Enron invested $1.95 billion of the proceeds in a structured note containing a fixed rate component and a variable return computed in reference to certain commodity indices. The remaining funds were invested in other instruments including interest rate swaps.
- The structured note and participation rights are offset and shown as a net liability in the Enron financial statements.
- The Rheingold structure helps Enron manage both its credit position and the various commodity positions reflected in the RMT and Enron trading books.

EC2 000038393

Enron Finance Partners, LLC

- In July of 2000, Enron Corp. ("Enron") created a minority interest financing vehicle capitalized with certain of its non-core business assets including:
  - derivative ownership of Enron Renewable Energy Corp.,
  - stock of EOG Resources, Inc.,
  - economic ownership of the East Coast Power, Inc.,
  - economic ownership of Ecoelectrica, and
  - economic ownership of EOG India, Ltd.
- In the fourth quarter of 2000, $500 million of minority interest equity was placed with outside investors (Zephyrus Investments, LLC).
- As assets are sold out of this structure some of the proceeds will be invested in intercompany securities.

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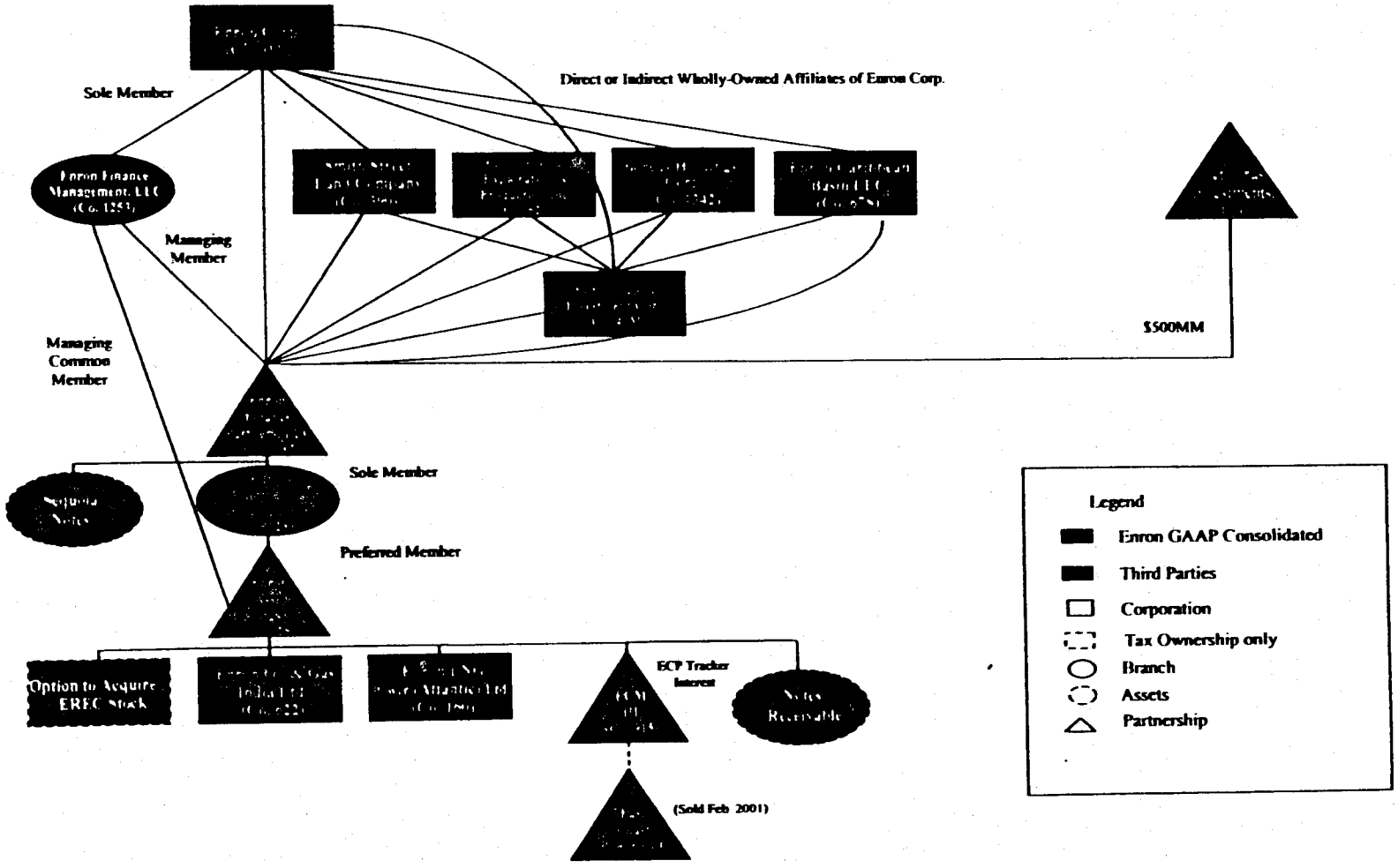
EC2 000038394

Enron Finance Partners - Structure

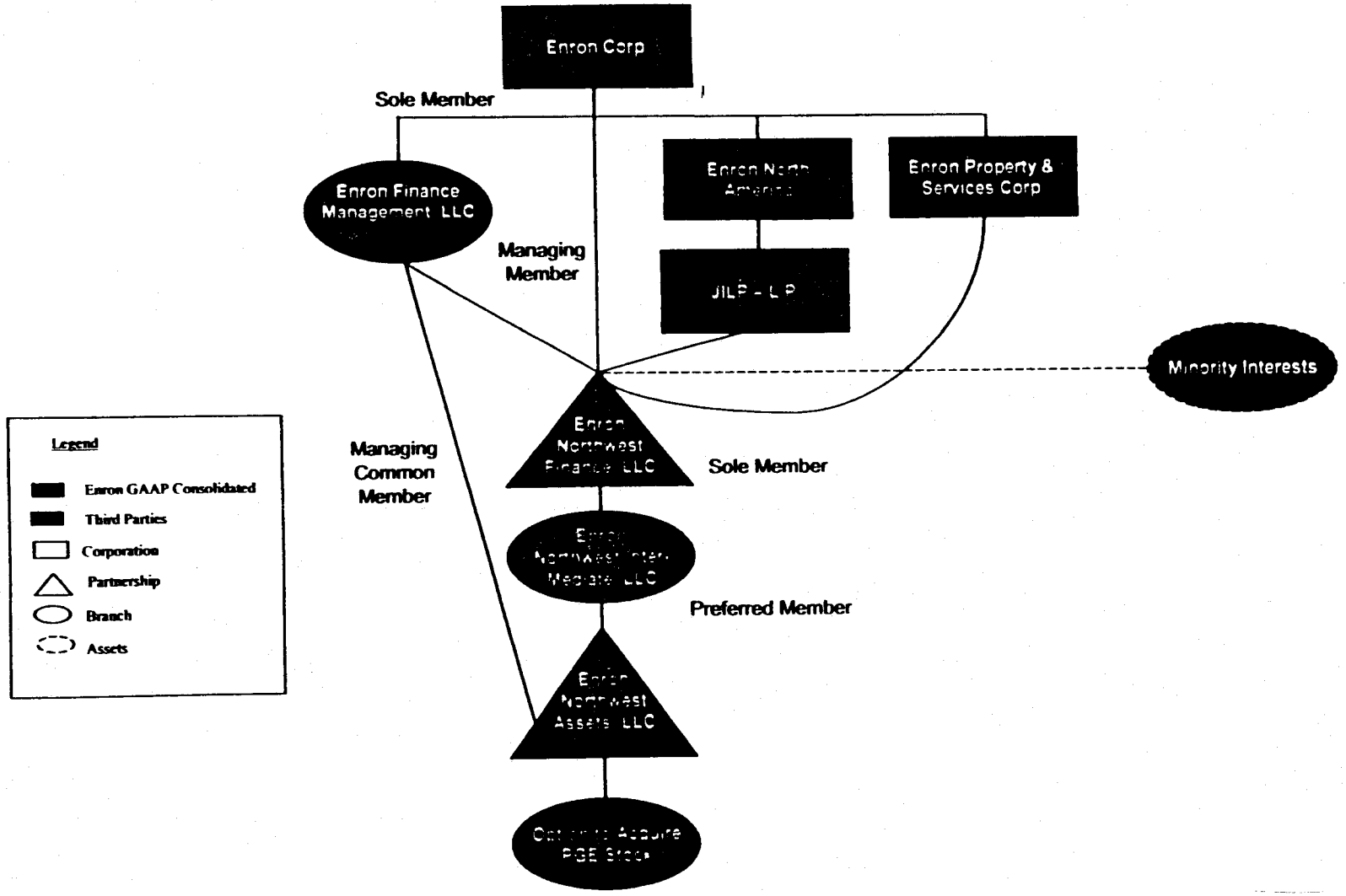


Enron Northwest Finance, LLC

- On May 7, 2001, Enron Corp. ("Enron") created a minority interest financing vehicle capitalized with certain non-core business assets including derivative ownership of Portland General Electric Company ("PGE").
- It is anticipated that Enron Northwest Finance will issue approximately $500 million of minority interest equity in the first half of 2002.

EC2 000038396

Enron Northwest Finance Structure



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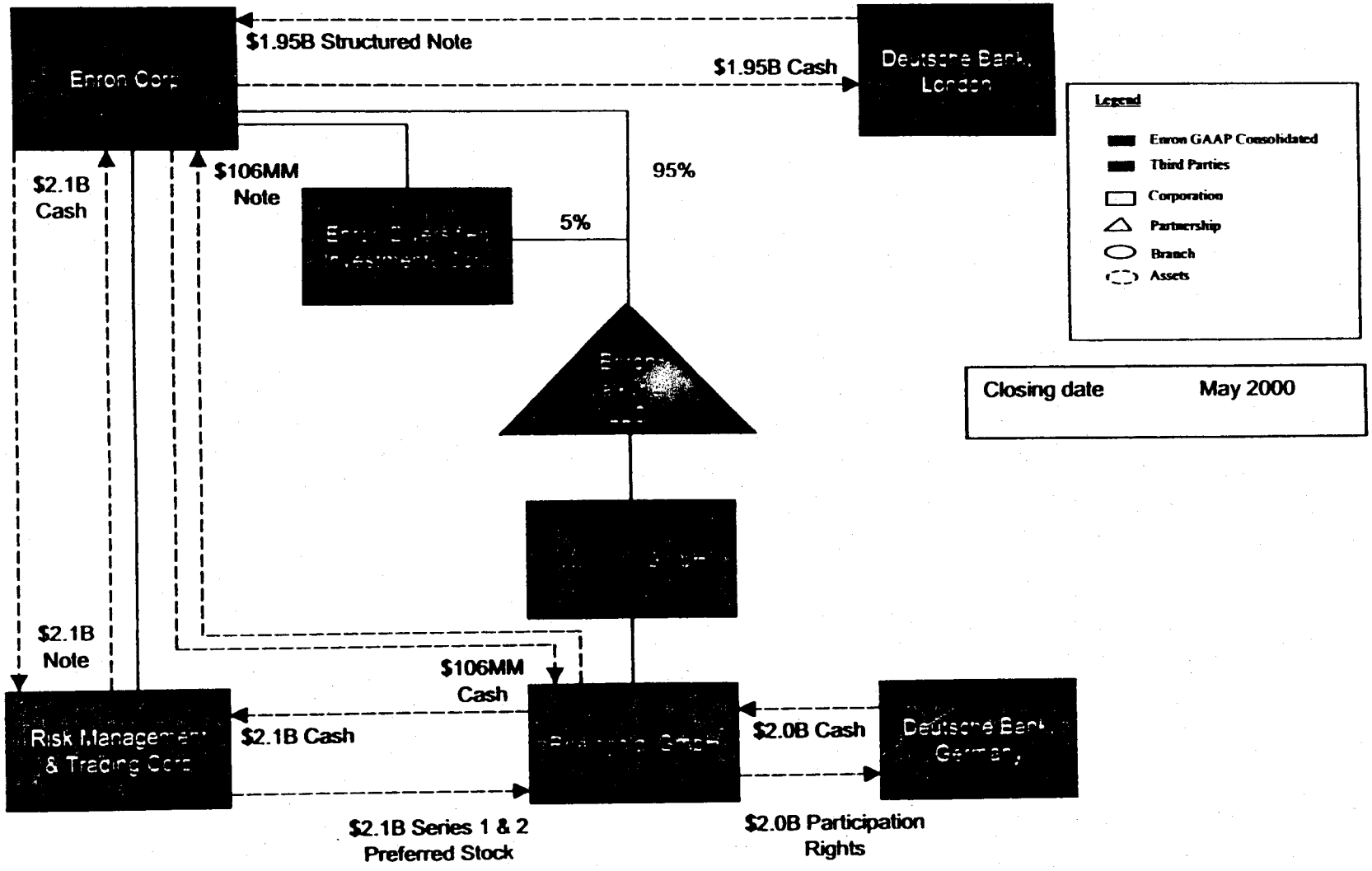
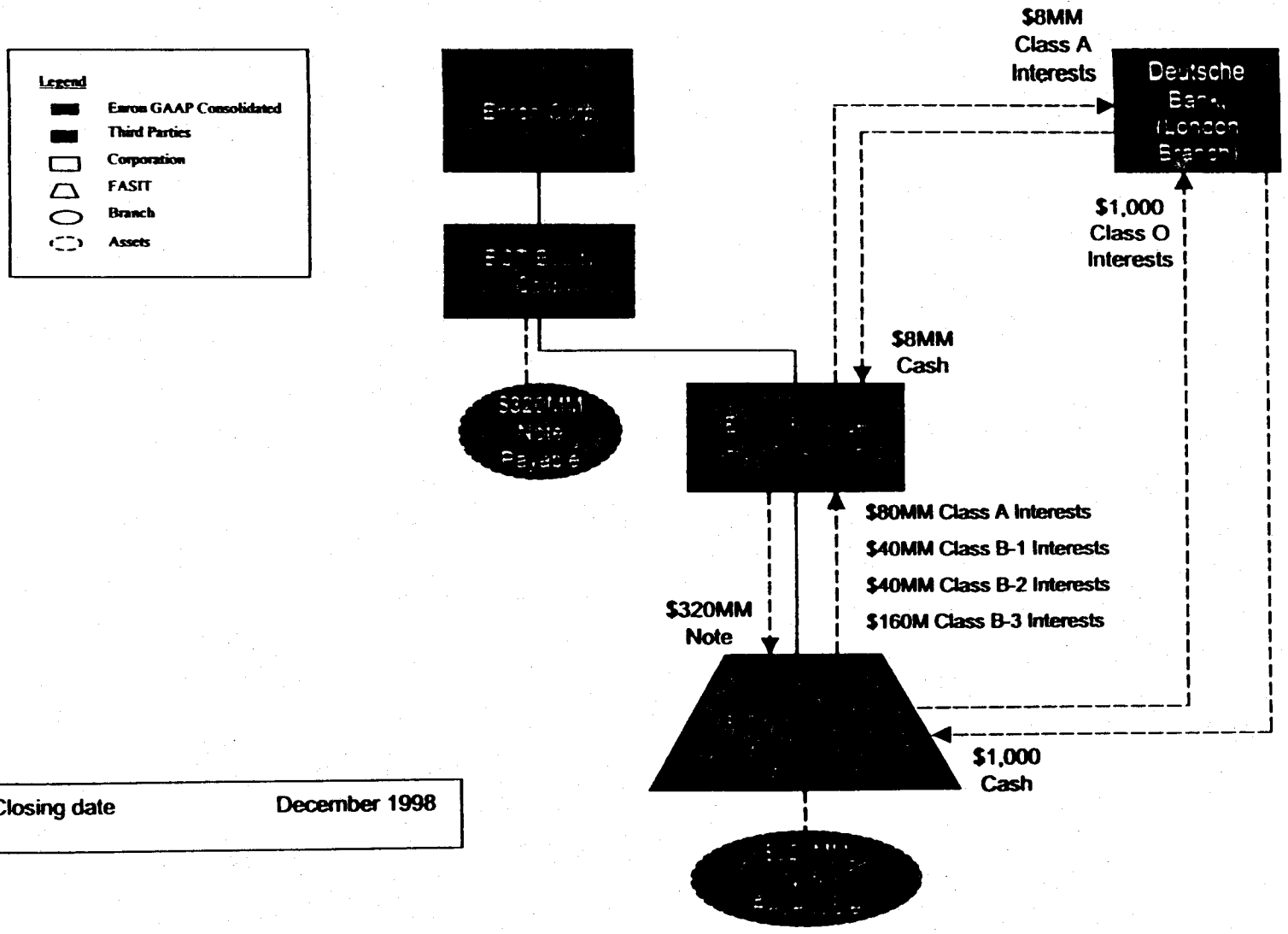
EC2 000038397

Transaction Structure



Transaction Structure



Closing date	December 1998

Enron Corp.

Structured Transactions Group

March 28, 2001

EC2 00003840

Corporate Tax Planning

Structured Finance Earnings by Transaction

(000's)

	1998 After Tax Earnings	1999 After Tax Earnings	2000 Projected After Tax Earnings	2001 Projected After Tax Earnings	Total Cumulative After Tax Earnings
Project Tanya (1995)		$ 19,300			$ 65,800
Project Teresa (1997)	$26,000	21,200	$120,100	$ 10,000	257,100
Project Steele (1997) *	14,800	16,300	15,700	15,600	83,700
Project Renegade (1997) *	900				900
Project Tomas (1998) *	54,000	4,400	44,800		103,200
Project Cochise (1998) *		34,300	53,000	22,300	143,200
Project Apache (1998)		11,300	20,600	22,100	167,000
Project Condor (1999)		20,100	37,200	31,800	332,300
Project Valhalla (2000) *			7,500	13,000	65,000
Project Tammy (2000)				200,000	370,000
Total Projected Earnings	$95,700	$126,900	$298,900	$314,800	$1,588,200

* These projects contribute to EBIT.

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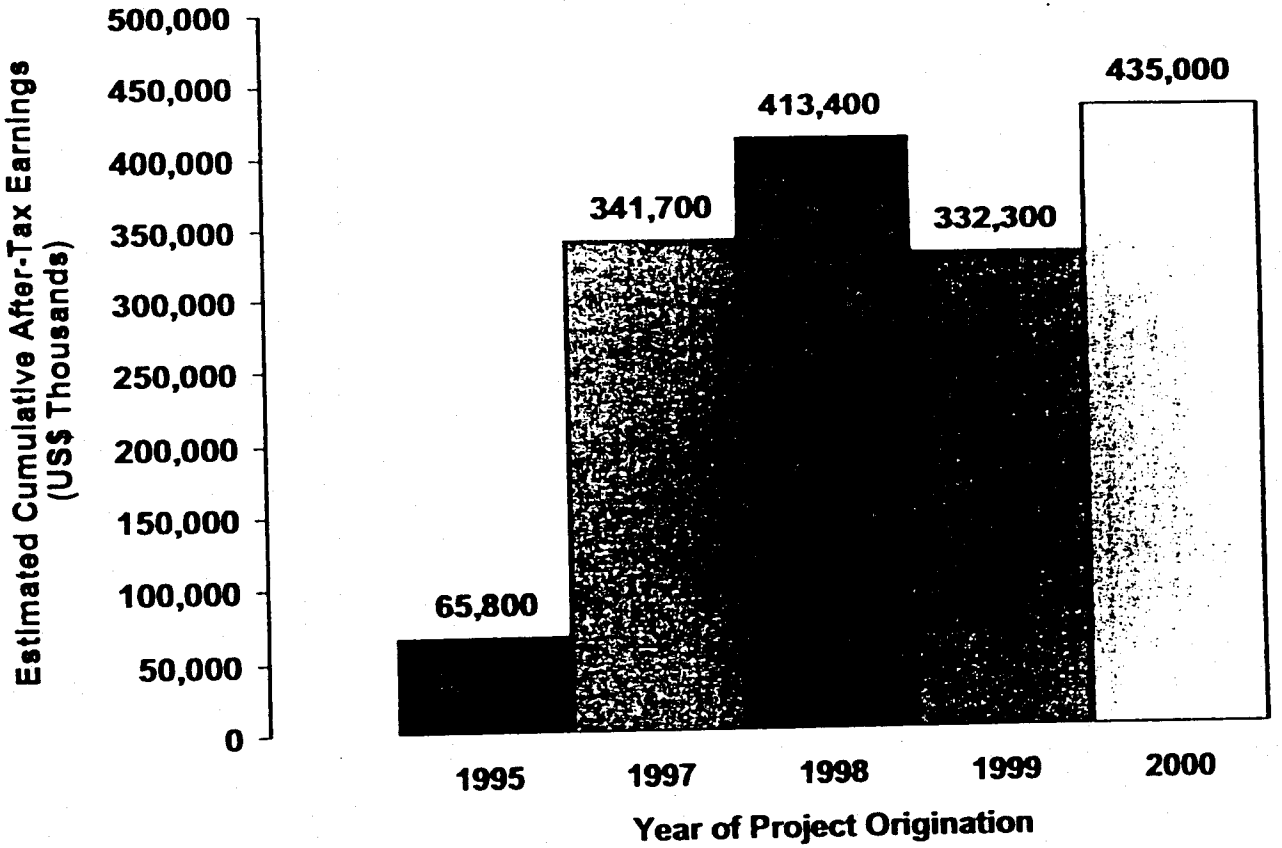
EC2 00003840I

Corporate Tax Planning

Cumulative Earnings by Year of Origination



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EC2 00003840

Corporate Tax Planning
Work In Progress for 2001

Chase	Enter into foreign lease transaction involving a shift of about $1 billion of depreciable basis.
Deutsche Bank/Citibank	Generate EBIT by utilizing leased assets in a carry-over basis transaction.
EWS	Project Apache add-on for "venture capital" type investments.
EGF	Structure Enron common stock buy-back program to trigger Project Tammy benefits
Cross-border transactions	Evaluate several cross-border repurchase structures, including projects in Germany, Britain, France, and the Netherlands.
Donaldson, Lufkin & Jenrette	Monetize Enron's accumulated net operating loss in an M&A transaction involving a publicly traded E&P company.

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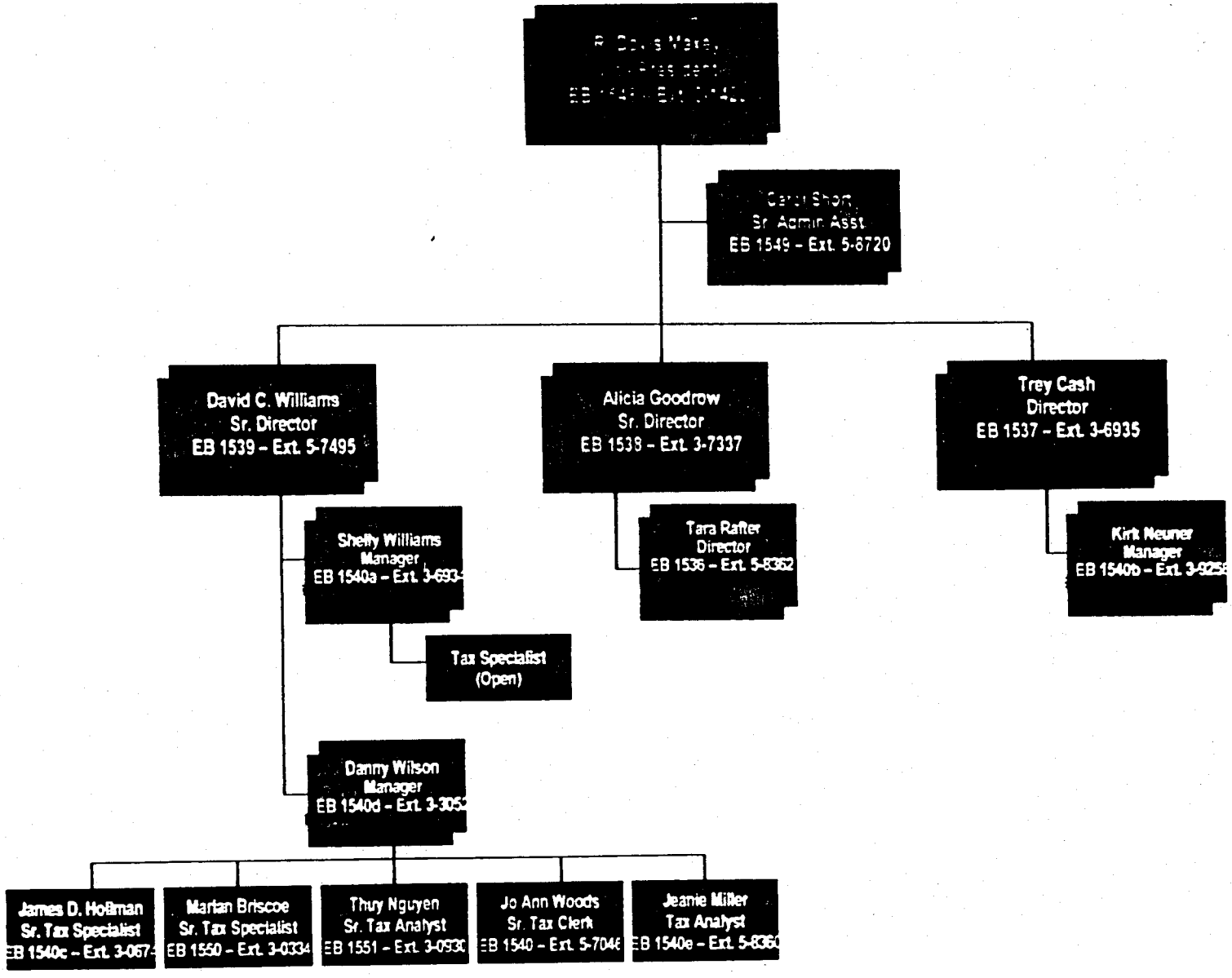
EC2 000038403

R. Davis Maxey
Enron Corp. - Structured Transactions



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EC2 000038404

Rev: March 12, 2001

Enron Corp.

Tax Planning Group

December 13, 2000

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EC2 00003840S

Corporate Tax Planning

Structured Finance Earnings by Transaction

(000's)

	1998 After Tax Earnings	1999 After Tax Earnings	2000 Projected After Tax Earnings	2001 Projected After Tax Earnings	Total Cumulative After Tax Earnings
Project Tanya (1995)		$ 19,300			$ 65,800
Project Teresa (1997)	$26,000	21,200	$120,100	$ 10,000	257,100
Project Steele (1997) *	14,800	16,300	15,700	15,600	83,700
Project Renegade (1997) *	900				900
Project Tomas (1998) *	54,000	4,400	44,800		103,200
Project Cochise (1998) *		34,300	53,000	22,200	143,200
Project Apache (1998)		11,300	20,600	22,100	167,000
Project Condor (1999)		20,100	37,200	31,800	332,300
Project Valhalla (2000) *			7,500	13,000	65,000
Project Tammy (2000)				100,000	370,000
Total Projected Earnings	$95,700	$126,900	$298,900	$214,700	$1,588,200

* These projects contribute to EBIT.

ENRON

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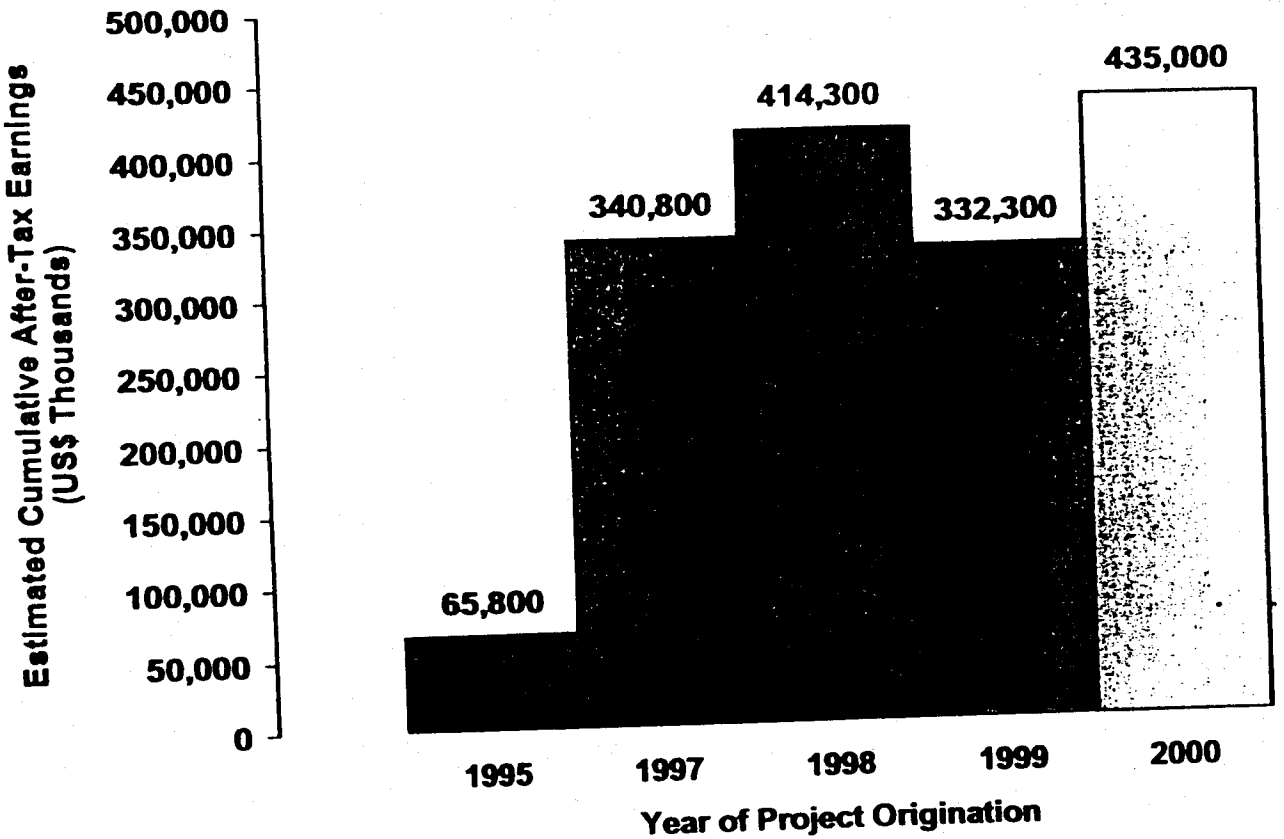
Corporate Tax Planning

Cumulative Earnings by Year of Origination



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EC2 000038407

Corporate Tax Planning

Major Accomplishments in 2000

Project Valhalla	Put in place a $2 billion cross-border financing transaction with Deutsche Bank. Transaction should produce $65 million of earnings over the next 5 years.
Project Tammy	Created and executed an ownership structure for certain Enron assets ($2 billion value) which will provide a tax-advantaged $500 million minority-interest financing. Future earnings impact over the next few years should be about $350 million.
Project Tomas	Completed monetization of former PGH portfolio of leased assets through on-line bidding process. Transaction produced $41 million of earnings in 4Q 2000 (in addition to $64 million of earnings recognized in 1998).
Project Cochise	Partially wound-up the transaction by monetizing two commercial aircraft which Enron had invested in as part of the original transaction in January, 1999. Produced $23 million of earnings in 2Q 2000.

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EC2 00003840B

Corporate Tax Planning
Representative Potential Projects for 2001

Chase	Enter into foreign lease transaction involving a shift of about $800 million of depreciable basis.
Deutsche Bank	Generate EBIT by utilizing a leveraged lease in a carry-over basis transaction.
EBS	Provide a tax-advantaged funding vehicle for "venture capital" type investments.
Cross-border transactions	Evaluate several cross-border repurchase structures, including projects in Germany, Britain, France, and the Netherlands, with the intent to execute one or two such structures in 2001.
Donaldson, Lufken & Jenrette	Monetize Enron's accumulated net operating loss in an M&A transaction involving a publicly traded E&P company.
KPMG	Convert regulated operating pipelines from corporate to flow-through tax entities. Would provide earnings and profits necessary for Project Teresa.
Joint venture with Ernst & Young	Provide marketing and execution expertise for a structure enabling certain large multi-nationals to unlock benefit of currently unusable foreign tax credits. Enron would receive a fee for acting in a investment banking capacity.

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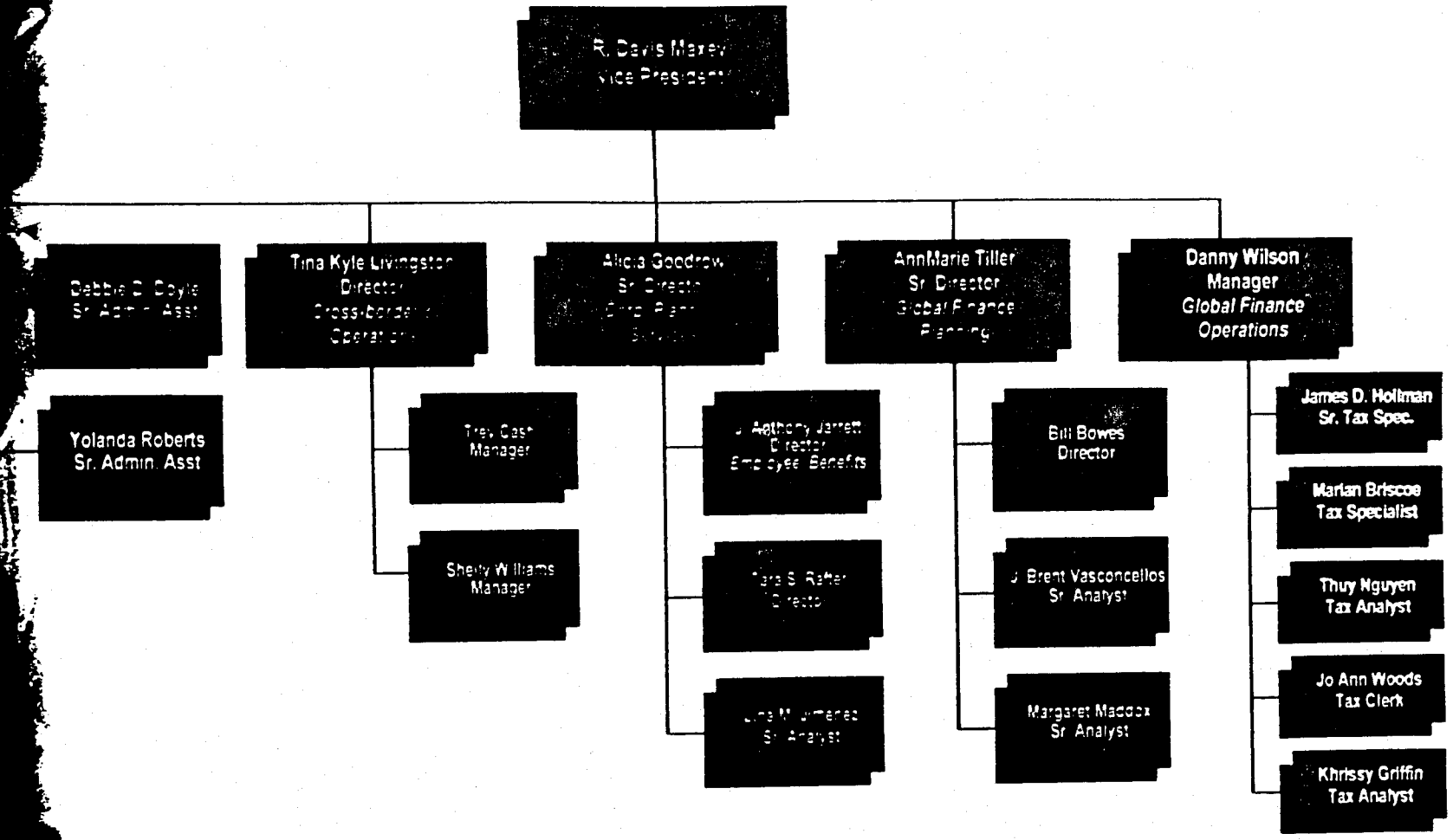
Corporate Tax Planning



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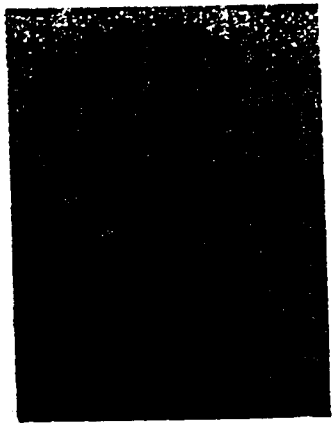
Corporate Tax Planning



AnnMarie Tiller
Senior Director

Hire Date	July 1996
Education	University of Arkansas – BSBA Accounting (summa cum laude) 1983; JD 1986
Employment History	Deloitte & Touche American General Corporation
Professional Licenses	State Bar of Texas 1987

Accomplishments

- Project Condor. Oversaw current year operations of a structure that provided approximately $37M in earnings in 2000. Past year's Condor activities included an additional borrowing of $750M and £315 by Whitewing's outside investor; restructuring relating to the proposed sale of Houston Pipe Line Company; and a number of year-end sales of assets off Enron's balance sheet to Whitewing.
- Project Cochise. Worked on team that implemented current year activities of this structure, including the sale of leased aircraft. This project generated $53 million of earnings in 2000.
- Project Tammy. Structuring support for FAS 125 monetization of assets out of Enron Finance Partners.
- Global Finance. Managed the tax team responsible for structuring Global Finance transactions involving Enron Corp. including (1) the Raptor I, II, III, and IV transactions designed to allow Enron to lock in book gains on fair value investments; (2) a $500M offering of Enron Credit Linked Notes (Yosemite III) and a $200M financing (Yosemite II); and (3) the tax support for a number of year-end FAS 125 transactions.

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EC2 00003811

Corporate Tax Planning

Tina Kyle Livingston
Director

Hire Date	September 1999
Education	University of Texas, JD (1993) Louisiana State University, BS – Accounting (1985)
Employment History	Vinson & Elkins Ernst & Young Arthur Andersen
Professional Licenses	State Bar of Texas (1993) CPA (Texas) (1987)

Accomplishments

- Project Valhalla. Executed and closed a cross-border structured transaction that will generate $100 million pretax income for Enron over five years, assuming a lead role in structuring, negotiating and closing the transaction. Maintaining the structure on an ongoing basis.
- Project Tammy. Assisted in the execution and closing of the minority interest financing, which raised $500 million of minority interest financing for Enron and will result in an earnings benefit of approximately $380 million.
- Project Tomas. Assisted in the windup of the project's investment in Seneca, which involved the valuation of a partnership interest through an online bidding process and produced $43 million of after-tax income for Enron.

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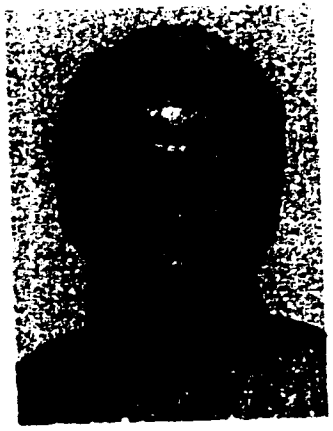
Corporate Tax Planning



Trey Cash

Manager

Hire Date	April 2000 (Tax) Started with Azurix May 1999
Education	Rice Univeristy, MBA (1997) University of Texas, JD (1989) University of Texas, BBA (1984)
Employment History	Compaq Computer Fizer Beck Webster & Bentley Mayor, Day, Caldwell & Keeton KPMG Peat Marwick
Professional Licenses	State Bar of Texas (1989) CPA (Texas) (1986)

Accomplishments

- Project Tomas. Led the effort to retire from Seneca Leasing Partners, producing $43 million of after-tax income for Enron. Ran an online bidding process (using DealBench) to solicit bids for partnership's 15 leased asset interests, which in turn determined the value of Enron's partnership interest upon retirement. The on-line bidding process valued the portfolio of leased assets at $238 million, gross, and generated 85 bids for the 15 asset pools.
- Project Cochise. Oversaw the sale of two aircraft held by Enron as part of the Cochise project. Sale produced $22.7 million of after-tax income, and $36.4 million of revenues.
- Project Valhalla. Worked with Treasury on the funding aspects of the transaction.
- Project Apache. Overseeing implementation of changes to (1) allow Enron Finance Partners (Project Tammy) to invest in FASIT vehicle, and (2) provide funding vehicle for "venture capital" type investments by EBS and perhaps other business units.

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EC2 000038413

Enron Corp.
Tax Planning Group

Structured Finance Transactions

June 5, 2000

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EC2 000038414

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I. Executive Summary

II. Financial Results

III. Structured Transaction Team

IV. Transaction Overview

V. Transaction Summaries

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I. Executive Summary

- Since 1995, the corporate tax planning group at Enron has evolved into a small niche operating group responsible for the development of a portfolio of structured transactions.
- Many major financial institutions and a select group of large corporations have established similar structured transaction groups to execute transactions utilizing the enterprise's tax capacity.
- Structured transactions offer powerful earnings and cash generation potential through the creation of permanent tax benefits. The tax risks associated with the transactions can be mitigated but require careful management.
- Enron's corporate tax planning group consists of 14 professionals responsible for the execution or maintenance of the transactions in addition to providing tax support to various Enron operating groups. Over the last three years, the annual net income generated by this group has averaged $165 million.

II. Financial Results

- Benefits
  - Net income contribution
  - Low amounts of financial capital utilized
  - Potential for generation of fee income from third parties
- Earnings from portfolio of closed structured transactions
  - Year 2000 net income contribution $ 312 million
  - Cumulative (1995 to end of life) $1,519 billion
- Additional Earnings under development for 2000 $ 436 million*
- Enron's average effective tax rate compared to others
  - (book tax expense / book net income before taxes) over 2 years
  - Enron – 15 percent
  - Enron's peers in the Fortune 500 – 38 percent

*Cumulative over life of transactions.

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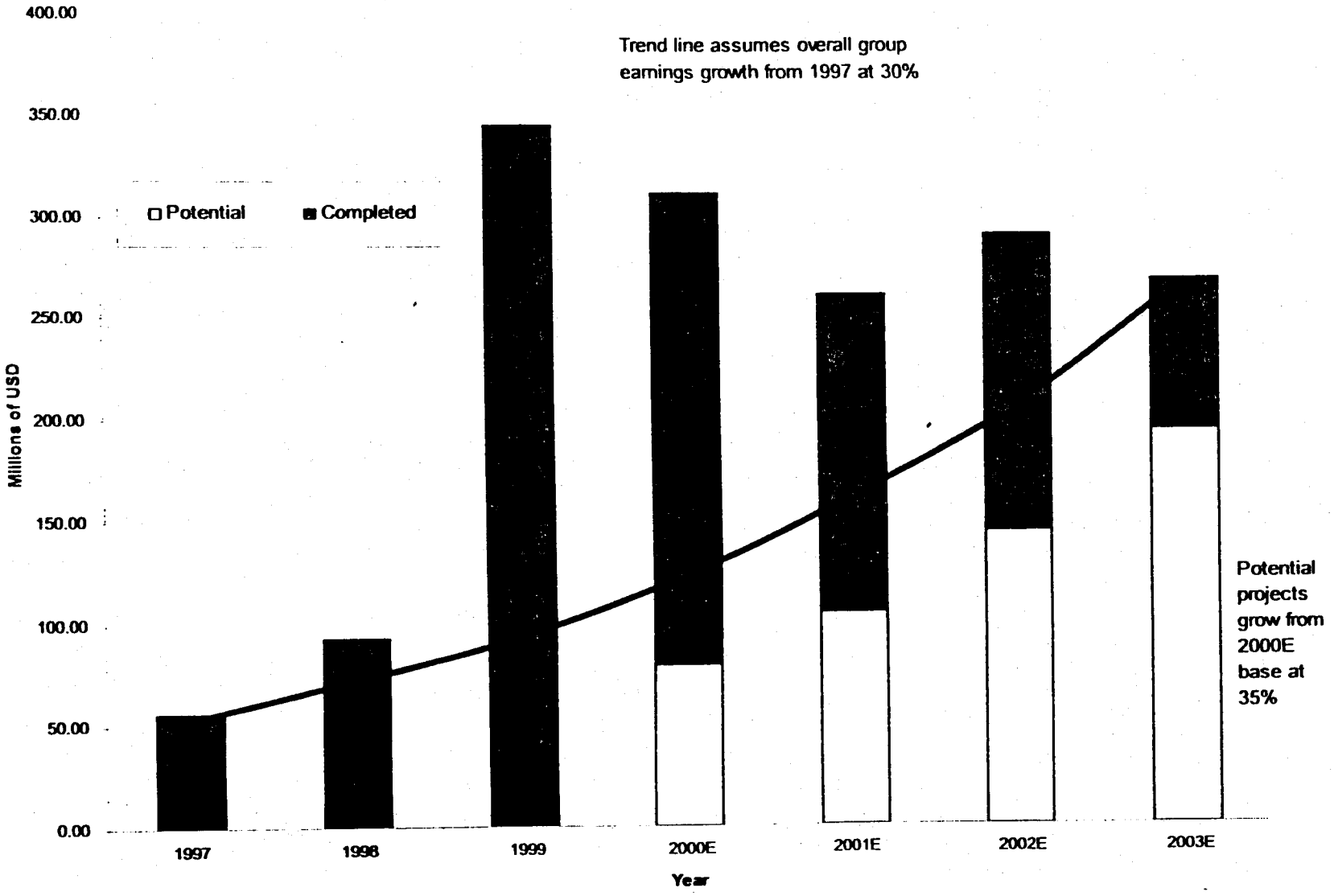
Corporate Tax Planning

Income From Completed and Potential Transactions



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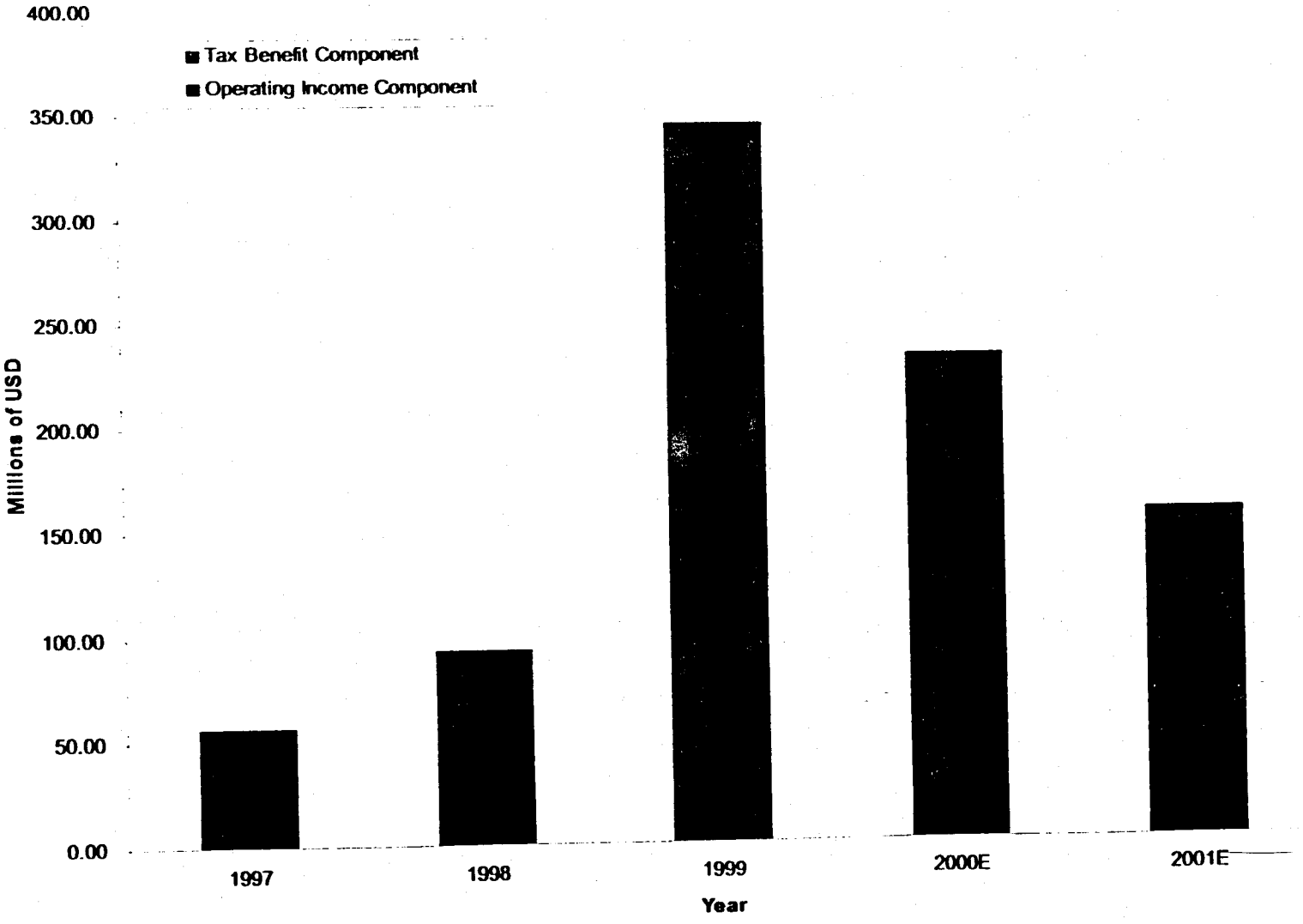
Corporate Tax Planning
Components of Income from Completed Transactions



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Corporate Tax Planning
Cumulative Net Income Contribution
(Projects Grouped by Year Closed)

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EC2 000038420

Corporate Tax Planning

Structured Finance Earnings by Transaction

(thousands of USD)

	1999 After Tax Earnings	2000 Projected After Tax Earnings	2001 Projected After Tax Earnings
Project Tanya (1995)	$ 19,300		
Project Teresa (1997)	21,20	$ 51,800	$ 52,800
Project Steele (1997)	16,300	15,700	15,600
Project Tomas (1998)	4,400	46,000	
Project Alpha (1999)	218,100		
Project Cochise (1999)	34,300	53,000	22,200
Project Apache (1999)	11,300	20,600	22,100
Project Condor (1999)	20,100	37,200	31,800
Project Valhalla (2000)		8,400	13,000
Currently pending projects		79,000	104,000
Total Projected Earnings	$345,000	$311,700	$261,500

Corporate Tax Planning
Transaction Metrics
(USD Millions)

Project	Cumulative Net Income	NPV @ 7%	Capital Commitment	After-tax IRR	Notional Tax Benefits
Tanya (1995)	$ 65.80	$ 65.80		N/A	$ 188.00
Valor (1996)	82.25	82.25		N/A	235.00
Teresa (1997)	257.10	12.80	$ 95.90	5.70%	980.00
Steele (1997)	83.68	32.00	57.60	22.50%	220.00
Tomas (1998)	103.30	64.80		282.10%	280.00
Renegade (1998)	0.90	0.90		N/A	1.30
Apache (1999)	167.00	193.69		181.00%	500.00
Cochise (1999)	143.20	49.90	71.50	28.65%	400.00
Condor (1999)	332.29	66.36		15.93%	900.00
Alpha (1999)	218.13	218.13		N/A	1,200.00
Valhalla (2000)	65.50	52.30		N/A	100.00
TOTALS	$1,519.15	$838.93	$225.00		$5,004.30

Note: Based on estimates at origination of transaction.

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EC2 000038422

III. Structured Transaction Team

- Intellectual Capital Required
  - Research and development
  - Financial analysis
  - Due diligence
  - Document preparation
- Resources
  - Internal personnel
  - Outside consultants
  - Counter parties
- Team Credentials
  - 14 professionals with 13 advanced degrees
    - 9 attorneys
    - 7 certified public accountants
    - 4 MBA's and 1 LLM
  - Experience represented
    - Each of the Big 5 accounting firms
    - 5 Major law firms
    - Various corporations

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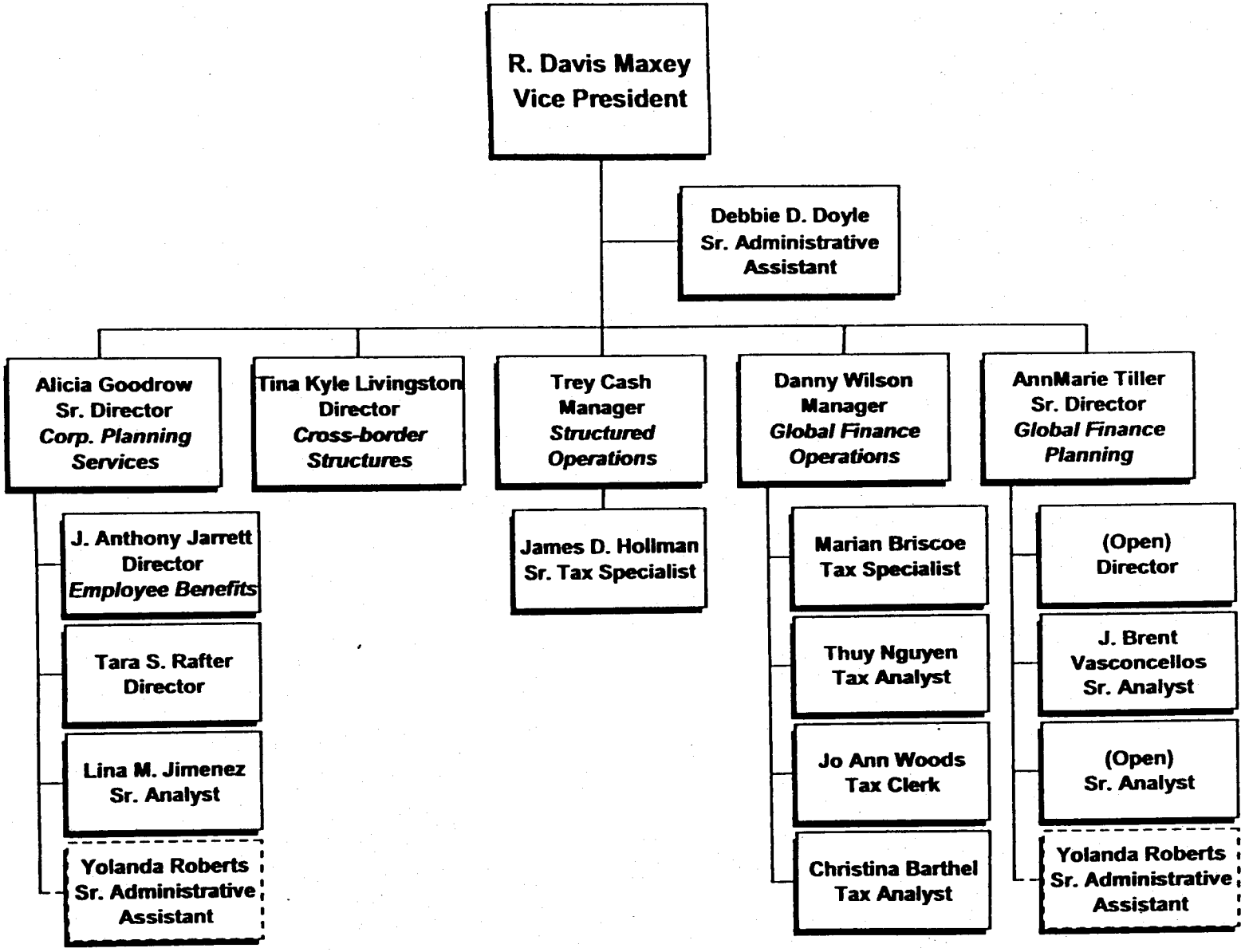
Structured Transaction Team



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EC2 000038424

IV. Transaction Overview

A. 2000 Business Plan

B. Transaction types

C. Risk & Mitigation

D. Stages of Project Implementation

E. Stages of Project Administration

2000 Business Plan

- New Transactions
  - Project Valhalla (2nd quarter)
  - Project Tammy (3rd quarter)
  - Project Avignon (4th quarter)
  - Project Stalker
  - Additional repo
- Operations and Maintenance
  - Project Teresa E&P enhancement (1st quarter)
- Unwind of Closed Structures
  - Project Cochise (2nd quarter)
  - Project Tomas (4th quarter)
  - Project Tanya (4th quarter)

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EC2 000038426

Transaction Types

- Originated within Corporate Tax Planning
  - Project Teresa
  - Project Tanya
    - No audit adjustments
- Identification of Underutilized Assets
  - Project Tomas
- Corporate Development
  - Originated in conjunction with mergers, acquisitions and dispositions
  - Project Alpha is an example

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EC2 000038427

Risks and Mitigation

- Tax
  - "Should" level opinions obtained
  - Careful maintenance of structures
- Accounting
  - Arthur Andersen L.L.P. sign-off
- Transaction Specific
  - RAC review if:
    - Capital invested
    - Credit exposure

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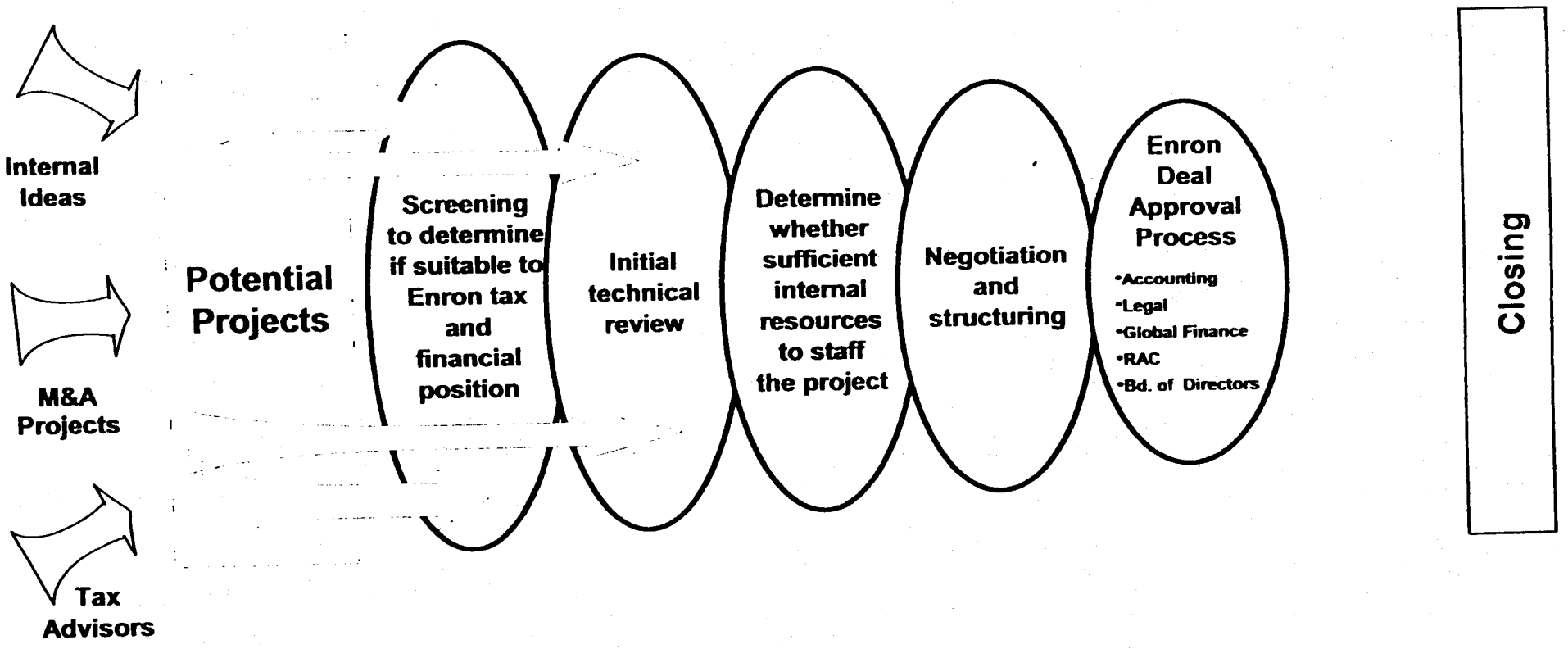
EC2 000038428

Stages of Project Implementation



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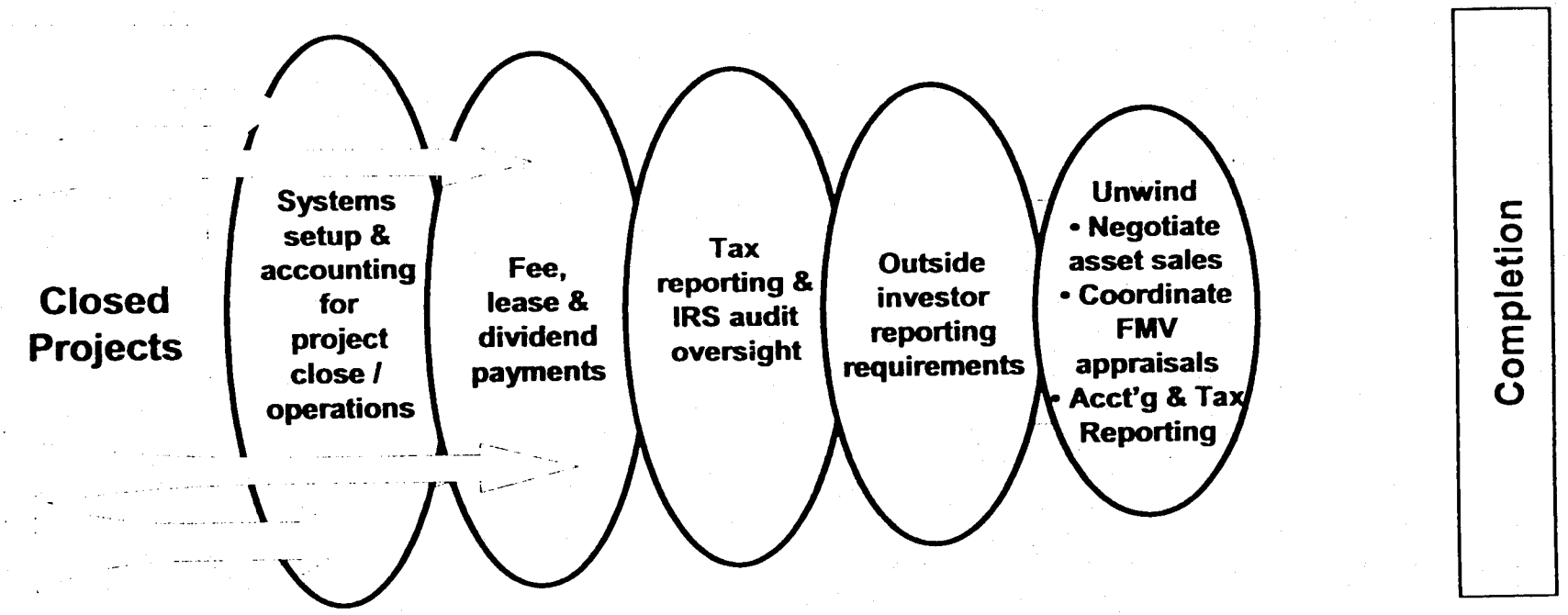
Stages of Project Administration



Can require from 5 to 15 years to complete process

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EC2 00003843O

IV. Transaction Summaries

A. Project Tanya
B. Project Teresa
C. Project Steele
D. Project Tomas
E. Project Renegade
F. Project Cochise
G. Project Apache
H. Project Alpha
I. Project Condor
J. Project Valhalla
K. Project Tammy

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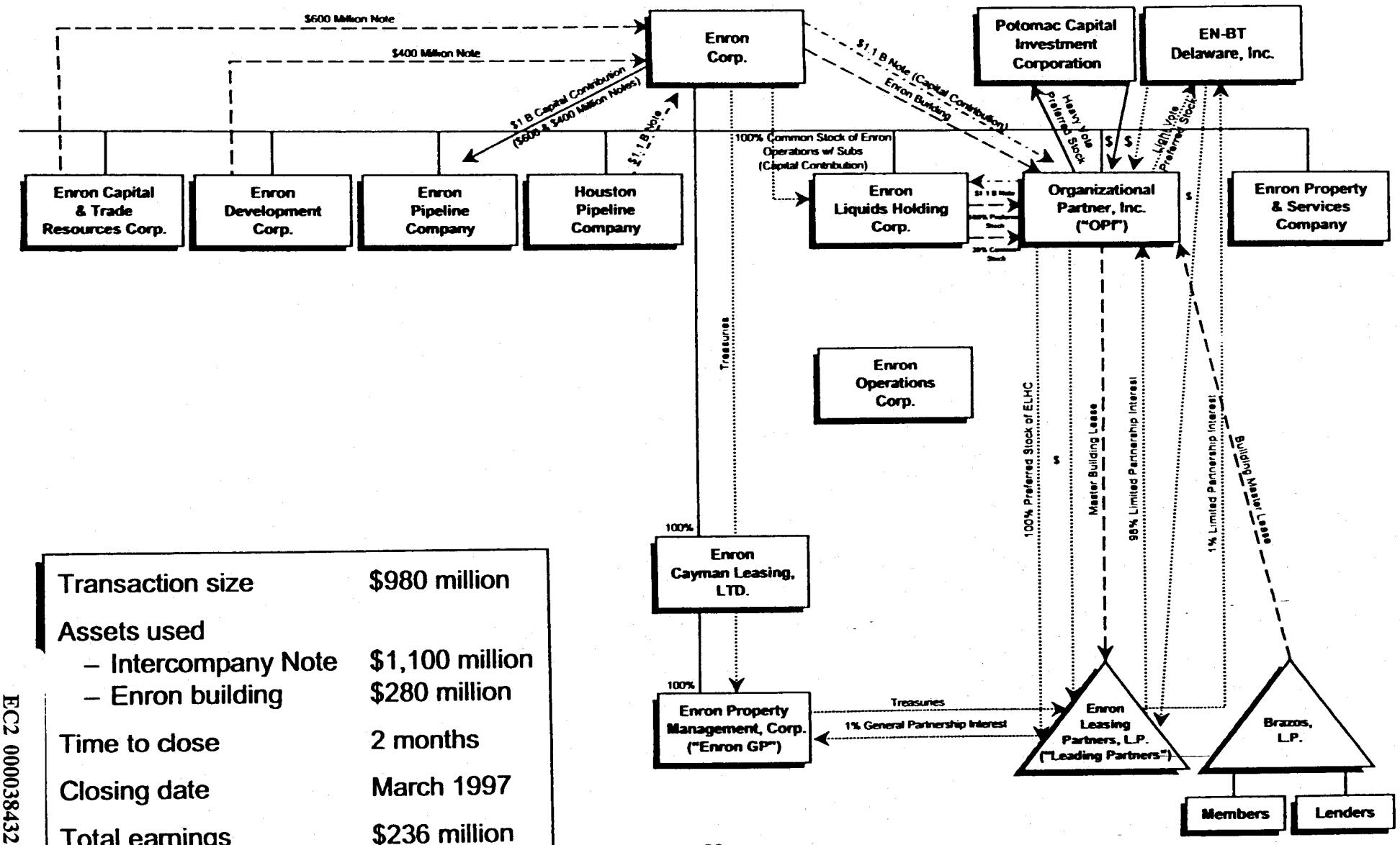
Project Teresa



Transaction size	$980 million
Assets used	
– Intercompany Note	$1,100 million
– Enron building	$280 million
Time to close	2 months
Closing date	March 1997
Total earnings	$236 million

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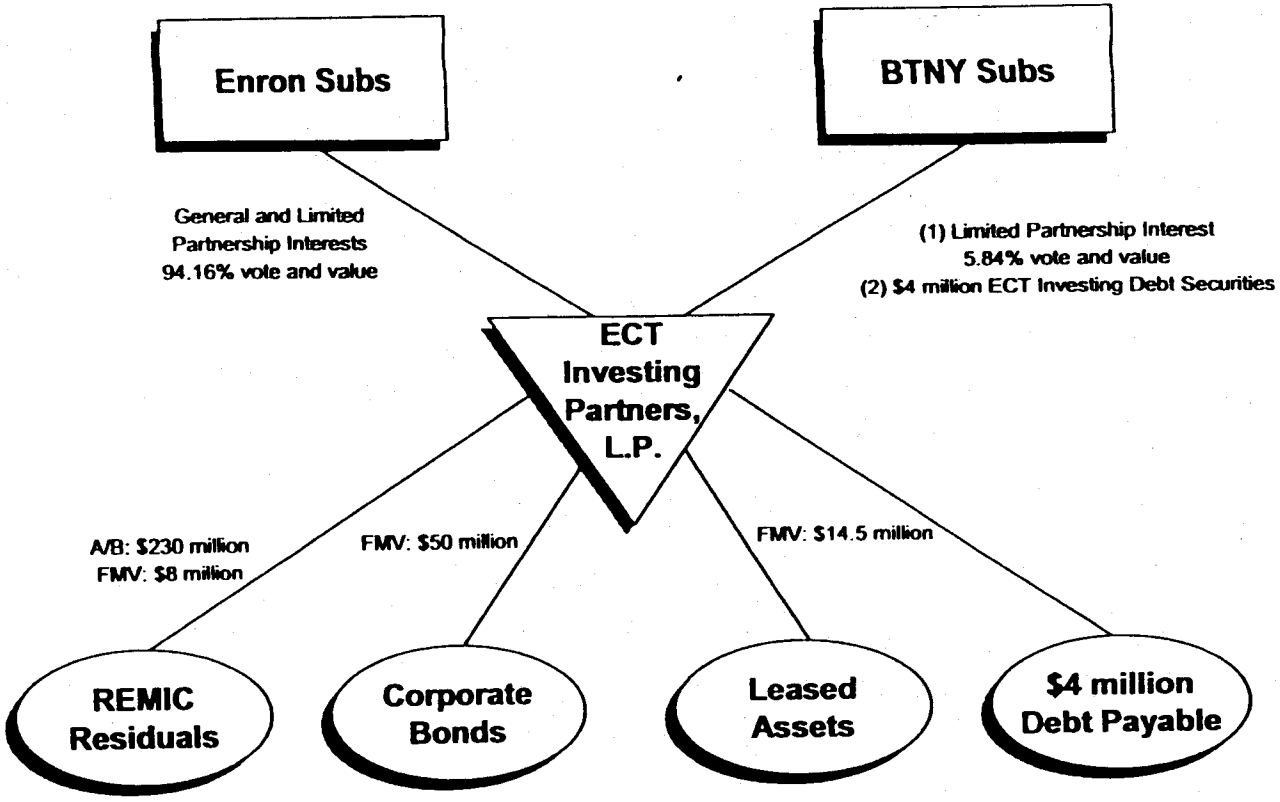
EC2 000038432

Project Steele



Transaction size	$220 million
Assets used	
– Cash	$50 million
– Corporate Aircraft	$42 million
Time to close	6 months
Closing date	October 1997
Total earnings	$84 million

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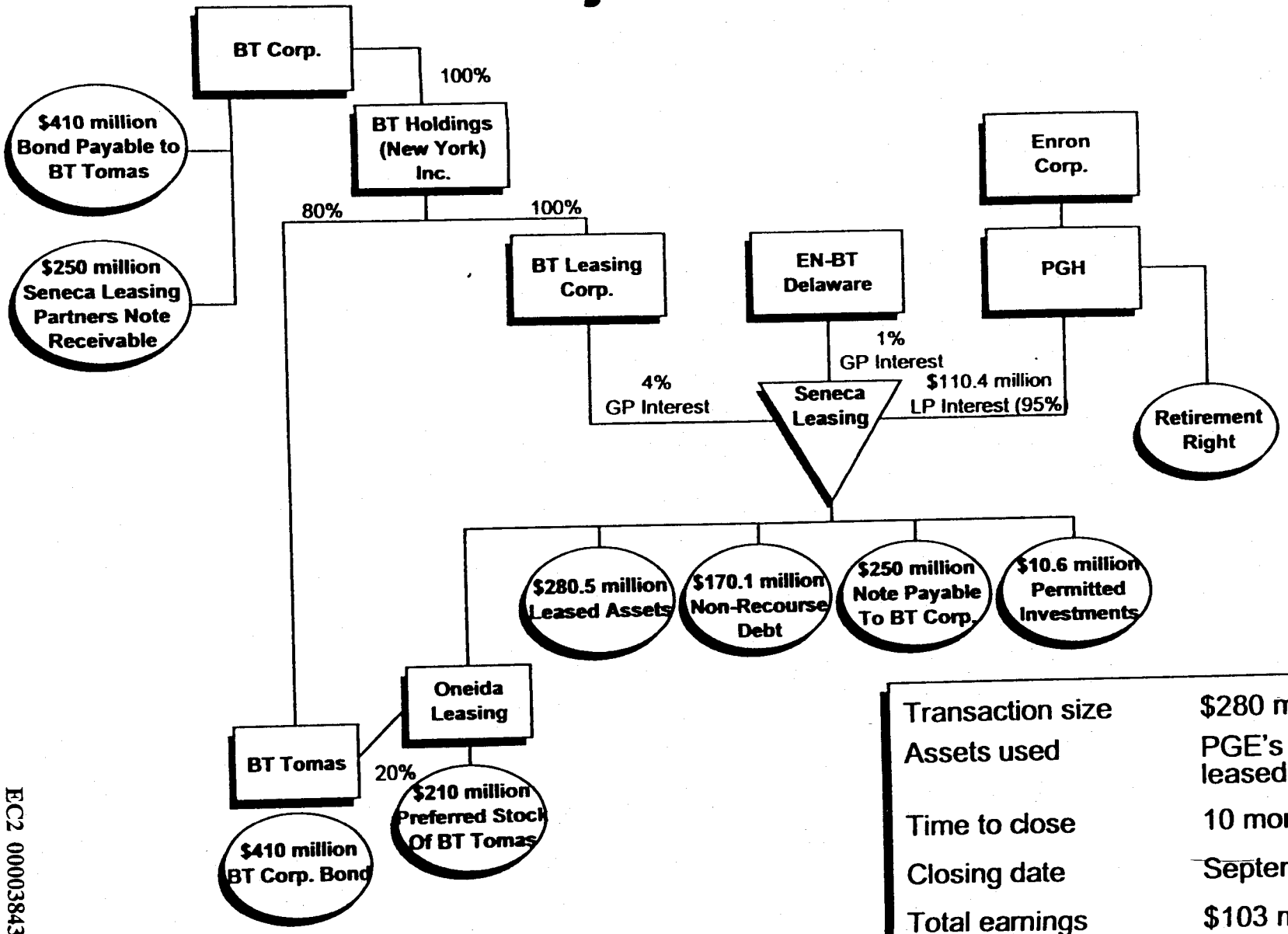
EC2 00038433

Project Tomas



Transaction size	$280 million
Assets used	PGE's portfolio of leased assets
Time to close	10 months
Closing date	September 1998
Total earnings	$103 million

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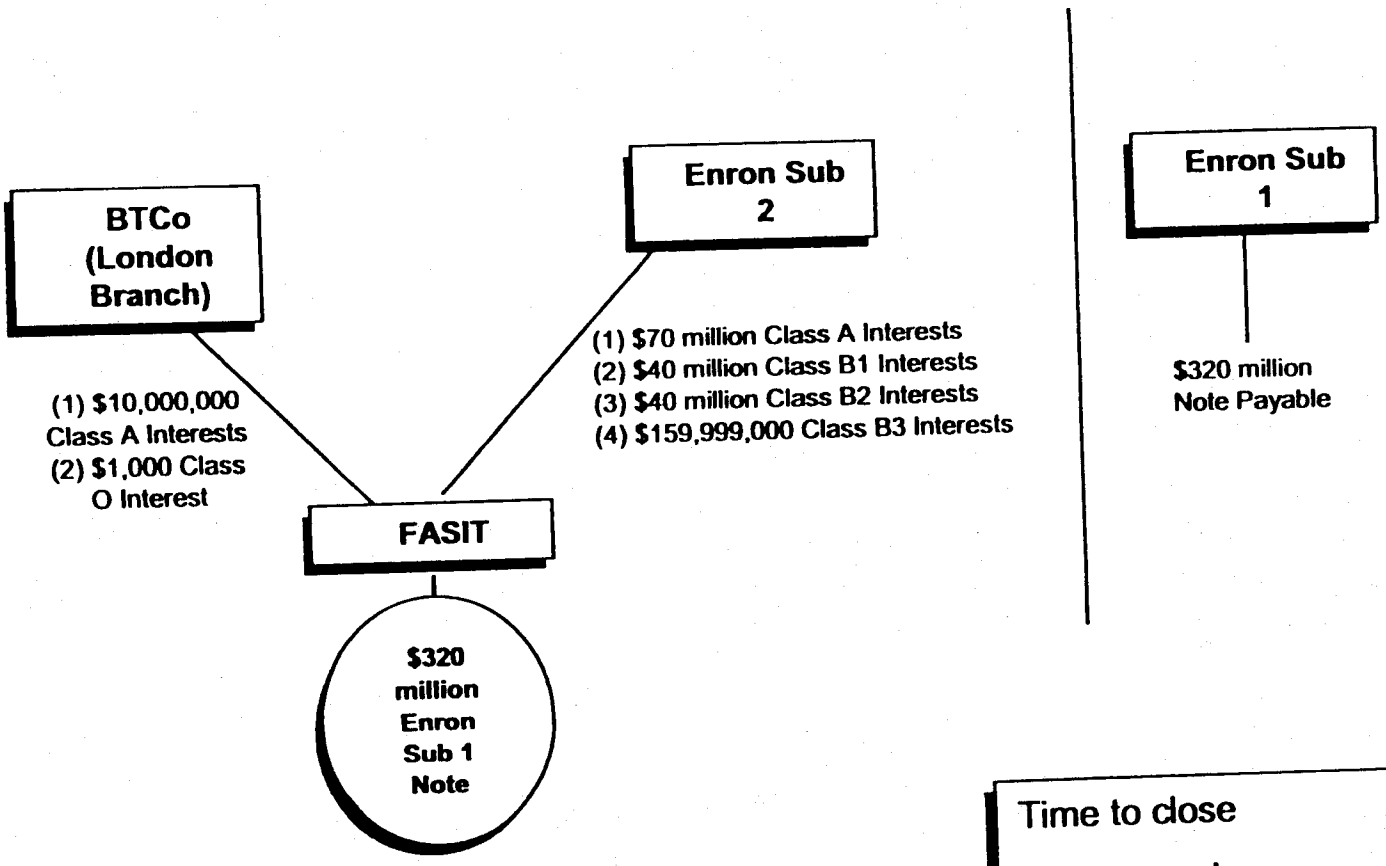
EC2 00003843 4

Project Renegade



Time to close	1 month
Assets used	
– Intercompany Note	$320 million
Closing date	December 1998
Total earnings	$819,000

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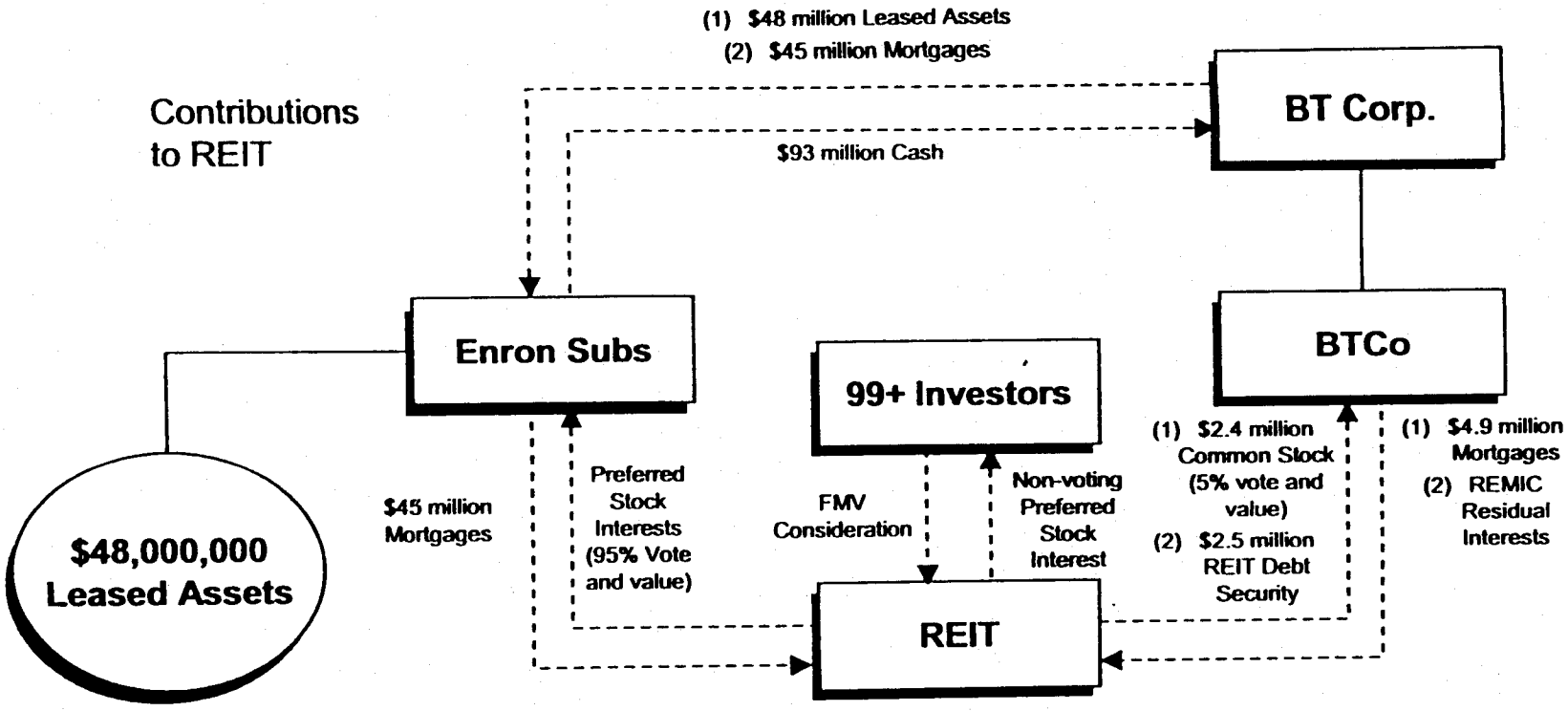
EC2 000038435

Project Cochise



Transaction size	$400 million
Assets used	
– Commercial leased aircraft	$48 million
– REMIC residual interest	$25 million
Time to close	4 months
Closing date	January 1999
Total earnings	$143 million

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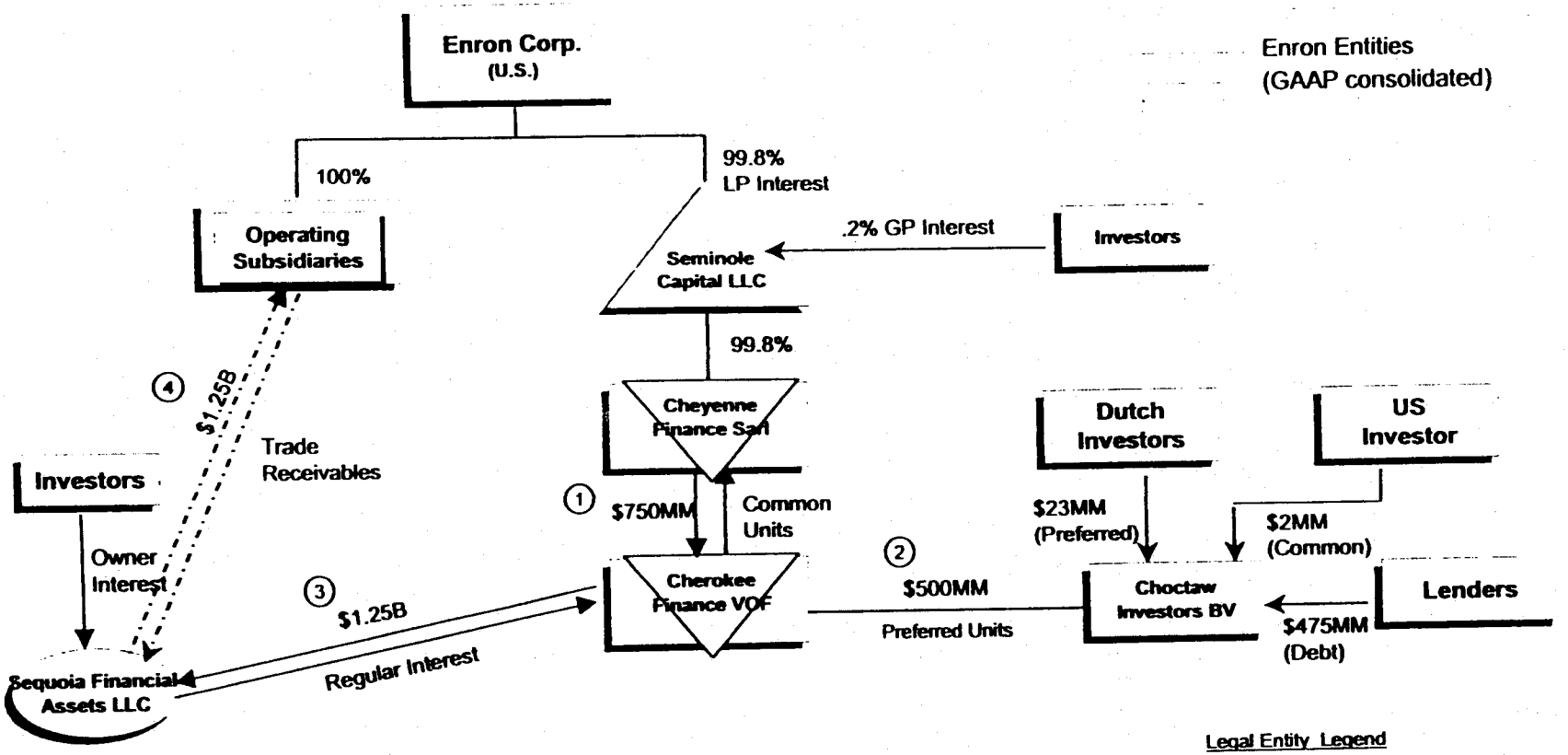
EC2 000038436

Project Apache



Transaction size	$500 million
Assets used	Portfolio of ENA trade receivables
Time to close	12 months
Closing date	May 1999
Total earnings	$167 million

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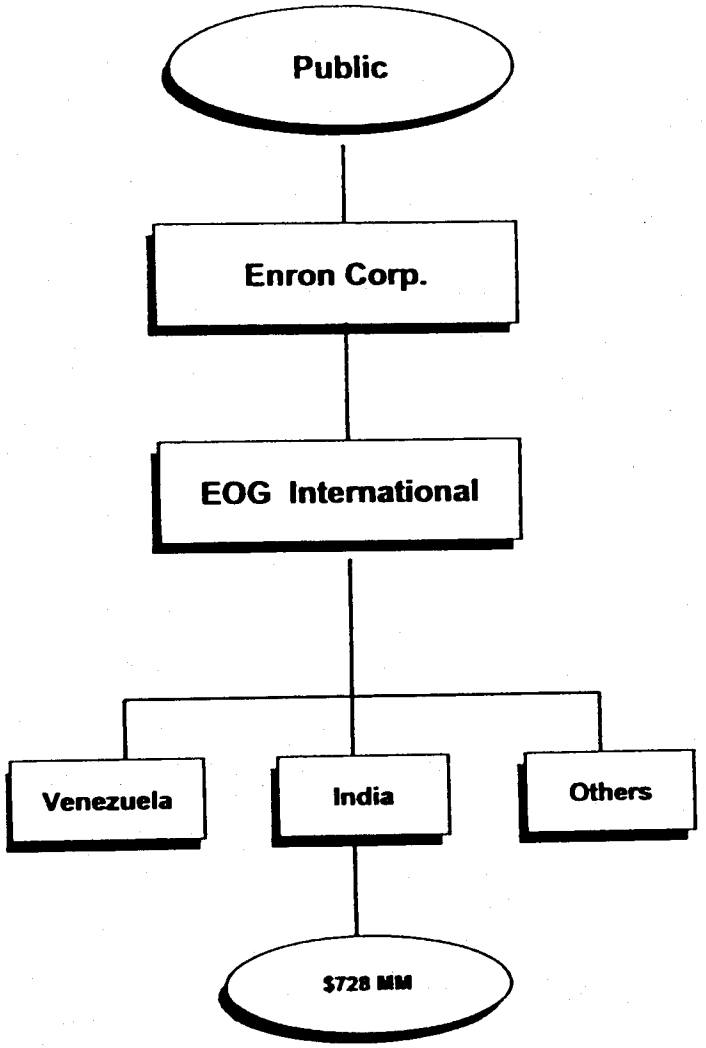
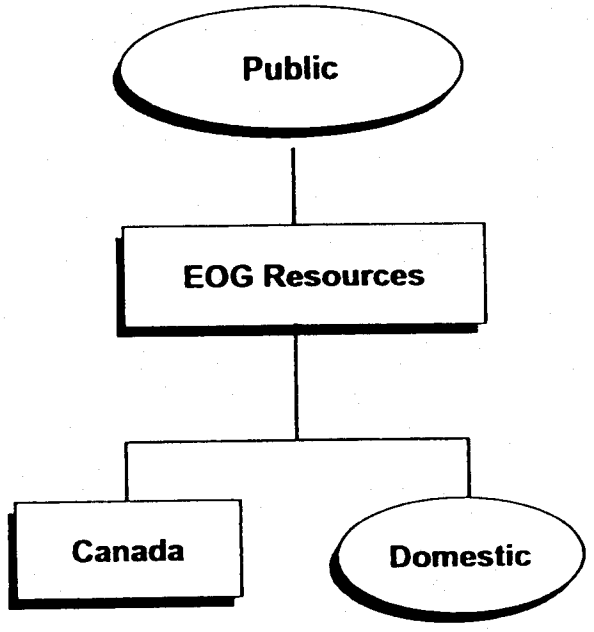
EC2 00003843

Project Alpha





Transaction size	$1.12 billion
Assets used	EOG Common Stock
Time to close	10 months
Closing date	August 1999
Total earnings	$218 million

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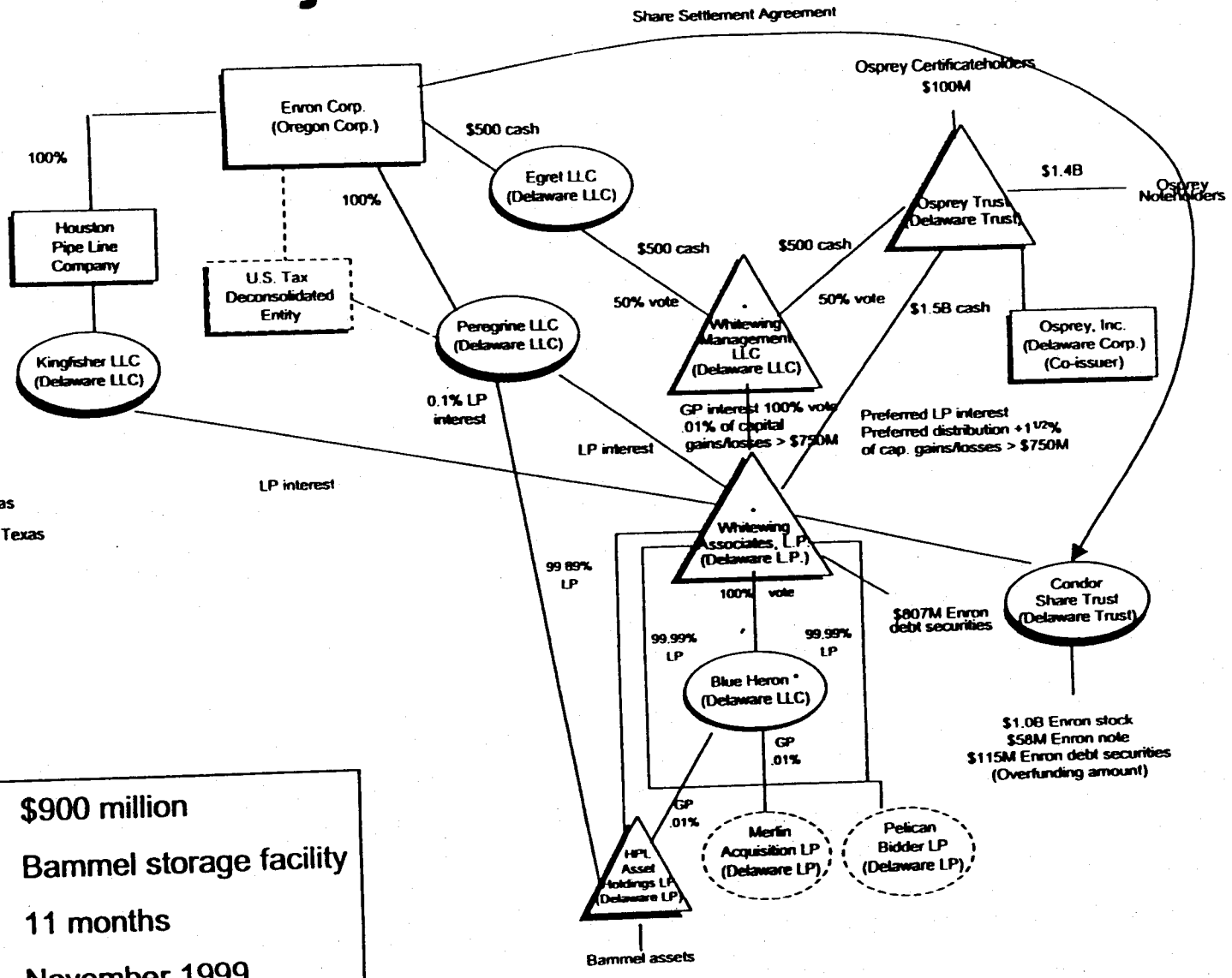
EC2 00003843

Project Condor



Transaction size	$900 million
Assets used	Bammel storage facility
Time to close	11 months
Closing date	November 1999
Total earnings	$332 million

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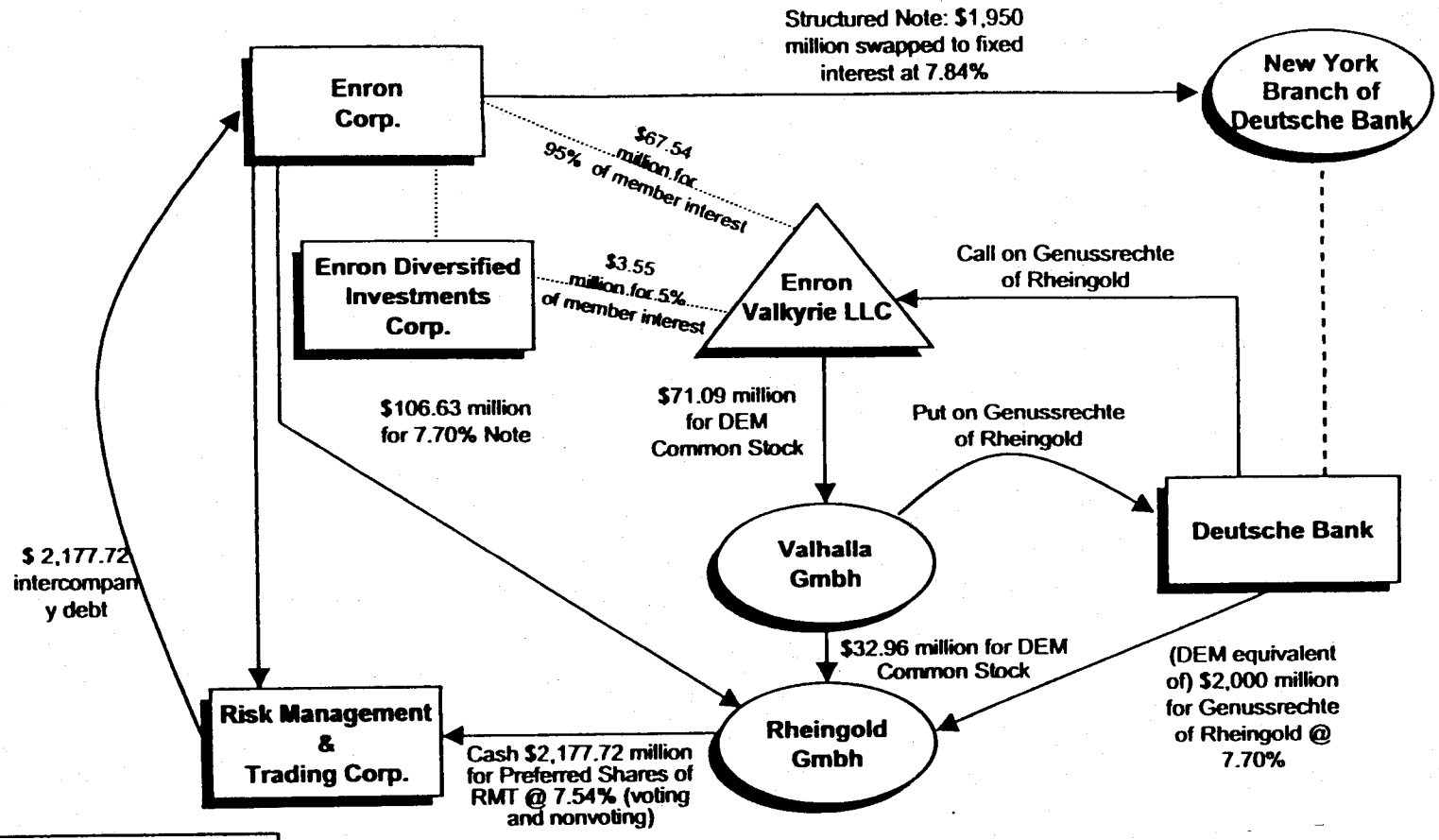
EC2 000038439

Project Valhalla



Transaction size	$100 million
Assets used	None
Time to close	9 months
Closing date	May 2000
Total earnings	$66 million

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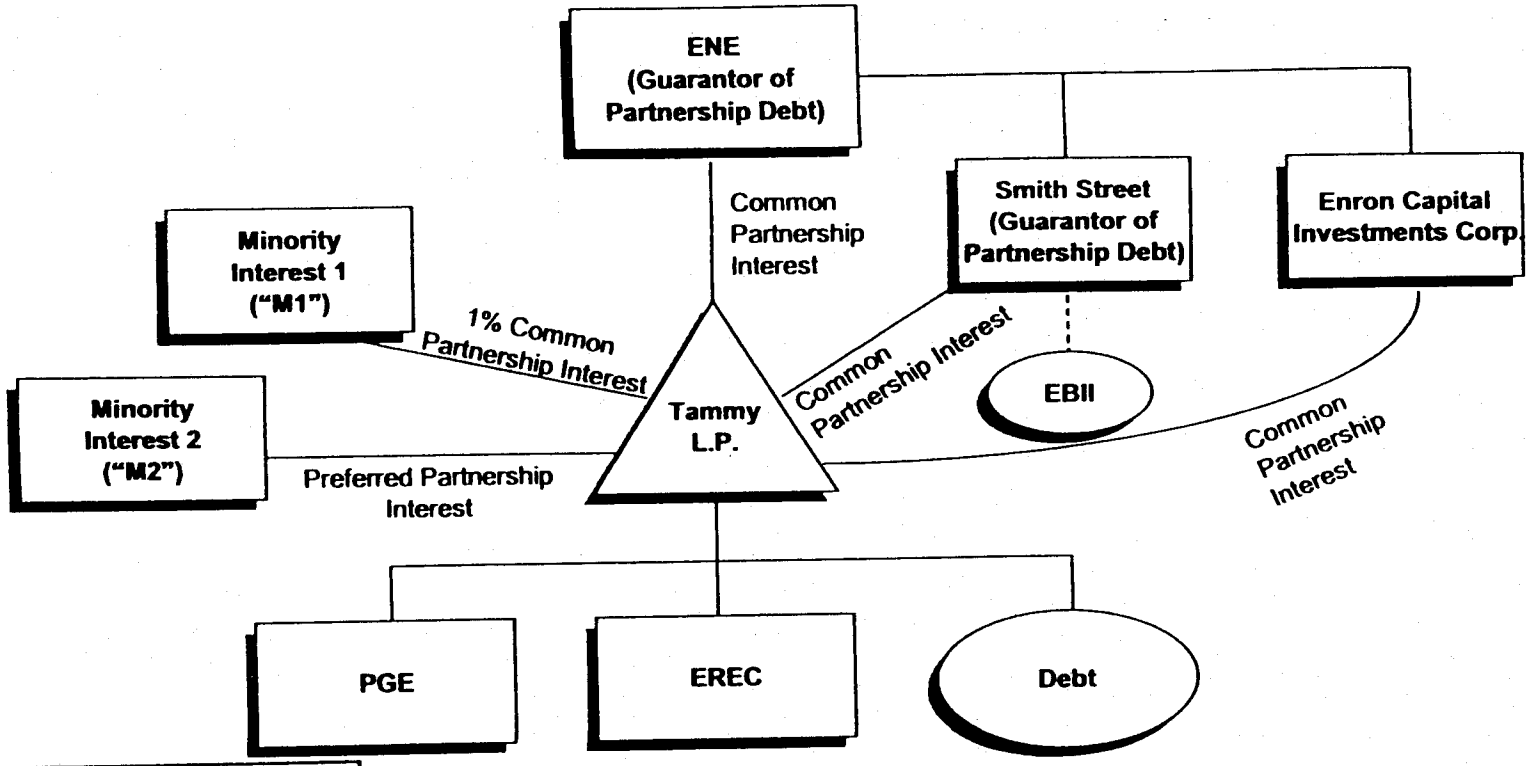
EC2 000038440

Project Tammy



Transaction size	$1.2 billion
Assets used	
– PGE stock	$2.1 billion
– EREC stock	$550 million
– Enron building II	$250 million
Time to close	Pending
Projected closing date	July 2000
Projected total earnings	$476 million

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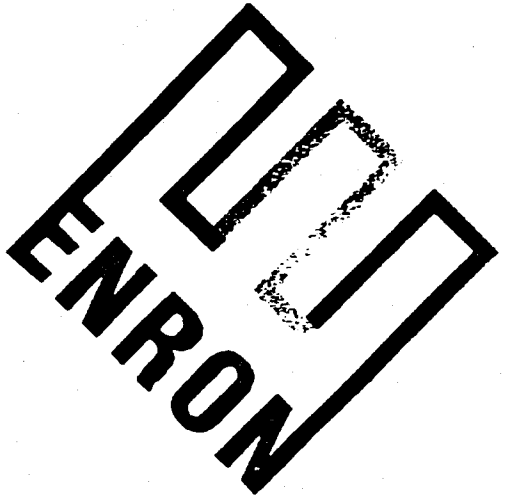
EC2 00038441



Enron Corp.

Corporate Tax Research & Planning

"New Dimensions in Structured Finance"

November 17, 1998

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EC2 000038443

ENRON

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LUNCH BREAK

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ENRON

I.

INTRODUCTION

EC2 000038446

ENRON

Staffing/Personnel

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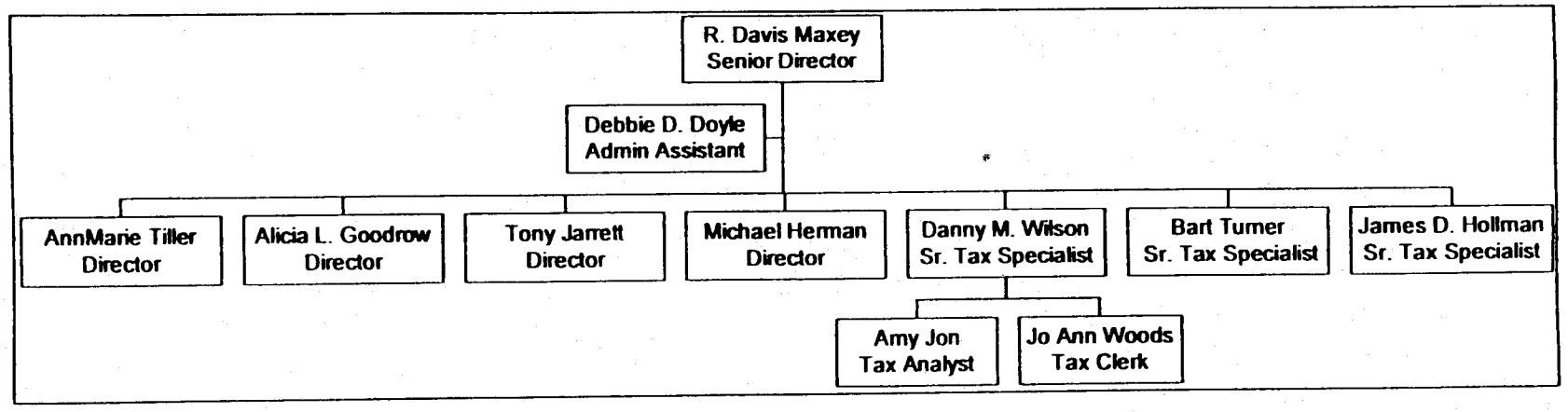
Corporate Tax

Research & Planning



EC2 000038448

ENRON

Corporate Tax
Research & Planning

Debbie Doyle

- Joined Enron February 1998 as a Senior Administrative Assistant. Responsible for providing secretarial support to the Corporate Tax Research & Planning group.
- Prior to Enron she was an Administrative Assistant at Coopers & Lybrand, LLP to three Audit Partners - previously with Commonwealth Financial Group.
- Various accounting courses and computer courses at HCC - member of the American Business Women's Association.

Alicia Goodrow

- Joined Enron June 1997 in the position of Tax Director. Principal responsibility for domestic and international tax planning for the EREC consolidated group of entities - provides tax research and planning expertise to the Gas Pipeline Group and various financial transactions.
- Before joining Enron she was an associate attorney with Liddell, Sapp, Zivley, Hill and LaBoon, LLP.
- Received a B.A. in Economics and History with a minor in Spanish from the College of William and Mary and a J.D. from the University of Texas - is a member of the American, Texas and Houston Bar Associations.

EC2 000038449

ENRON

Corporate Tax
Research & Planning

Michael Herman

- Joined Enron September 1998 as a Director - provides support for capital markets and structured finance transactions.
- He previously was associated with Skadden, Arps, Slate, Meagher & Flom and White & Case in New York.
- Holds a B.A. in Philosophy from Columbia University (summa cum laude and phi beta kappa) and a J.D. from Harvard Law School (magna cum laude).

James Hollman

- Joined Enron July 1998 as a Senior Tax Specialist. Responsible for the administration of various structured finance transactions.
- Before joining Enron worked with Exxon Company, USA in a number of different positions within Controller's, Business Analysis, Operations, & Tax.
- Received a B.B.A. in accounting from the University of Texas at Austin - received a M.B.A. in finance from the University of Houston at Clear Lake - is a CPA and a member of both the Texas Society of CPAs and the Houston Chapter of the Texas Society of CPAs.

EC2 000038450

ENRON

Corporate Tax
Research & Planning

Tony Jarrett

- Joined Enron November 1998 as a Director. Responsible for providing tax support to Enron's Human Resources Department for compensation and benefits matters, including ERISA and executive compensation issues.
- Prior to joining Enron, he was an associate attorney in the Atlanta office of Alston & Bird, LLP. During Law school, he was a summer associate with Alston & Bird and Vinson & Elkins.
- Received a B.S. in Accounting (magna cum laude) and a J.D. (magna cum laude) from Brigham Young University.

Amy Jon

- Joined Enron June 1998 as a Tax Analyst.
- Works on tax compliance and financial accounting matters for various structured finance projects.
- Received a B.B.A. in Accounting and Office Information Systems from Baylor University in May 1998.

EC2 000038451

ENRON

Corporate Tax
Research & Planning

R. Davis Maxey

- Joined Enron October 1995 and is currently Senior Director over the tax corporate planning group. Among other things, responsible for supporting Enron's M&A, capital markets and structured finance transactions.
- Prior to joining held positions with Transco Energy Company, Columbia Gas System and Coopers & Lybrand, LLP.
- Received a B.B.A. in Accounting from the University of Texas at Austin and M.S. in Accounting and a J.D. from the University of Houston - member of the American, Texas and Houston Bar Associations - member of the Texas Society of CPAs and the American Institute of CPAs.

AnnMarie Tiller

- Joined Enron July 1996 and currently holds the position of Director in the Tax Research & Planning Group. Provides planning support for Enron's capital markets and structured finance transactions.
- Prior to joining Enron, held positions with American General Corporation and Deloitte & Touche, LLP.
- Received a B.B.A. in Accounting (summa cum laude) from the University of Arkansas and a J.D. from the University of Arkansas School of Law. Member of the American, Texas, and Houston Bar Associations. Currently, a council member of the Houston Bar Association Section of Taxation.

ENRON

Corporate Tax
Research & Planning

Bart Turner

- Joined Enron May 1998 as a Senior Tax Specialist - primarily responsible for domestic tax planning.
- Received a L.L.M. in Taxation from the University of Miami, a J.D. from South Texas College of Law and a B.B.A. in Accounting from Texas A&M University.
- Member of the Texas Bar Association and the American Bar Association.

Danny M. Wilson

- Joined Enron September 1985 and currently holds the position of Senior Tax Specialist - responsible for the administration of all financial aspects of various structured finance transactions developed within the group.
- Has worked in the Enron Department for 13 years in Corporate, Tax Audits, ECT, Enron International, GPG and EOG.
- Received a B.B.A. in Accounting from Sam Houston State University at Huntsville.

EC2 000038453

ENRON

Corporate Tax
Research & Planning

Jo-Ann Woods

- Joined Enron October 1998 as a Tax Clerk. Primarily responsible for administration of the REMIC portfolio acquired in Project Steele.
- Prior to joining Enron she was a Supervisor of the Reconcilement Department at Southwest Bank of Texas.
- She has twenty years experience in bank operations and has attended various courses in banking and computer operations.

EC2 000038454

ENRON

Summary of 1998 Projects

B-722

EC2 000038455

Summary of 1998 Projects
Tax Research and Planning

		Commercial Relationship
Structured Transactions	Project Tomas	
	Project Apache	
	Project Teresa	
	Project Steele	
	Project Tanya	
	Project Cochise	
	Project Geronimo	
Enron Capital Mgmt.	Project Nighthawk	Ben Glisan
	Project Marlin	Phil Sisneros
	Project Firefly	Barry Schnapper
	Project Rawhide	Larry Lawyer
	Project Cornhusker	David Chang
	Project Churchill	Rodney Faldyn
	Project Shogun	Ben Glison
	Debt and Hybrid Debt Offerings	Phil Sisneros
	Risk Management/Hedging Program Issues	
	Project Firefly	Barry Schnapper
	Project Springroll (PINTS)	Phil Sisneros
	SAILS	Phil Sisneros
Human Resources	Enron Bonus Deferral Plans	Mary Joyce
	Enron ESOP	Mary Joyce
	Enron Executive Deferred Compensation	Phil Bazelides
	Executive Life Insurance Issues	Rocky Jones
	Enron Wind Corp. Executive	Pam Butler
	Deferred Compensation	Daryl Orban
	Northern Border Phantom Unit Plan	
	Enron Foundation Scholarship Program	Betty Wells/Cynthia Barrow
Corporate Development	Project Hubble	Lou Potempa
	Clean Fuels Restructuring	Lou Potempa
	Project Boomerang	Jere Overdyke

EC2 000038456

Summary of 1998 Projects
Tax Research and Planning

Requested Group	Projects	Commercial Relationship
Gas Pipeline Group	Project Sooner	George Fastica
	Project Wayne	David Rosenberg
	Sunrise Bankruptcy	Stacy Spalding
	NNG Sale of Transgulf Issues	Ann Ballard
	Illinois-Winconsin Pipeline Joint Vent	Dorothy McCoppin/Robert Eikenroht
	Hedging Programs	Jeff Fawcett
	Treasury Lock	Bob Chandler
Enron Wind Corp.	Cabazon Project	Mike Westbeld
	Lake Benton I	Bob Gates
	Lake Benton II	Mike Cutbirth
	StormLake I	John Lamb/Adam Umanoff
	Storm Lake II	Tony Schoen
	Tacke German Tax Planning	Philippa Godfriend
	Tacke Turbine Sales to India	Bruce Kem
	Enron Wind Overseas Development	Phil DiVirgilio
	-Compliance Issues	
	-Sale of Italian Wind Projects	
	-Sale of turbines in Sweden	
	Aeolos nd Megali Vrissi Wind Projects in Greece	
	Honduras Wind Project	
	Nicaragua Wind Project	
Corporate Marketing	Project Madison Avenue	Beth Tilney
	Project Bermuda	Marge Nadasky/Steve Kean
Corp Admin Services	Enron Building II	Bill Donovan
	Enron Aviation	Gary Fitch
	Sports Facilities, L.P.	Cindy Olson

EC2 000038457

II.

STRUCTURED FINANCE TRANSACTIONS

B-725

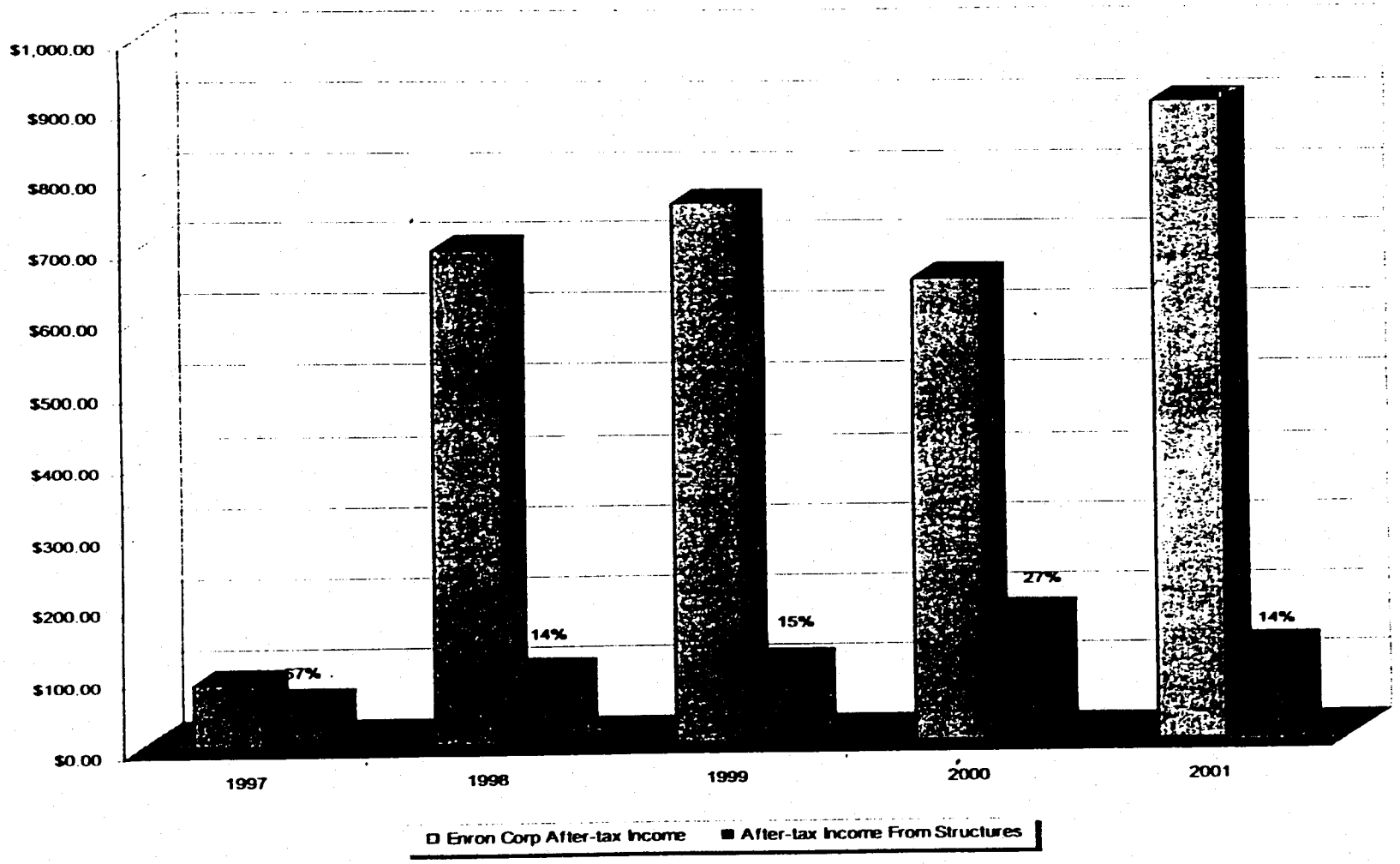
EC2 000038458

ENRON

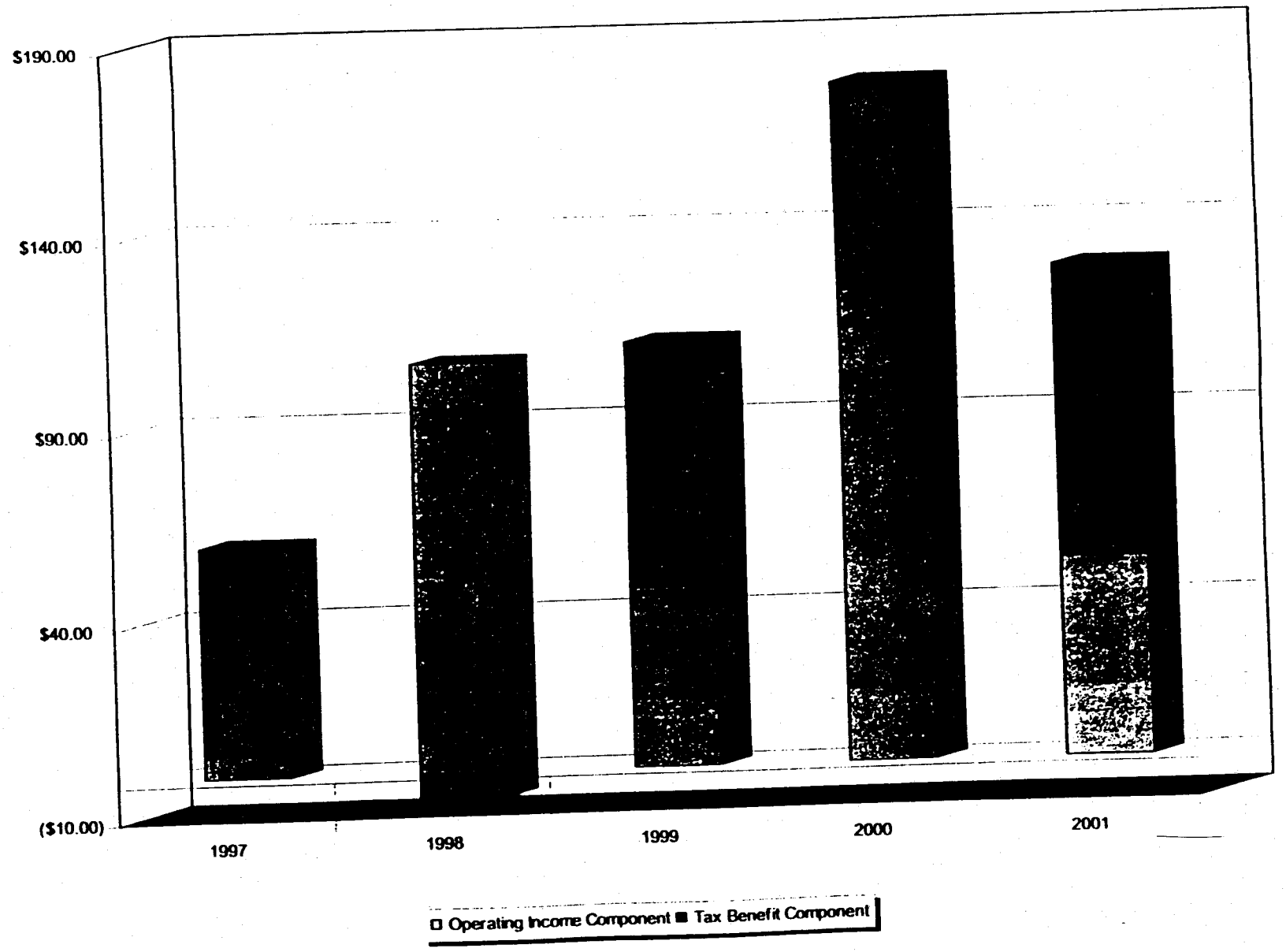
Overview

EC2 000038459

Structured Finance Transactions
Comparison To Enron Net Income
($000,000)



Structured Finance Transactions
Net Income From Structures
($000,000)



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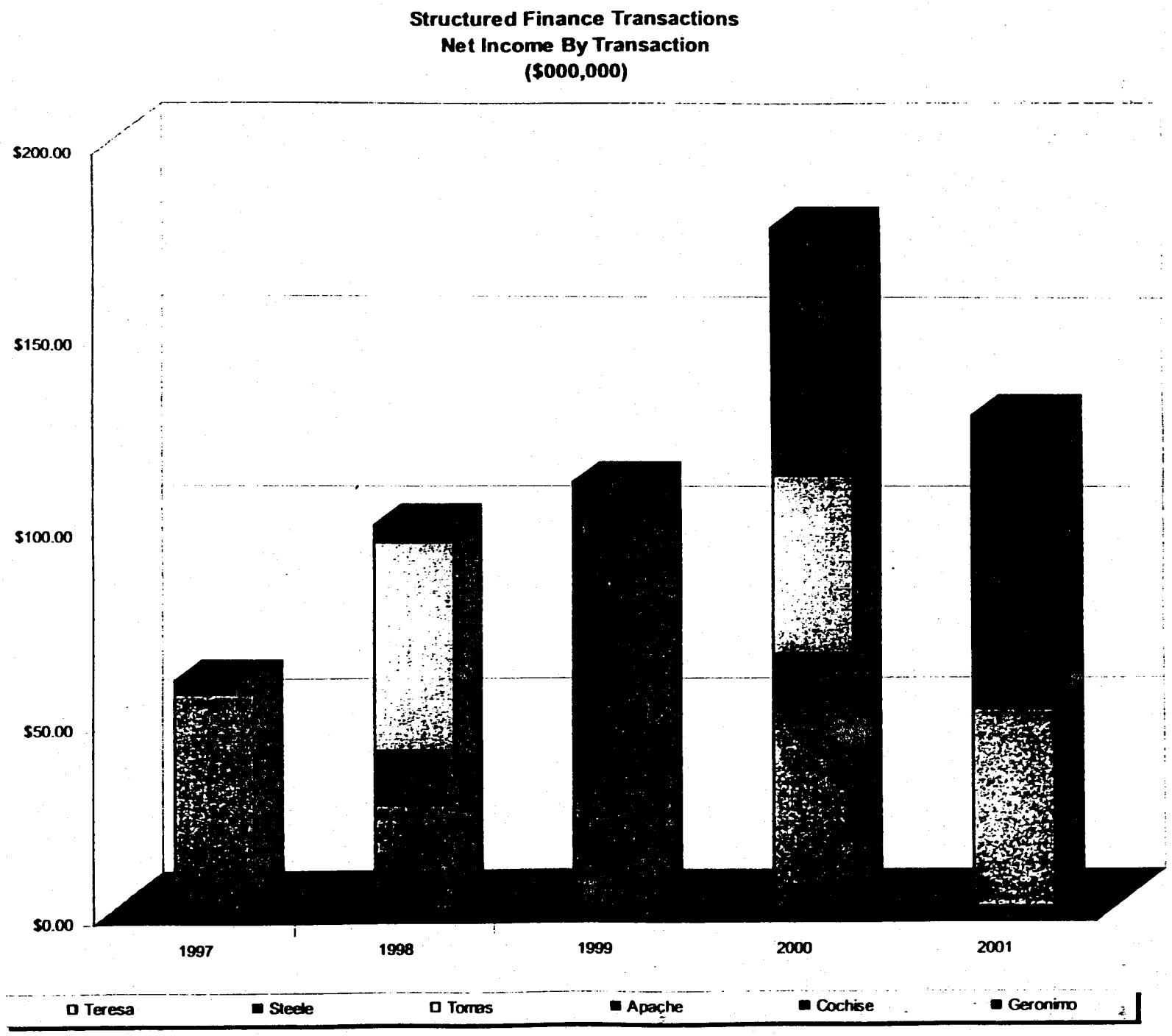
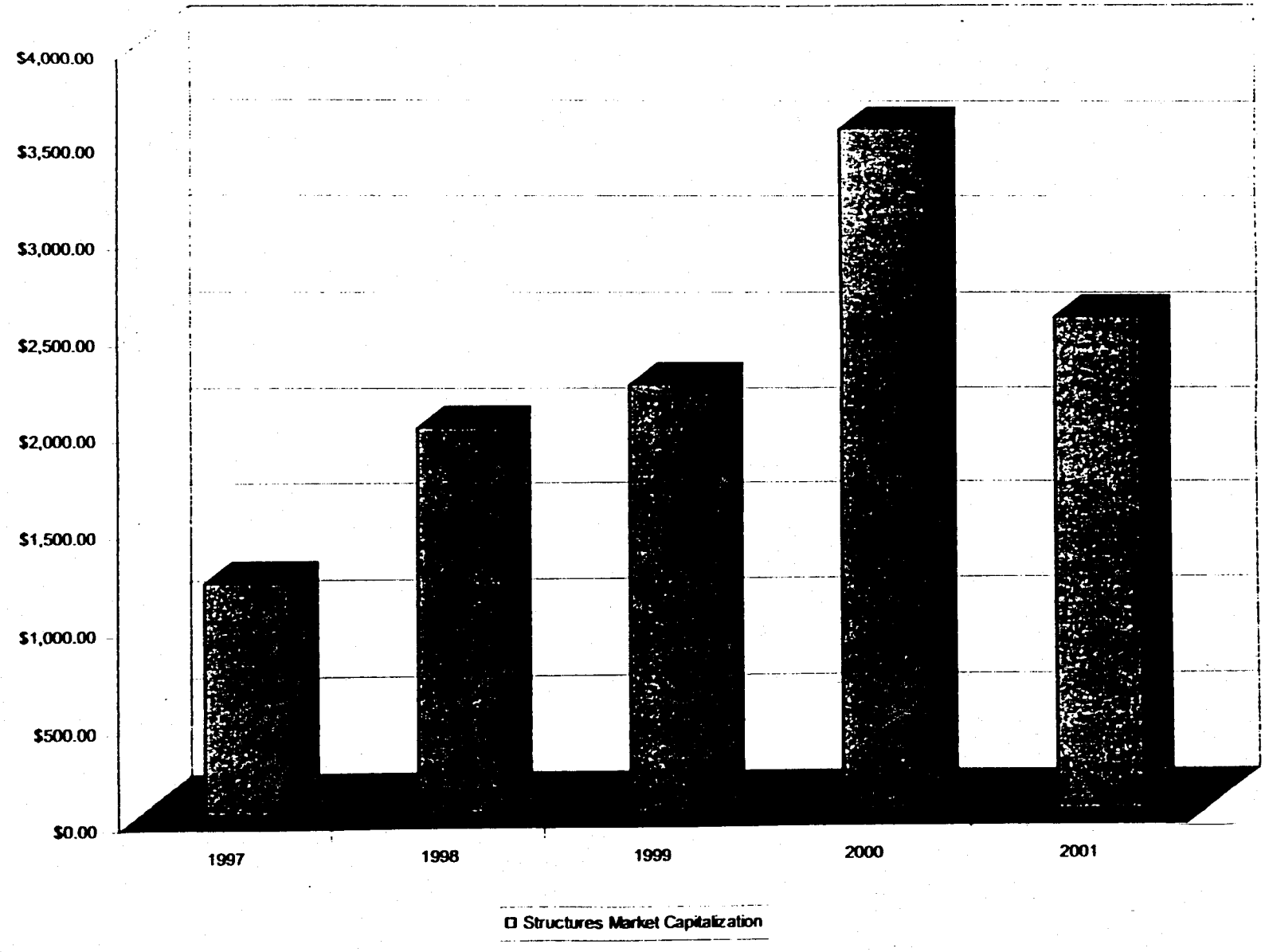
Structured Finance Transactions
Net Income By Transaction
($000,000)

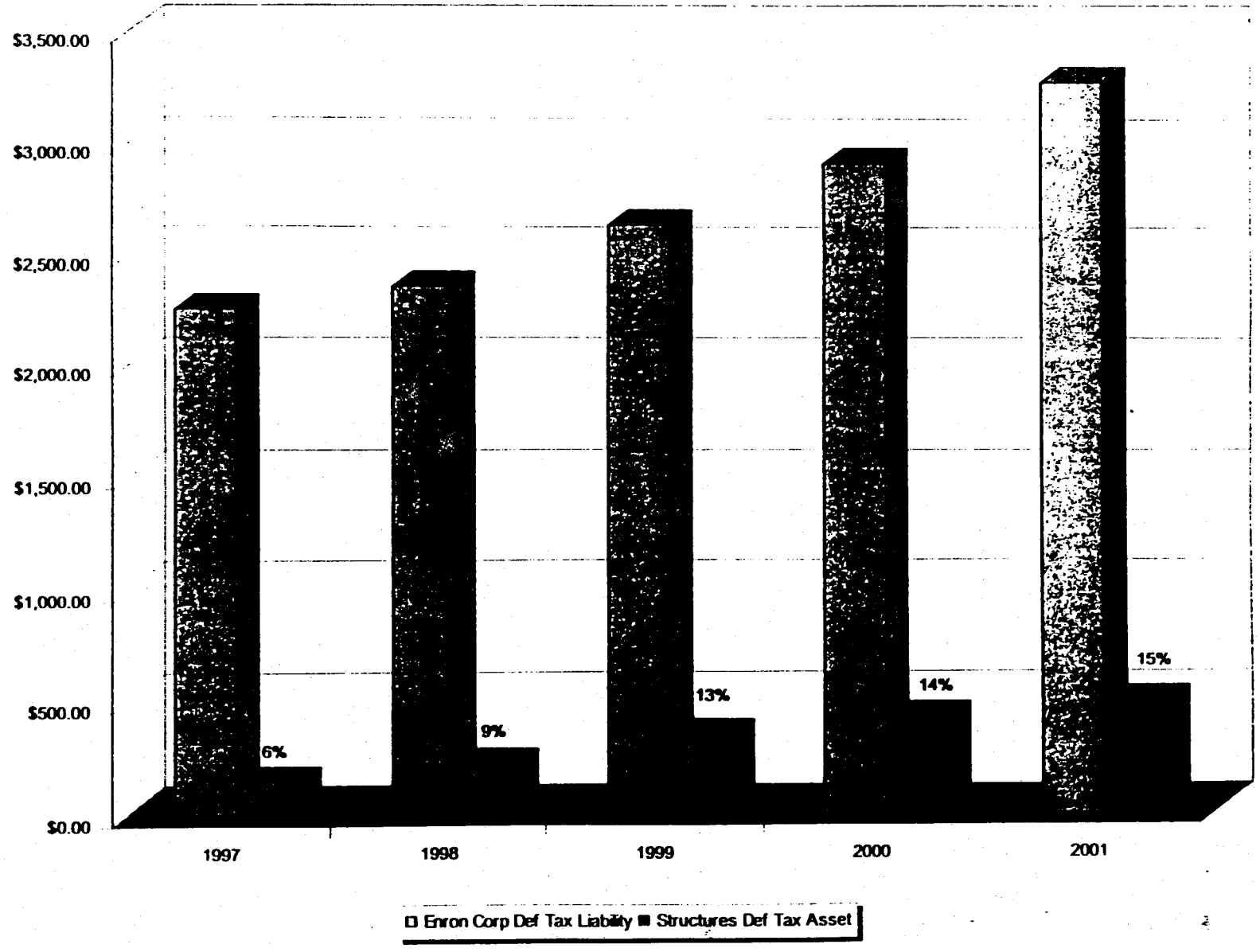


Structured Finance Transactions
Market Capitalization From Structures
($000,000)



EC2 000038463

Structured Finance Transactions
Analysis Of Deferred Tax Accounts
($000,000)



Executive Summary

Project Teresa

- Project Teresa involves the formation of Enron Leasing Partners, L.P. ("Leasing Partners") by Enron Corp. and Bankers Trust Company.
- Enron will hold a 98% L.P. interest in the partnership through a tax deconsolidated subsidiary, Organizational Partner, Inc. ("OPI"). Leasing Partners and OPI are consolidated with Enron for GAAP.
- Leasing Partner's investments include tax ownership of the Enron Building and one billion dollars worth preferred stock issued by Enron Liquids Holding Corp. ("ELHC").
- Periodically, Enron affiliates acquire or redeem the ELHC preferred stock from Leasing Partners.
- These stock transactions are reported as dividends by Leasing Partners, and thus, increase the outside tax basis of the partners.
- Through a 20% common stock interest in ELHC, OPI is able to claim a 80% dividends received deduction on its 98% distribution from Leasing Partners.
- Upon liquidation of Leasing Partners, under Section 732(b), OPI's outside tax basis in Leasing Partners will become its aggregate tax basis in the Enron Building. Ultimately, upon the reconsolidation of OPI, Enron will recover the tax basis through higher depreciation deduction.

EC2 000038466

ENRON

Executive Summary

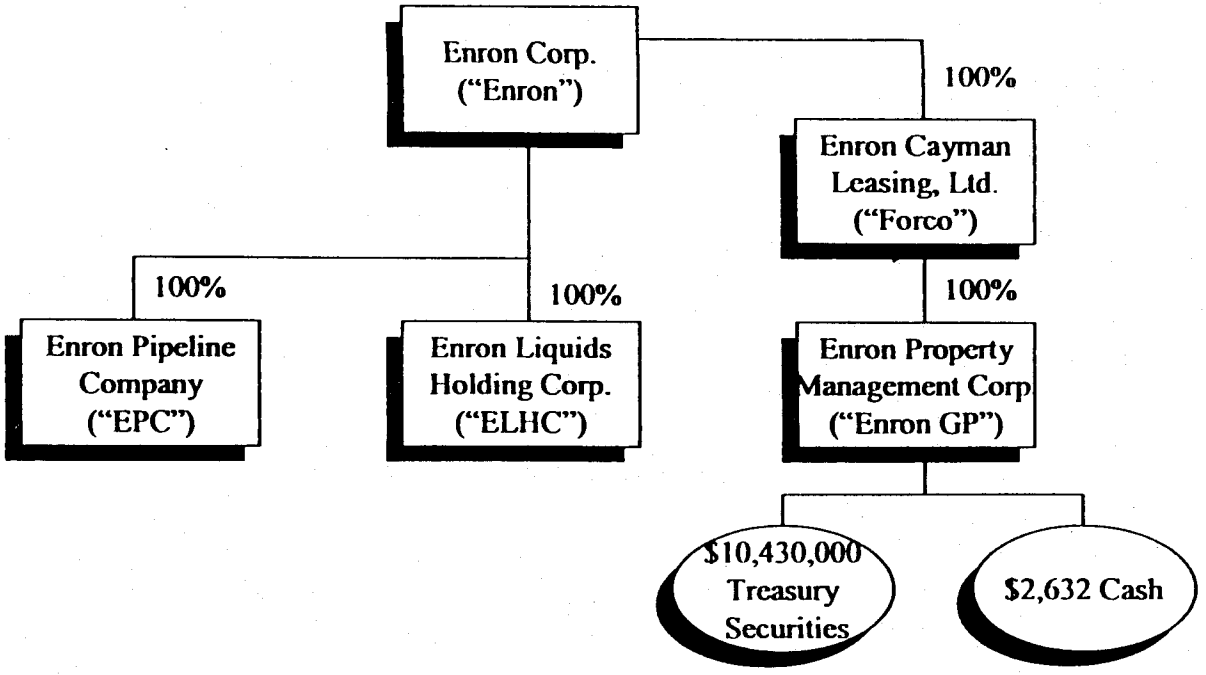
Project Teresa

- The accretion of OPI's outside tax basis generates a differential in its book and tax basis in Leasing Partners. As OPI and Enron have in place a strategy to utilize the higher tax basis, a deferred tax asset can be recorded under SFAS 109.
- The transaction provides:
  - Annual income statement benefits ranging from $26 to $55 million.
  - $236 million of cumulative income statement benefits over six years.

EC2 000038467

ENRON

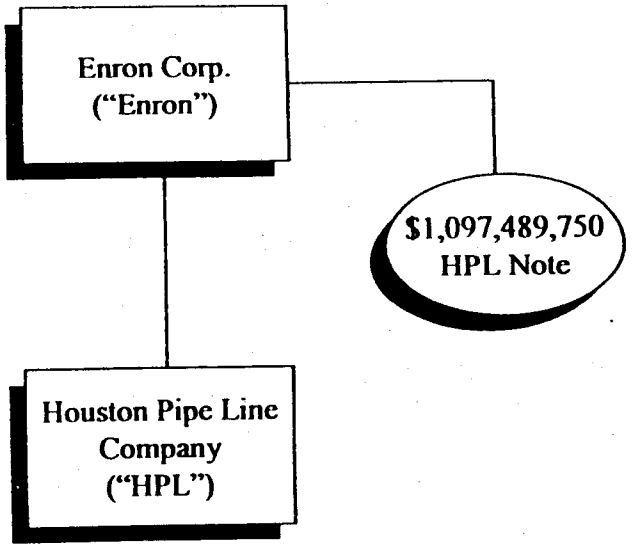
Structure - Existing Corporate Structure



- EPC and ELHC are wholly-owned subsidiaries of Enron Corp.
- Enron Property Management Corp., a wholly-owned subsidiary of Enron Cayman Leasing, Ltd., owns treasury securities with a value of $10,430,000 and $2,632 in cash. Enron Cayman Leasing, Ltd. is a wholly-owned foreign subsidiary of Enron Corp.

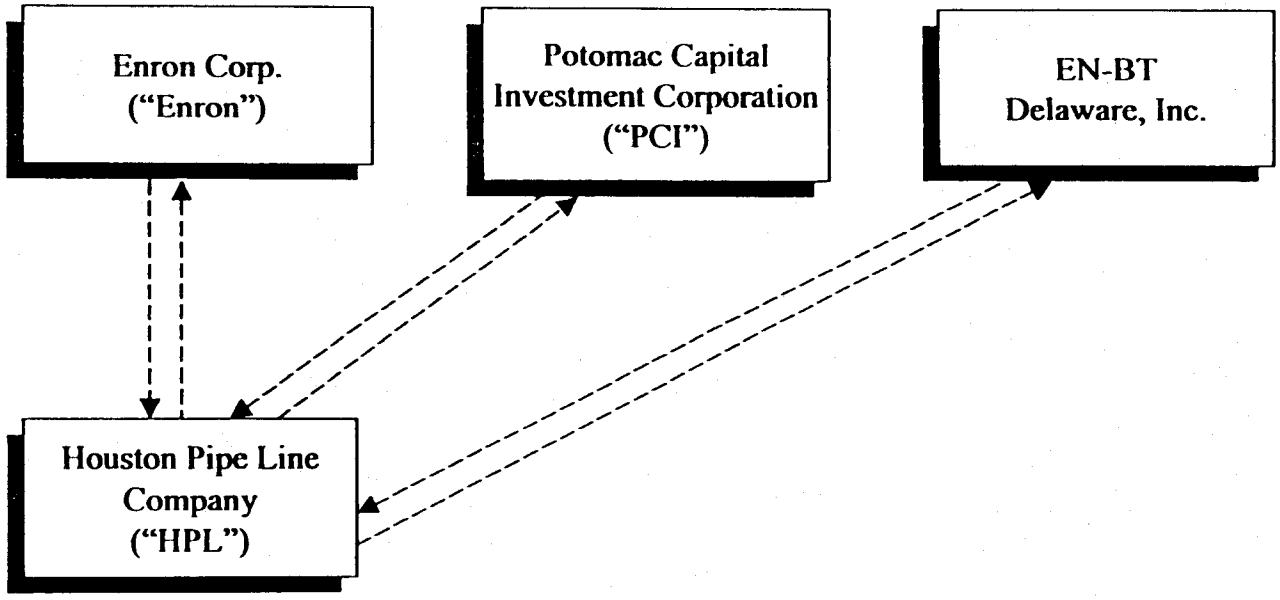
EC2 000038468

Structure - Existing Corporate Structure



- HPL is a wholly-owned subsidiary of Enron Corp. Enron Corp. holds a note from HPL with a fair market value of $1,097,489,750.

Structure - Formation of Organizational Partner, Inc.



- Enron Corp. contributes the Lease with a FMV of $284,000,000 (subject to $284,500,000 of debt), the HPL Note with a FMV of $1,097,489,750 and $j10,250 in cash to OPI, and in return receives 98% of its outstanding stock which would carry 75% of its voting rights.
- PCI and EN-BT Delaware, Inc. through capital contributions would acquire .8929385% and 1.1070615% of the stock of Organizational Partner, Inc. for $10,000,000 and $12,397,959 in cash which would carry 23.775% and 1.225% of its voting rights, respectively.

EC2 000038470

ENRON

Project Steele

B-737

EC2 000038471

- The transaction involves the utilization of a special purpose vehicle for subsidiaries of Enron Corp. ("Enron Subs") and subsidiaries of Bankers Trust Company to make a joint investment in various investment assets. The special purpose vehicle, ECT Investing Partners, L.P. ("Investing Partners"), will be treated as a limited partnership for legal purposes and will elect to be treated as a corporation for tax purposes.

- The Bankers Trust will transfer various investment securities (e.g., corporate bonds and REMIC Residual Interests) into ECT Investing in exchange for cash, limited partnership interests in ECT Investing, and ECT Investing debt securities. The Enron Subs will transfer cash and leased assets (such as gas pipeline compressors owned by the Enron Subs on long-term lease) in exchange for general and limited partnership interests in ECT Investing. After a five year period, any equity owner may compel ECT Investing to recapitalize BTNY Subs' stock and debt interests into new debt securities of ECT investing.

- The REMICs have a high tax basis, a low fair market value and were acquired in a carryover basis transaction.

- The acquisition of the REMICs and the corporate bond portfolio are account for under the purchase accounting rules of APB 16 and the income tax accounting principles of SFAS 109.

EC2 000038472

ENRON

Executive Summary -C ont'd

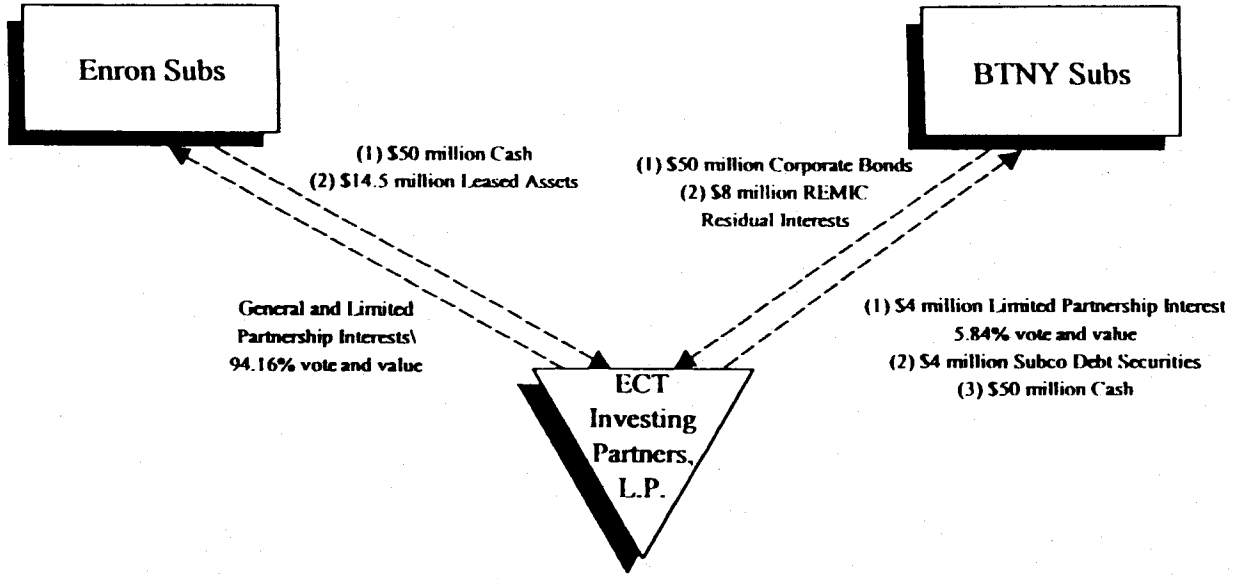
Project Steele

- Together these accounting pronouncements provide for the creation of a deferred tax asset and offsetting deferred credit for the book/tax basis differential in the REMIC.
- Finally, the transaction has been structured to allow the deferred credit to be amortized into pre-tax income over a relatively short time frame.
- This transaction provides;
  - Annual net income benefits of about $14 million.
  - $75 million ($123 million pre-tax) of cumulative net income.
  - 23% IRR.
  - NPV benefit at 7.0% of $32 million.
  - NPV benefit at 10.0% of $22 million.

EC2 000038473

ENRON

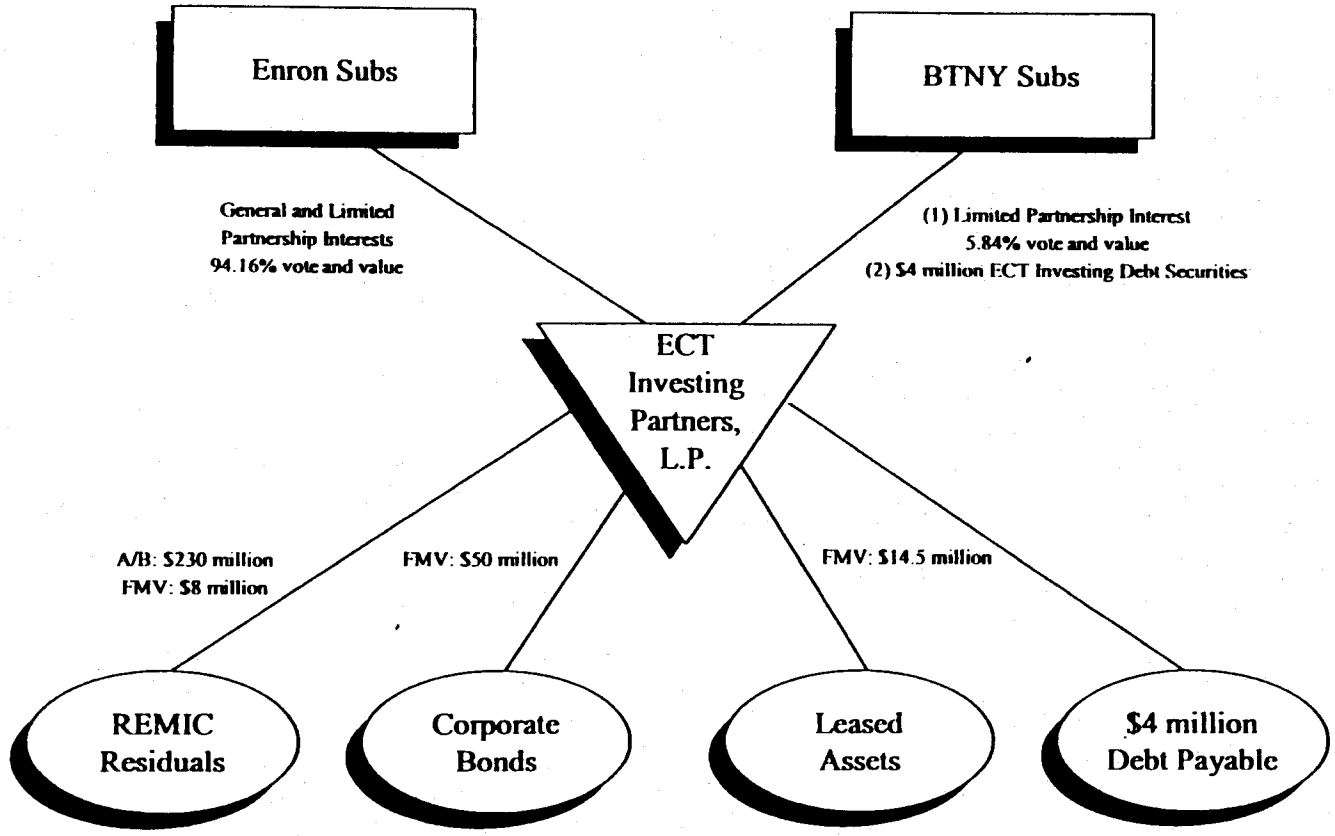
Structure -S tep I - Capitalization of ECT Investing



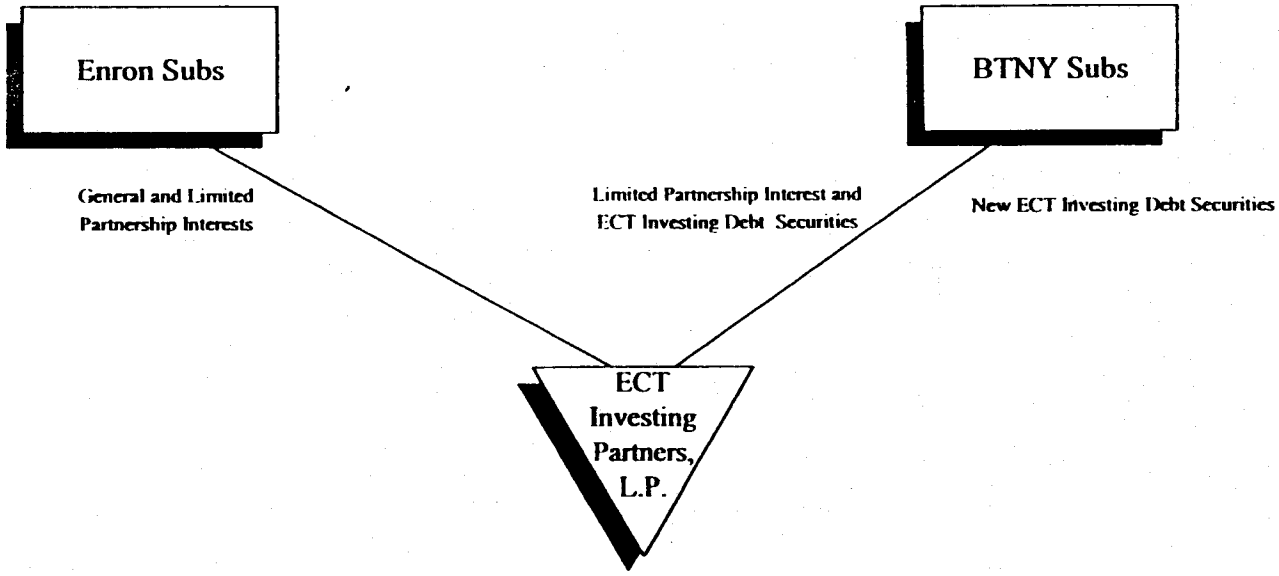
- ECT Investing will be a newly formed Delaware limited partnership which will elect to be treated as a corporation for tax purposes.
- The Enron Subs will contribute (1) $50 million cash and (2) $14.5 million of Leased Assets (such as gas pipeline compressors owned by the Enron Subs on long-term lease) to ECT Investing in return for both general and limited partnership interests representing approximately 94.16% of its vote and value after the Transaction.
- The BTNY Subs will contribute $50 million of 5 year corporate bonds (the "Corporate Bonds") as well as REMIC Residual Interests with a net present value of $8 million and a tax basis of approximately $230 million. In exchange, the BTNY Subs will receive (i) $50 million cash; (ii) a preferred limited partnership interest with a FMV of $4 million representing approximately 5.84% of ECT Investing's vote and value; and (iii) $4 million of ECT Investing zero-coupon Debt Securities with an 18 year term.

ENRON

Structure - Post-Capitalization



Structure -S tep II - Recapitalization - Post Year 5



- The partnership agreement for ECT Investing will provide that any equity holder has the right to force ECT Investing to recapitalize the BTNY Subs' limited partnership interest and ECT Investing debt securities (the "Recapitalization") at any time subsequent to 5 years from the date of capitalization of ECT Investing into new ECT Investing debt securities (the "New Debt Securities") with a 10 year term and a current cash pay market rate of return.

EC2 000038476

Project Tomas

B-743

EC2 000038477

Transaction Overview

Project Tomas

- Project Tomas utilizes a partnership structure to monetize a portfolio of leveraged leases owned by Portland General Holding, Inc.

- A post-acquisition analysis of the portfolio determined that the leases had a fair market value of about $290 million, were subject to non-recourse debt of about $180 million and had a negligible tax basis. Thus, it was concluded that the tax liability generated by a disposition of the leases would consume substantially all of the net equity in the leases.

- For a 95% L.P. interest PGH contributed the leased assets (subject to the non-recourse debt), the common stock of Oneida Leasing, Inc. within a fair market value of $250 million and recourse debt of $250 million.

- The transaction operates to increase the tax basis in the leased assets upon the exit of PGH from the partnership after two years.

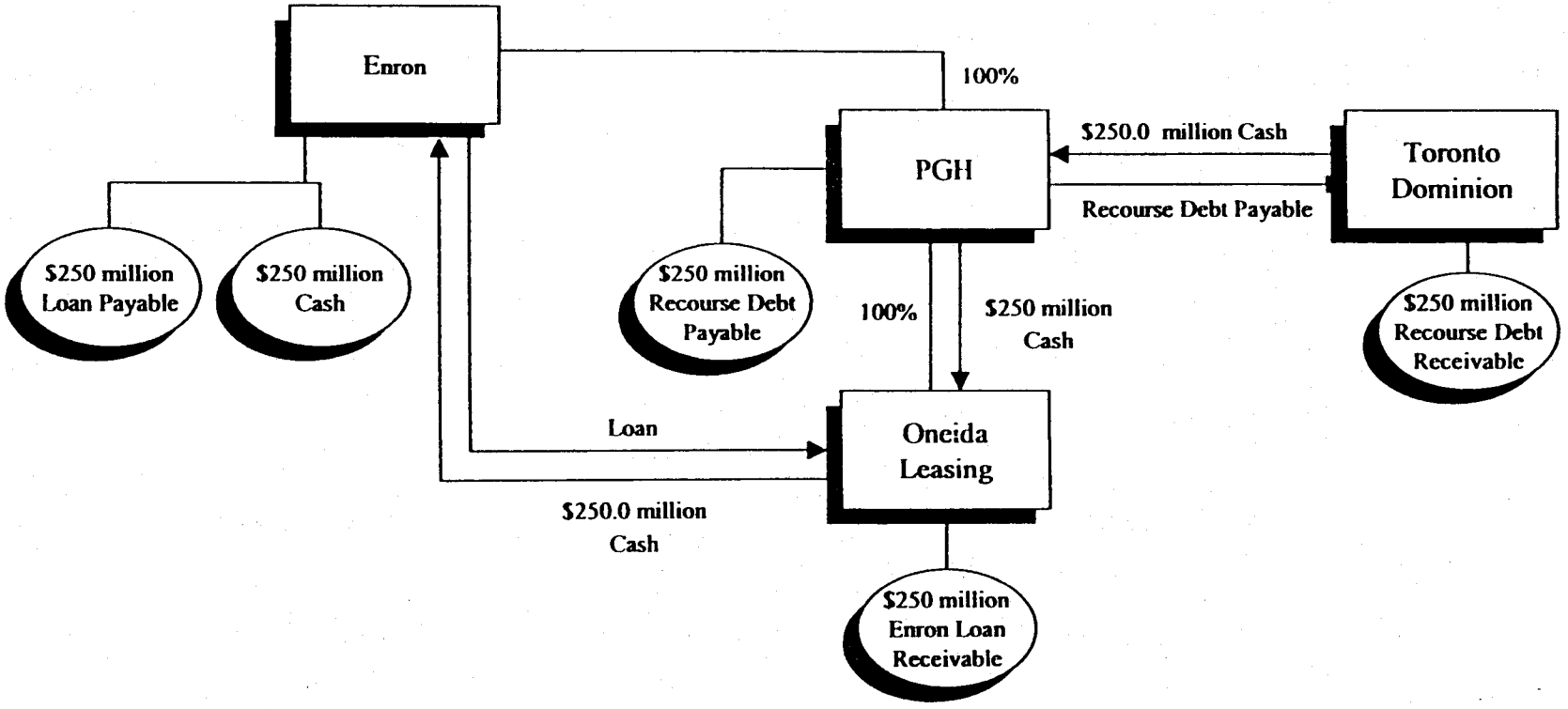
- The interplay of the purchase accounting rules (APB 16) and lease accounting principles allowed the transaction to be structured to generate pre-tax operating earnings.

- The transaction will provide:
  - Total income statement benefits of $49 million through 2000 on a pre-tax basis.
  - IRR of 282%.
  - NPV benefit at 7% of $64 million.
  - NPV benefit at 10% of $94 million.

EC2 000038478

ENRON

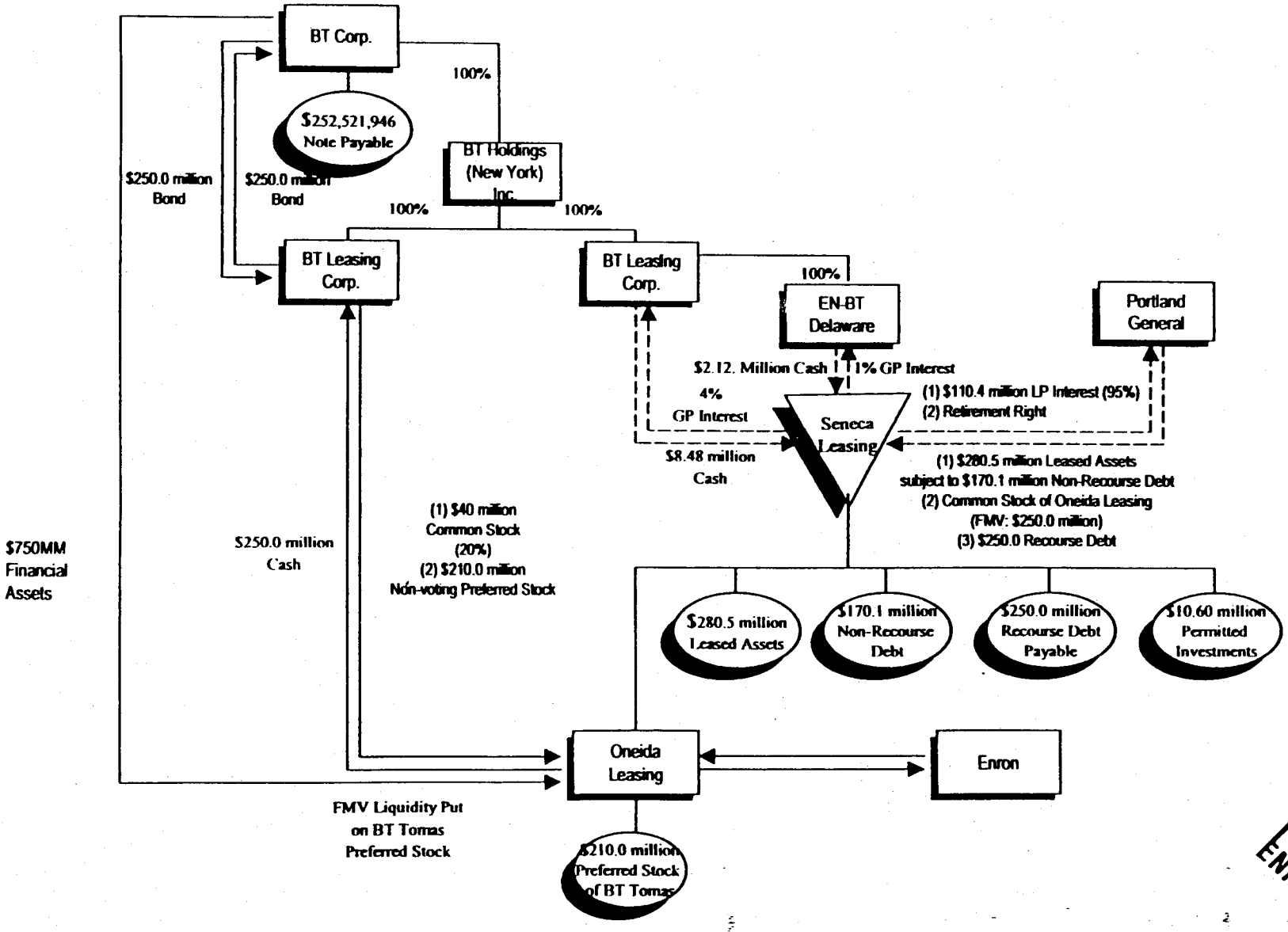
Step I -Bor rowing and Funding of Oneida Leasing



- PGH borrows $250 million from Toronto Dominion(Texas), Inc. ("Toronto Dominion") on a recourse basis (the "Recourse Debt"). Enron provides a guaranty on such debt.
- PGH contributes $250 million cash from the Recourse Debt to Oneida Leasing, Inc. ("Oneida Leasing"). The cash capital contribution is loaned to Enron.

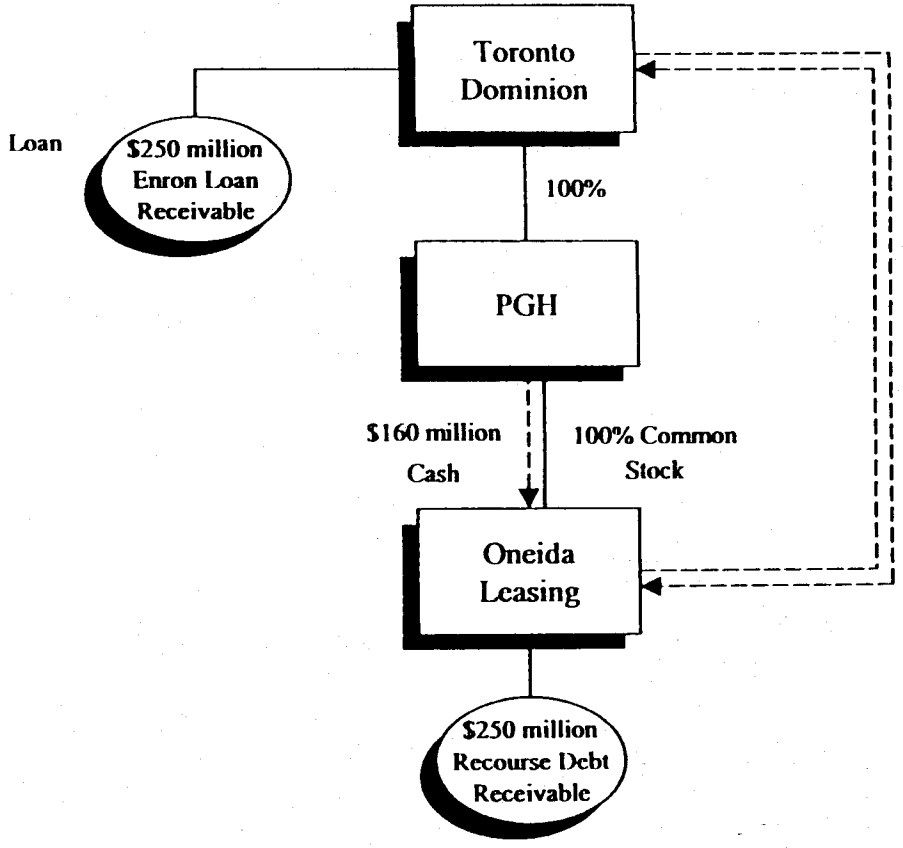
EC2 000038479

Step I(a) -F unding of the Partnership



ENRON

Step II -Cont ribution to BT Tomas



- BT Holdings (New York), Inc. transfers approximately $160 million cash to BT Tomas, Inc. ("BT Tomas"), a newly formed Delaware corporation.
- BT Tomas purchases a $160 million bond (the "BT Corp Bond") from BT Corp in exchange for $160 million in cash. The BT Corp Bond will have a fixed term of approximately 20 years. The BT Corp Bond will be redeemable at any time.

ENRON

EC2 000038481

Step III(a) - Formation of the Partnership

- At least 45 days after Step I (the funding of Oneida Leasing), PGH contributes (1) appreciated leased assets (the "Leased Assets") with a gross FMV of approximately $280.5 million subject to approximately $170.1 million of non-recourse debt (the "Non-Recourse Debt") and (2) its 100% interest in the common stock of Oneida Leasing with a FMV of approximately $250 million to Seneca Leasing. In addition, Seneca Leasing Partners will assume the Recourse Debt payable by Portland General of approximately $250 million.

- In exchange for its contribution to Seneca Leasing, PGH receives a limited partnership interest with a value of approximately $110.4 million which will provide for a floating preferred return (the "Preferred Return") on $68.3 million of the partnership interest (payable to the extent of Seneca Leasing Partners' accumulated earnings), a liquidation preference for approximately $64.8 million and an initial 95% share in partnership net income and net losses computed after accounting for the Preferred Return.

- As part of the partnership agreement, Portland General also receives a right (the "Retirement Right") which will allow it to compel Seneca Leasing to liquidate its partnership interest in exchange for assets of Seneca Leasing at any time subsequent to two years from the contribution of Oneida Leasing to Seneca Leasing.

EC2 000038482

ENRON

Step III(a) - Formation of the Partnership (Continued)

- BT Leasing Corp. and EN-BT Delaware make cash capital contributions of approximately $8.48 million and $2.12 million, respectively, to Seneca Leasing in return for approximately 4% general partnership interest and 1% general partnership interest, respectively. Seneca Leasing will invest the cash capital contributions from BT Leasing Corp. and EN-BT Delaware in permitted investments.

- The $250 million loan made to Enron by Oneida Leasing in Step I will be repaid upon contribution of Oneida Leasing to Seneca Leasing. After repayment of the $250 million loan by Enron, Oneida Leasing will transfer the $250.0 million cash to BT Tomas in exchange for (1) $40 million of common stock of BT Tomas representing 20% of the vote and (2) $210 million of non-voting preferred stock of BT Tomas. If Oneida Leasing determines that it has a need to monetize some of the stock in the future to support its leasing operations, it would sell some of the non-voting preferred stock to BT Corp for cash of equal fair market value pursuant to a fair market value liquidity put (the "Liquidity Put").

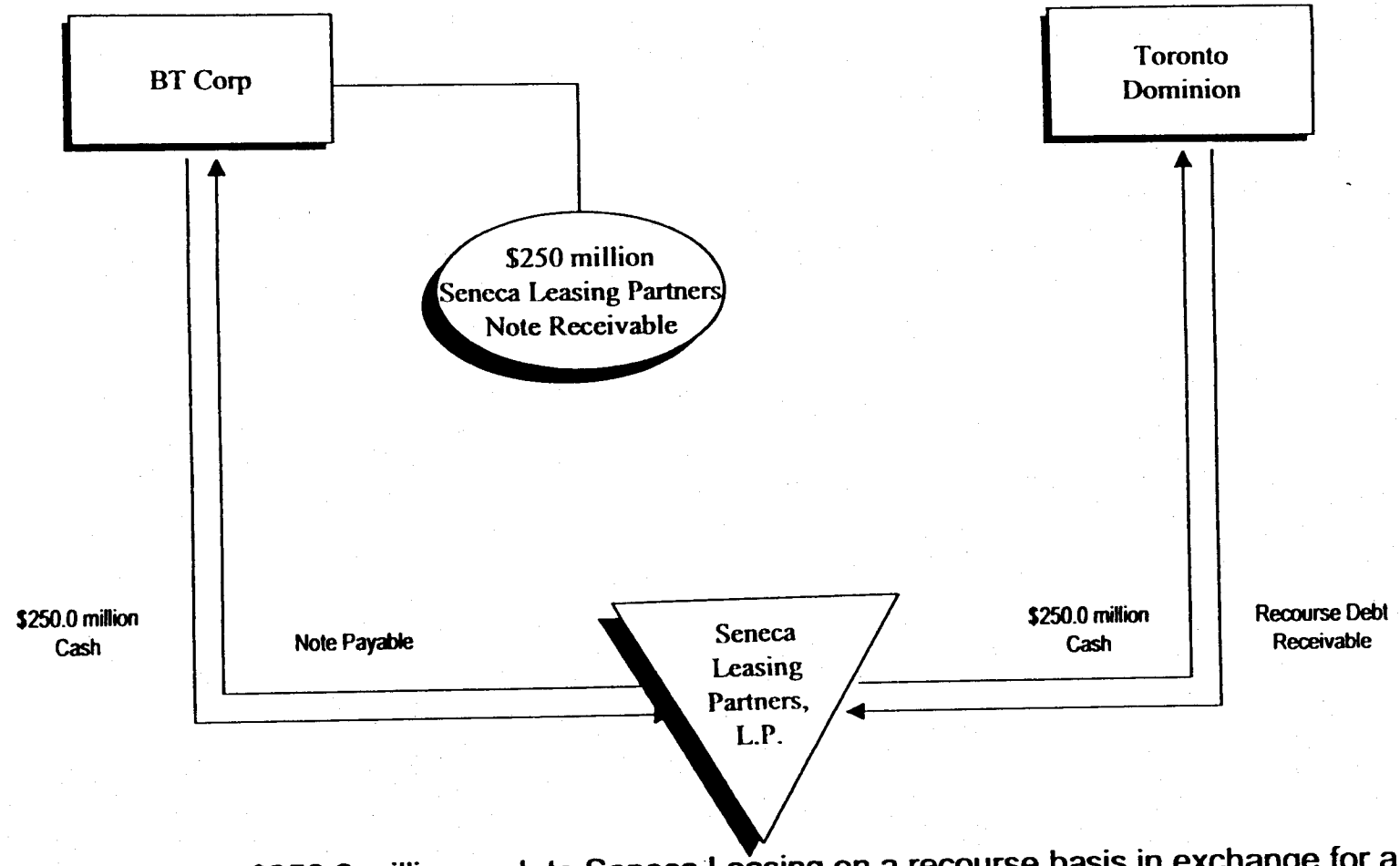
EC2 00003848 3

ENRON

Transaction Summary

Project Tomas

Step III(b) - Refinancing of Recourse Debt



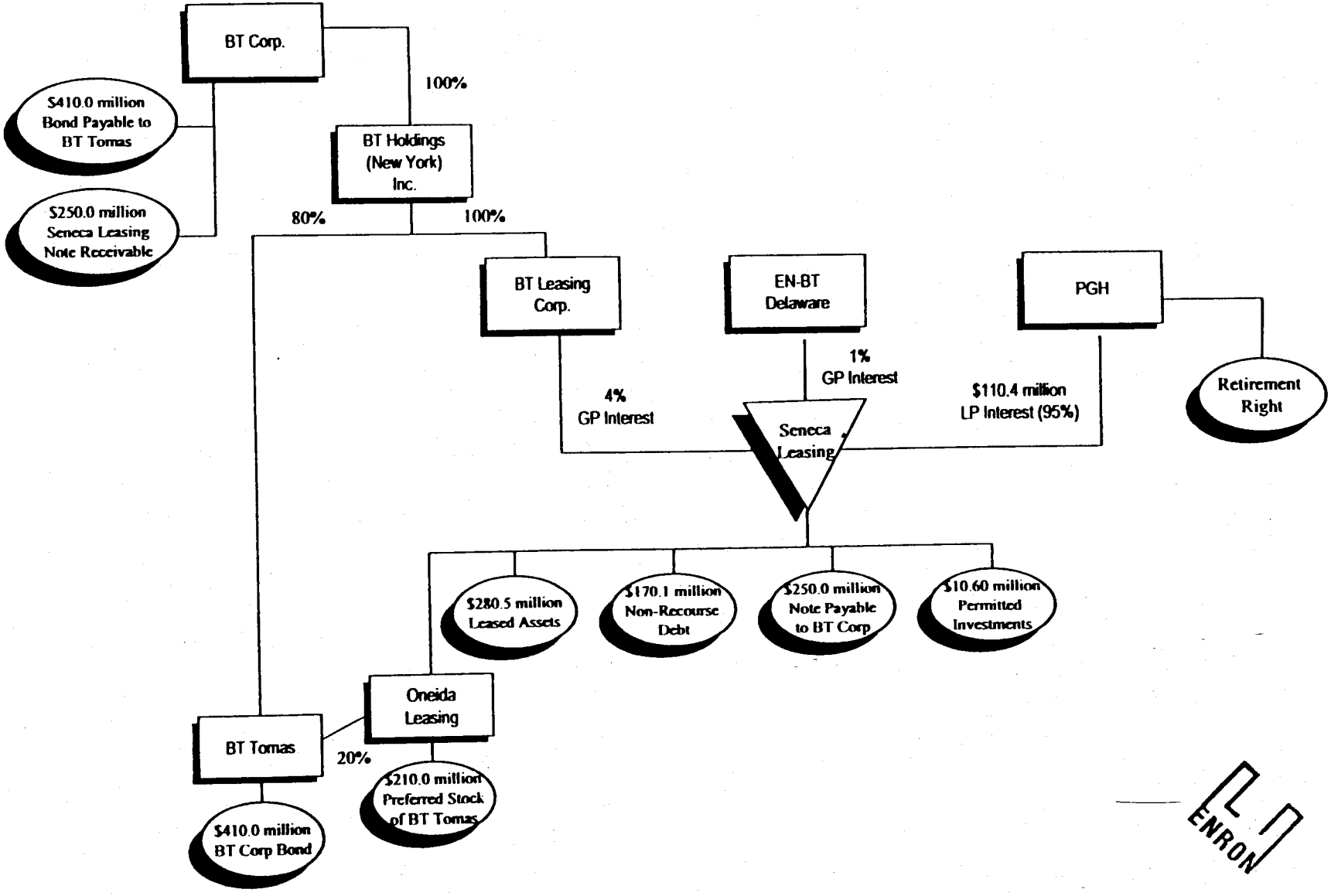
- BT Corp will loan $250.0 million cash to Seneca Leasing on a recourse basis in exchange for a demand note of Seneca Leasing.
- Seneca Leasing will transfer the $250.0 million cash to Toronto Dominion in satisfaction of the Recourse Debt.

ENRON

B-750

EC2 000038484

Structure after Step I(c)



Project Apache

B-752

EC2 00003848 6

Executive Summary

Project Apache

- A newly formed Dutch subsidiary Cherokee Finance, V.O.F., will issue $500 million of a 10 year mandatorily redeemable preferred equity security.

- The proceeds will be used to purchase securitized interests in Enron receivables through a special purpose entity (FASIT) and may also be loaned back to Enron Affiliates.

- Chase will arrange for a special purpose company financed primarily with bank debt, Apache Investors B.V., to purchase the preferred.

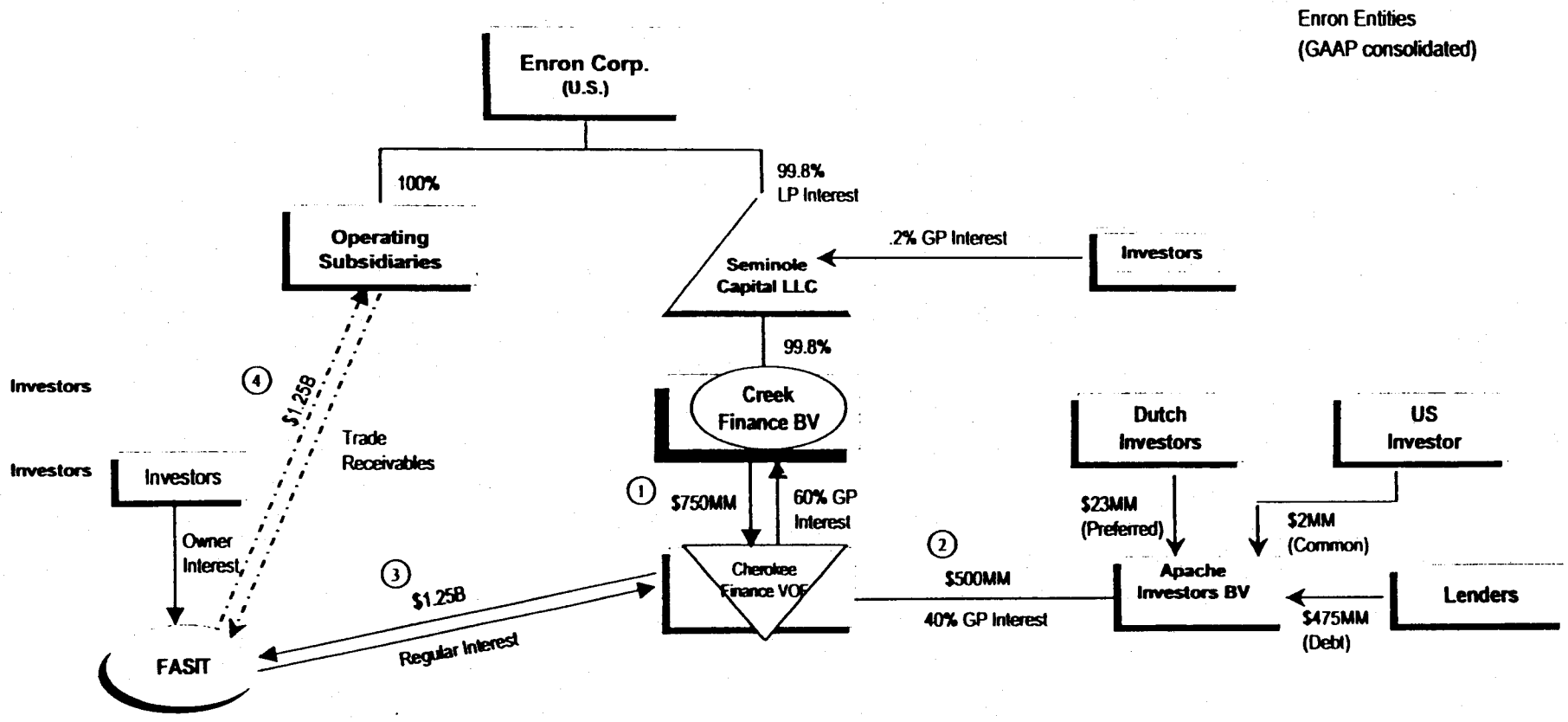
- The preferred will be classified as "minority interests" on the Enron consolidated financial statements similar to EOG.

- The transaction should provide:
  - annual income statement benefits ranging from $21 to 38 million.
  - $268 million of bottom line cumulative income statement benefit over 10 years.
  - 181% 10 year IRR.
  - NPV benefit at 7% of $194 million.
  - NPV benefit at 10% of $166 million.

EC2 000038487

ENRON

Structure - Set Up



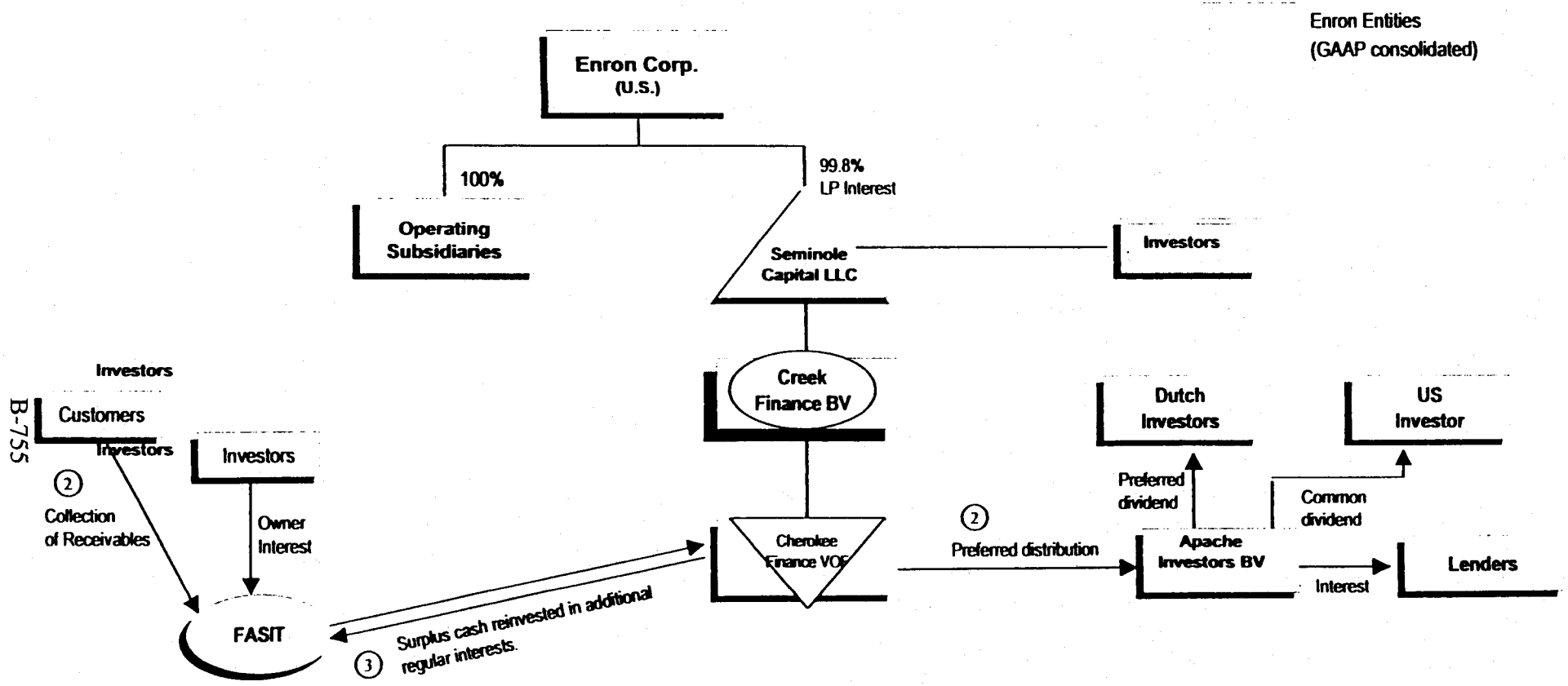
Legal Entity Legend

- corporation
- partnership
- trust/branch
- U.S. partnership, foreign corporation
- U.S. corporation; foreign partnership

B-754

EC2 000038488

Structure - Ongoing Cash Flows



III.

LEVERAGED EQUITY FINANCING STRUCTURES

EC2 000038490

ENRON

Project Marlin

B-757

EC2 000038491

Enron/Marlin Equity Financing

- Private Financing - Closed December 30, 1998 - 2 year deal
- New $1.4B for Enron to refinance bridge financing on acquisition of Wessex Water Plc
- Expected Benefits
  - New capital $1.4B
  - Equity method treatment for financial accounting purposes.
  - High degree of equity credit from rating agencies expected
  - Tax deductibility of payments to private investors.
  - Flexibility for Azurix to pursue other water related investment by entities below the Newco level. Marlin's direct or indirect management rights do not extend to -
    - The expenditure by a lower tier entity of up to an aggregate of $2.4B of acquisitions and other capital expenditures, or
    - Equity offerings of any lower tier entities.
- Transaction Elements
  - Enron will contribute an aggregate amount of $[____]M to Newco for a [40]% interest with Marlin contributing $1.14B for a [over 50]% interest.
  - A portion of Marlin's contribution will remain at Newco (the Over funding Amount) to make yield payments to Marlin over the 2 year period.

EC2 000038492

ENRON

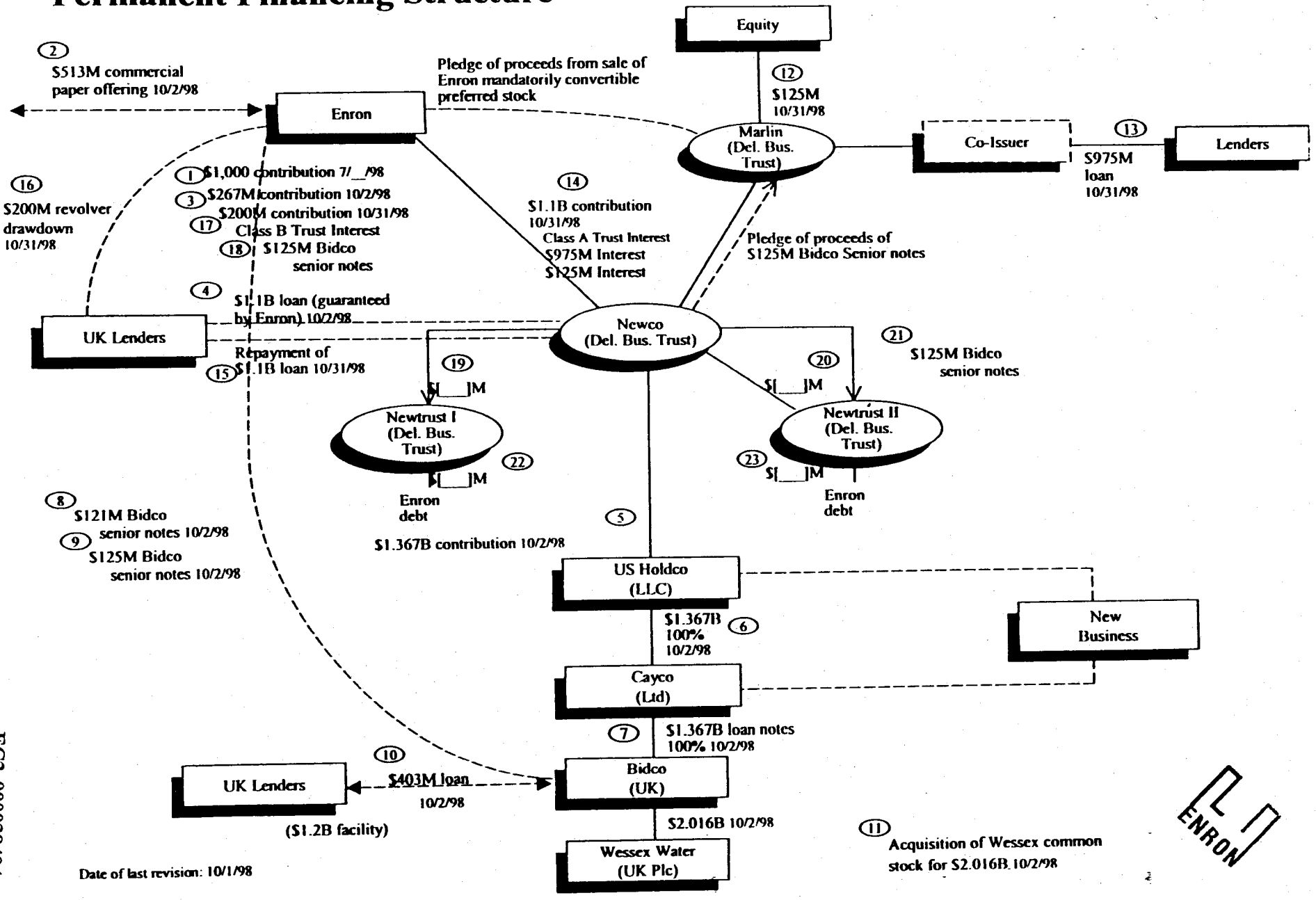
Enron/Marlin Equity Financing

- Enron uses the new funds to repay bridge financing incurred on initial acquisition of Wessex.
- Entries to balance
  - Enron's investment in Newco (and its indirect interest in Wessex) will be shown as a single amount on the balance sheet and earnings and losses will be shown as a single amount in the income statement.
  - Net effect: Enron pays down $1.1B of debt and records an equity investment of $[___]M.
  - Enron controls the conversion o the preferred stock (into ___M shares of Enron common) except upon a "Debt Trigger Event".
- Tax Issues

EC2 000038493

ENRON

Wessex Water Acquisition
Permanent Financing Structure



B-760

EC2 000038494

Project Nighthawk

B-761

EC2 000038495

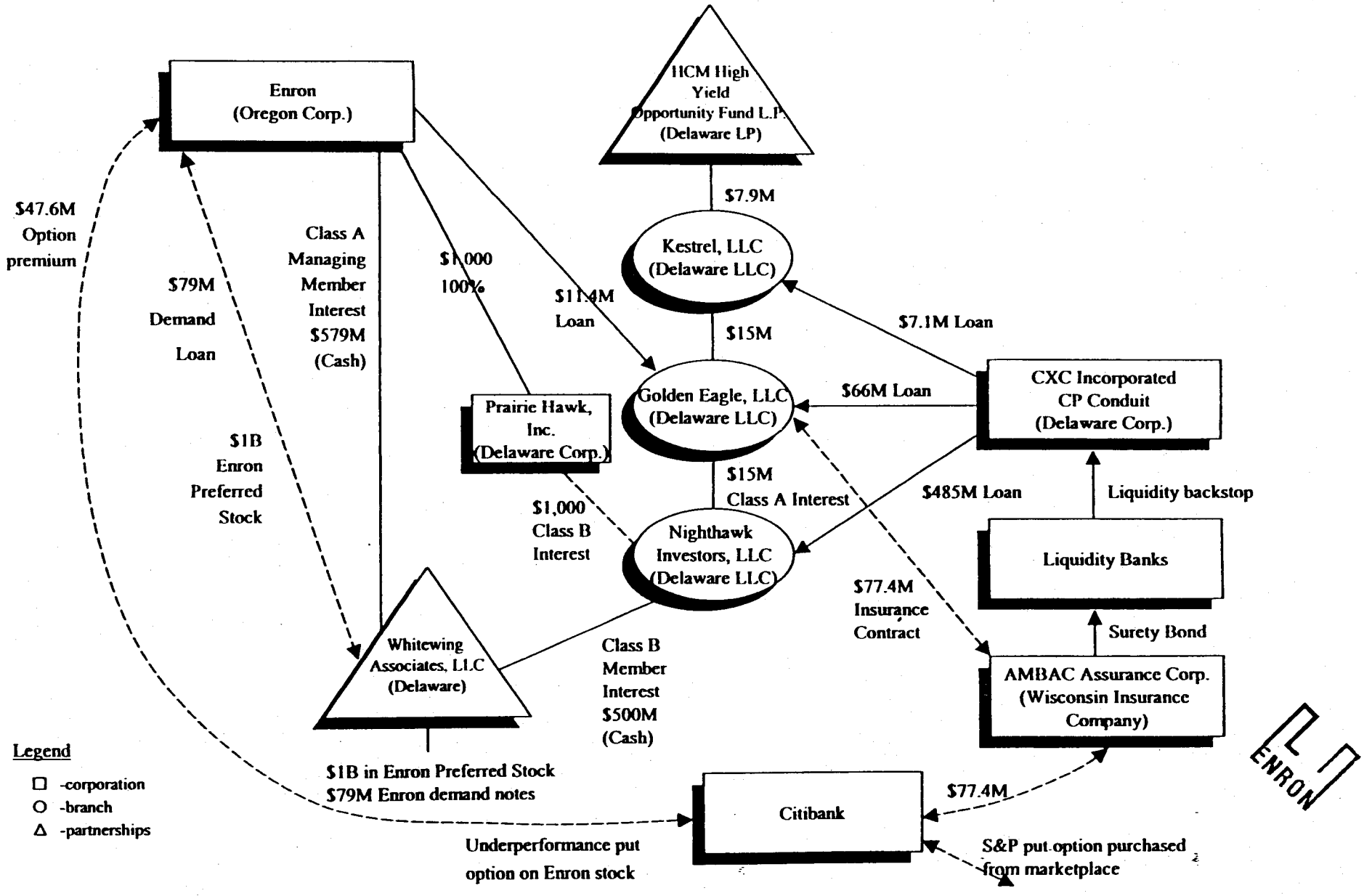
Enron/Nighthawk Leveraged Equity Financing Transaction

- Private Financing - Closed December 30, 1997 - 5 year deal
- Benefits
  - New capital of $500M to repay debt from issuance of a convertible preferred security
  - Anticipated high degree of equity credit from rating agencies (hasn't occurred to-date)
  - Tax deductibility of payments to private investors
  - No dilution of EPS/Enron retained upside and downside and control of Enron Corp. stock
- Transaction Elements:
  - The private investors contributed $500M to the JV for a guaranteed payment interest and a 1.5% common interest
    - Backleveraging of private investor interest
    - "True equity" of 3% ($15M) leveraged at Kestrel level
    - Leveraging at Golden Eagle level required to purchase insurance from surety
  - Enron contributed $579M to the JV for a floating rate priority return and a 98.5% common interest
  - The JV used $1B to purchase Enron convertible preferred stock and made a demand loan of $79M to Enron.
  - Entries to balance sheet
    - Sale of preferred stock to a consolidated affiliate gets eliminated
    - Net effect: Enron pays down $500M of debt and books minority interest of $500M
  - Derivative contracts
- Rating agency "fixes" currently being considered for prospective benefit
- Tax Issues

EC2 000038496

ENRON

Enron/Nighthawk
Equity Financing Transaction
December 30, 1997

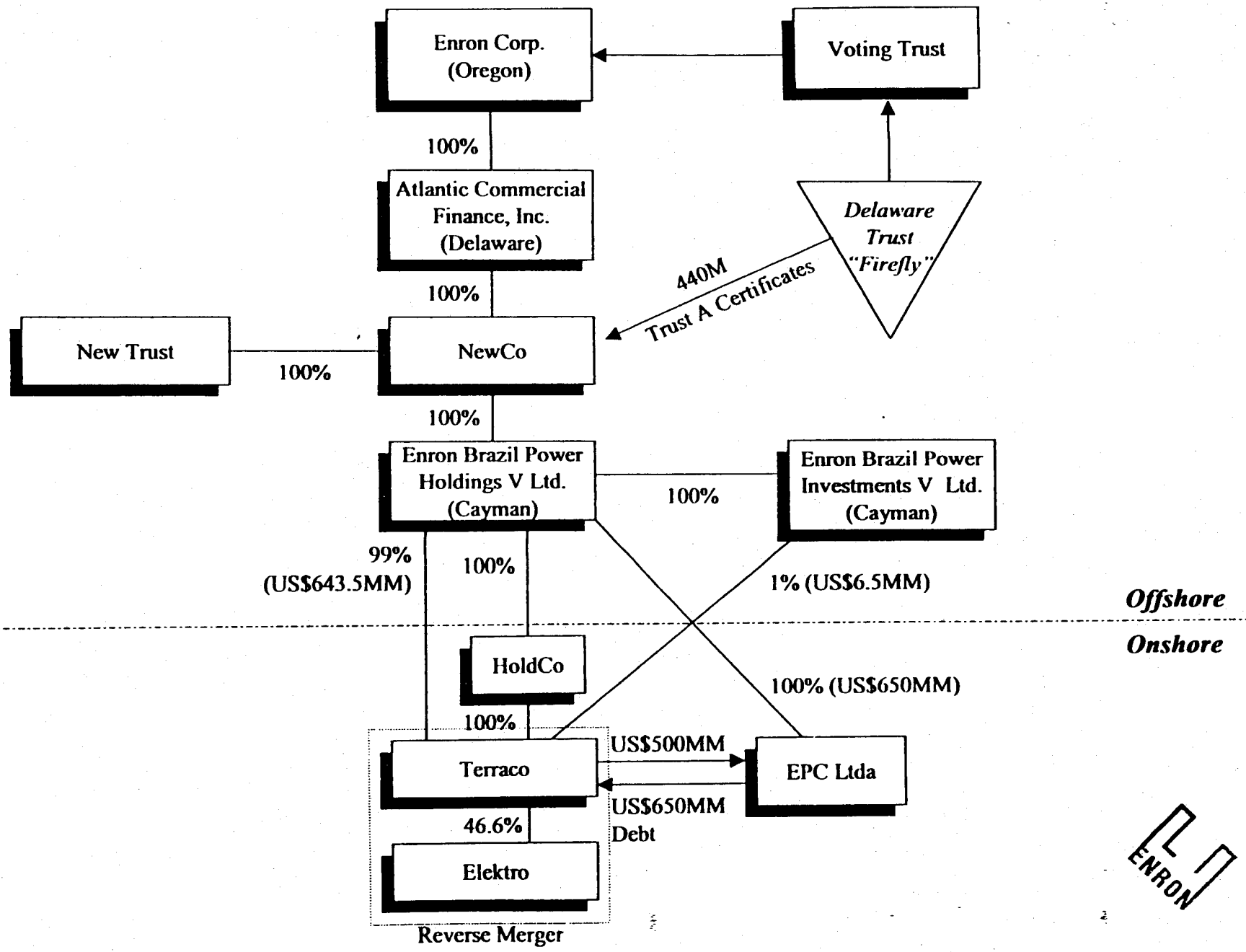


Project Firefly

B-764

EC2 000038498

Elektro Firefly Structure



B-765

EC2 000038499

IV.

GPG PROJECTS

EC2 00003850O

ENRON

Project Sooner

B-767

EC2 000038501

Executive Summary

- Identify, classify and value assets constituting the pipeline to be transferred to the new Sooner LLC ("30" Pipeline") and assets which Sooner LLC will construct in exchange for the 30" Pipeline ("Exchange Assets").
- Form Delaware limited liability company with Equilon, a Texaco and Shell joint venture, as one 50% member and Sooner Corp., a Citrus subsidiary as the other 50% member. Fund the entity with approximately $800mm in cash.
- Enter into an exchange contract between Florida Gas & Transmission ("FGT") and Sooner LLC.
- Sooner LLC constructs the Exchange Assets then transfers them to FGT in exchange for the 30" Pipeline.
- Sooner LLC improves the 30" Pipeline and converts it into a liquids pipeline as the only on-shore fluids transport line of its kind along the Gulf Coast.

Tax Benefits:

Permanent deferral of approximately $240.5mm of tax liability from a deferred gain recognition of the 30" pipeline assets. This tax liability would not have been recoverable in the rates allowed by FERC and, if recognized would have increased the total cost of this project to approximately $1.04 billion.

ENRON

EC2 000038502

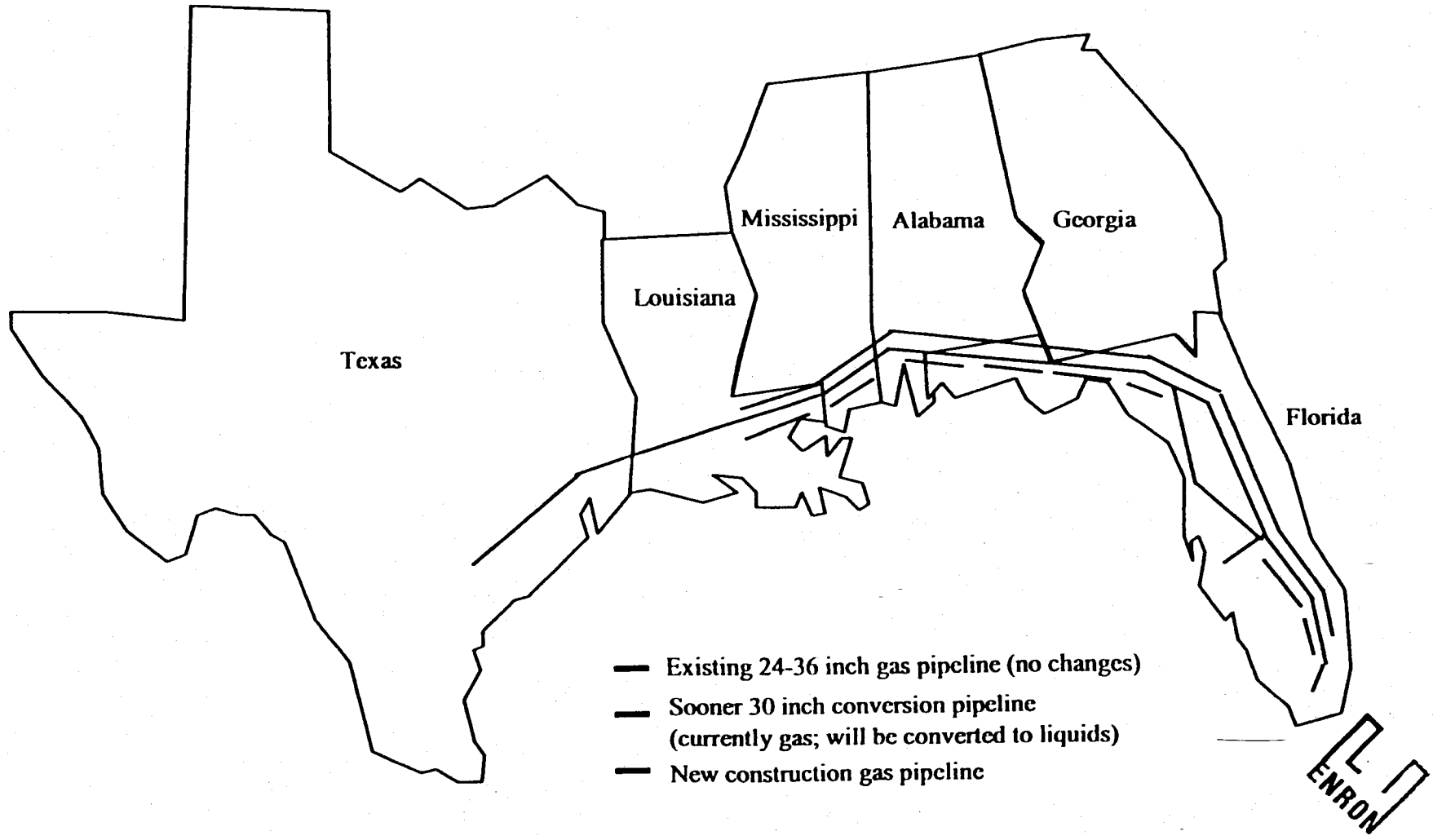
Risks and Mitigating Factors

Specific Risks	Mitigating Factors
• 30" Pipeline is not deemed to be like-kind to the Exchange Assets.	• We are seeking a private letter ruling on the classification of assets in this transation as "like-kind." The principal legal issue involved is the existing tax law classifying pipelines as real estate for certain purposes under the Code. The like-kind exchange rules and related interpretive authority do not address whether pipelines are realty or personalty. The assets included in the exchange are a mix of pipe, compressor stations and related equipment. We will argue that pipelines constitute an integrated system of gas or fluid transport equipment and should not be bifurcated into realty and personalty.
• Sooner LLC is not deemed to be the "owner" of the Exchange Assets prior to the exchange.	• Sooner LLC will enter into all of the construction contracts, take title to the assets and pay for the assets prior to the exchange.

EC2 00003850 3

ENRON

The Sooner Project



B-770

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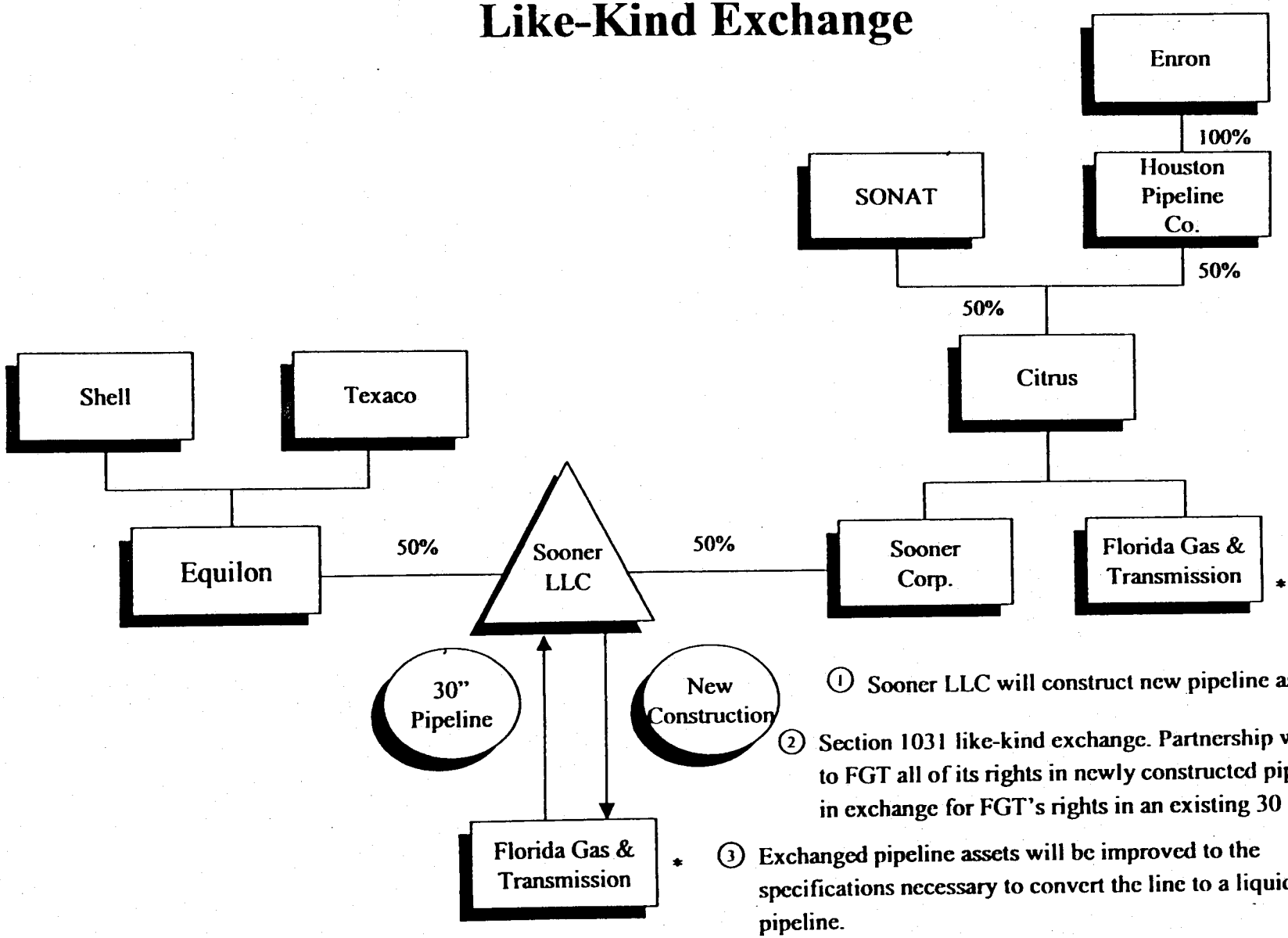
The Sooner Project

Like-Kind Exchange



① Sooner LLC will construct new pipeline assets.

② Section 1031 like-kind exchange. Partnership will transfer to FGT all of its rights in newly constructed pipeline assets in exchange for FGT's rights in an existing 30 inch pipeline.

③ Exchanged pipeline assets will be improved to the specifications necessary to convert the line to a liquid pipeline.

ENRON

B-771

EC2 000038505

Black Marlin

B-772

EC2 000038506

Executive Summary

- Adopt a Plan of Liquidation for the deemed dissolution of Black Marlin, Inc. to distribute out the assets which will not be part of the sale of Black Marlin to Blue Dolphin Corp. (the "311 Assets") to Enron Pipeline Corp. ("EPC").
- Enter into a Purchase and Sale Agreement with Blue Dolphin for the sale of the stock of Black Marlin contingent upon obtaining FERC approval for the sale.
- Negotiate a contribution agreement between EPC and Northern Natural Gas ("Northern") for the transfer of the 311 Assets to Northern. EPC is not a regulated interstate pipeline and is not permitted to hold the 3411 Assets if they are being used for the interstate transport of gas
- Obtain FERC approval, implement the Plan of Liquidation, the Purchase and Sale Agreement and the contribution of the 311 Assets.
- Make a 338(h)(10) election with respect to the Black Marlin assets other than the 311 Assets distributed in liquidation.

Tax Benefits:

Deferral of taxes on gain recognition from the transfer of the 311 Assets.

EC2 000038507

ENRON

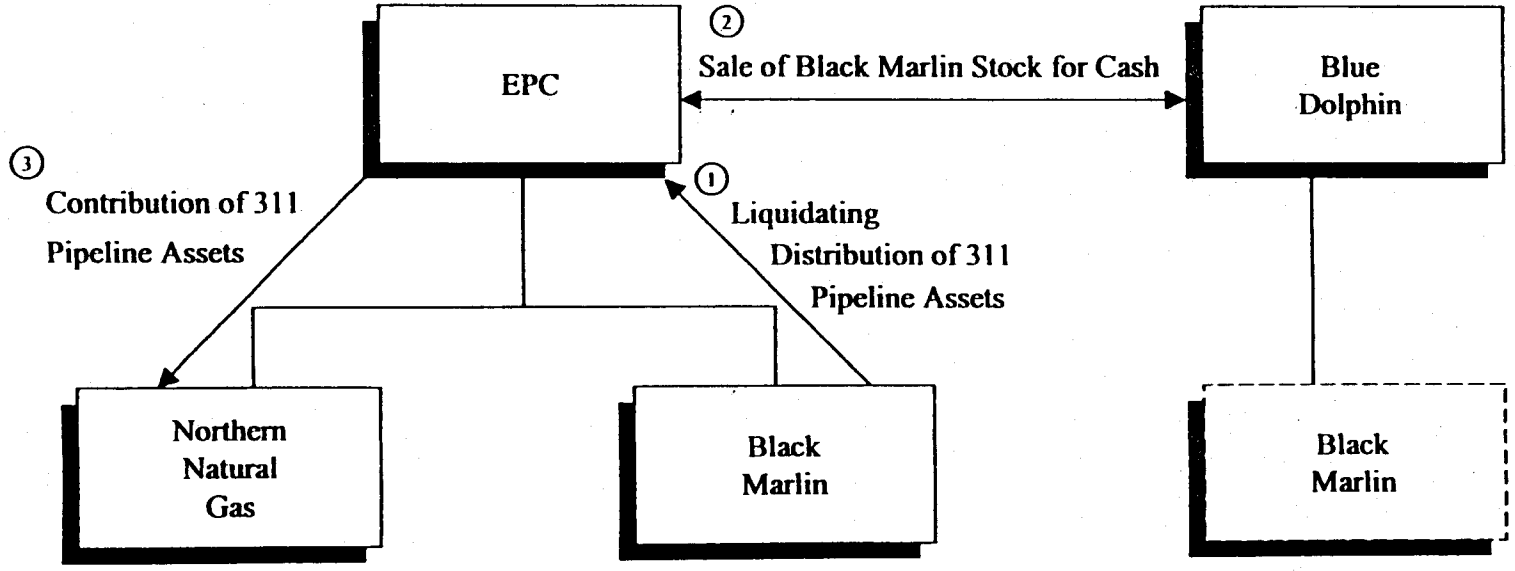
Risks and Mitigating Factors

Specific Risks	Mitigating Factors
• The transfer of the 311 Assets to Northern will "taint" the combined Plan of Liquidation and sale of the Black Marlin stock causing the Service to treat the stock sale as preceding the liquidating distribution of assets.	• Since we are making a 338(h)(10) election on the stock sale, the order of the transaction should not matter. We are already incurring the tax liability from the sale as if it were an asset sale.

EC2 000038508

ENRON

Black Marlin Sale



Hedging Projects

EC2 000038510

Hedging Programs

Introduction:

- Effort by GPC to standardize hedging procedures and establish mechanisms to adhere to regulations under IRC.

Hedging Programs

Introduction:

- Effort by GPC to standardize hedging procedures and establish mechanisms to adhere to regulations under IRC.

EC2 000038512

ENRON

Hedging Programs

Tax Issues:

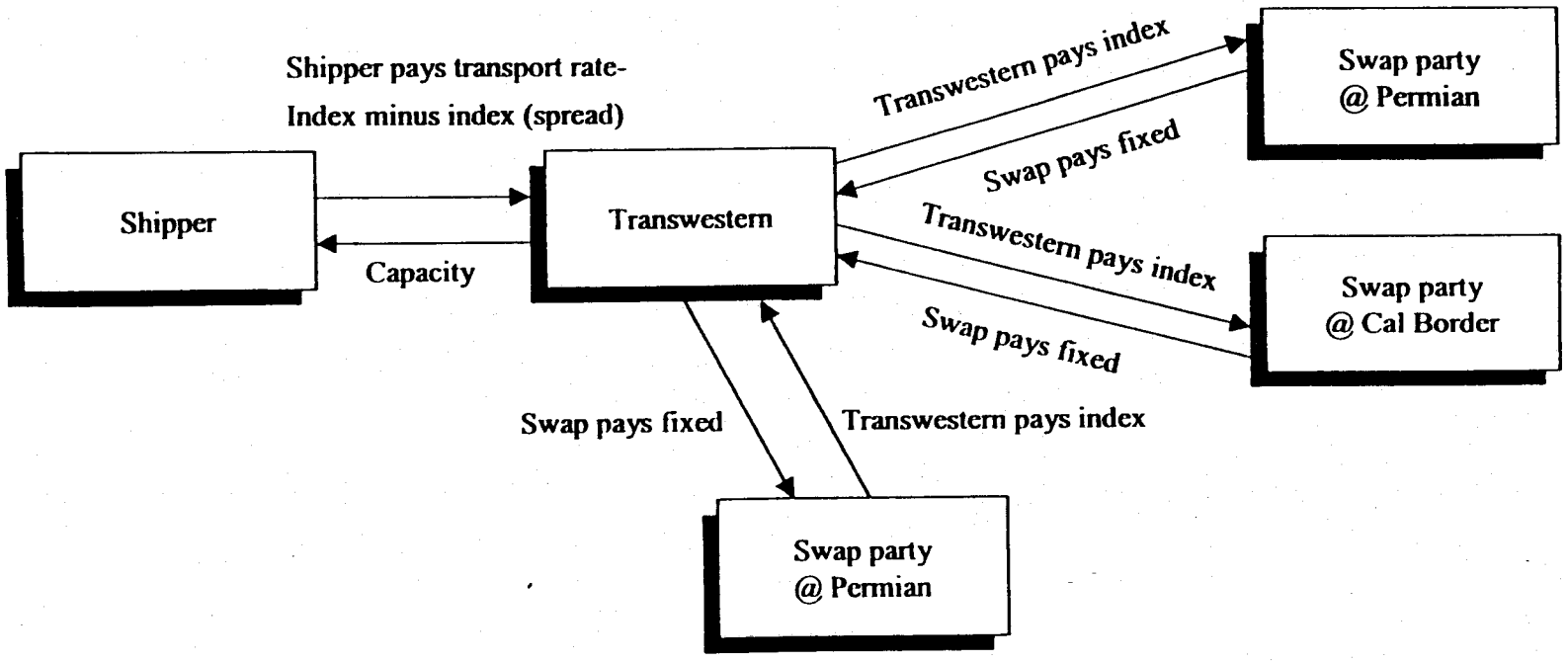
- Necessity of ordinary property or borrowing or ordinary obligation.
  - –Non-inventory supplies are ordinary property if sales only negligible.
- Hedges of aggregate risk vs. hedges of specific transactions.
- Clear reflection of income accounting methods under 446 regulations.
- Recordkeeping requirements under 446 and 1221 regulations.
  - –Contemporaneous documentation
  - –Identification of hedge and hedged transactions.
- Single-entity rule vs. separate entity election for consolidated group (intercompany hedging transactions).

EC2 000038513

ENRON

TRANSWESTERN PIPELINE COMPANY
Hedged Firm Transportation Deal Flow

Physical Transportation **Transportation Hedge**



Fuel Hedge

B-780

EC2 00003851 4

ENRON

V.

STRUCTURED FINANCE OPERATIONS

EC2 000038515

Structured Finance Operations

General Background

B-782

EC2 000038516

1997 - Needs Identified for Structured Transactions

- Need for Accounting Services
  - Provide Closing Entries for Deals
  - Provide Ongoing Accounting Entries for Entities
- Need for Financial Management
  - Pre-Tax Forecasting and Planning Info
  - Cash Management & Custody of Certain Financial Assets
- Need for Overall Management of Business Activities on an Ongoing Basis
  - Coordinate Company Payments
  - Monitor Stock Redemptions and Dividend Declarations / Distributions

EC2 000038517

ENRON

The Result...?

Structured Finance Operations

ENRON

B-784

EC2 00038518

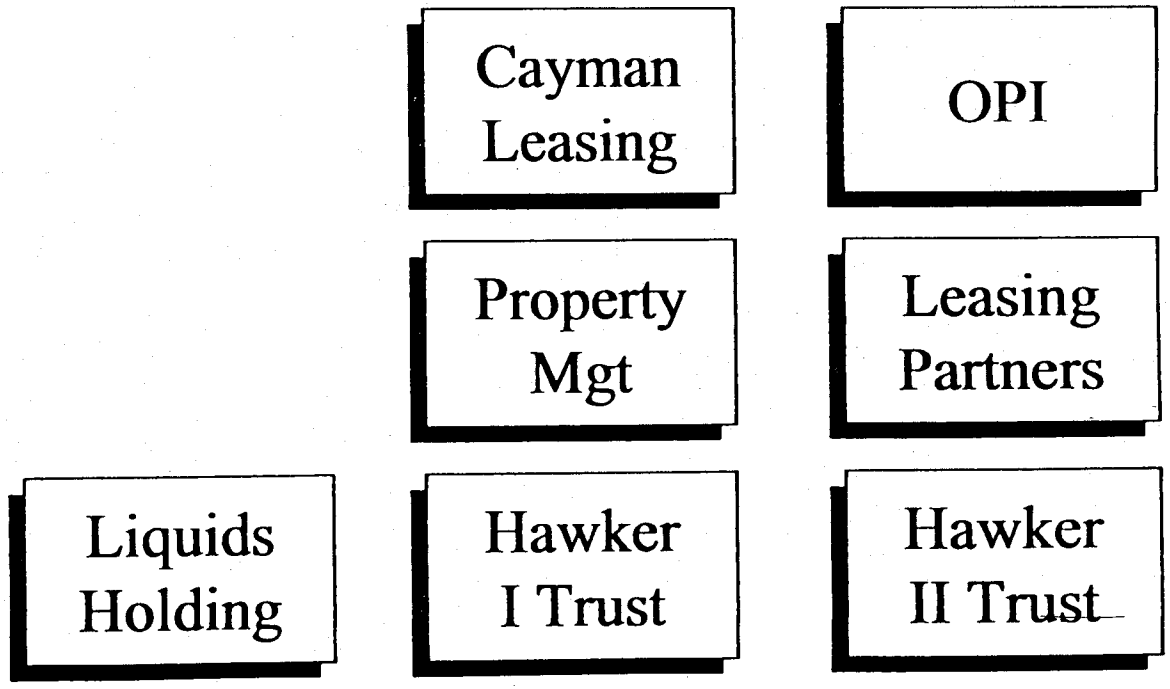
Primary Functions

- Full Accounting, Finance & Tax
- Full Tax
- Accounting, Finance & Tax Overview

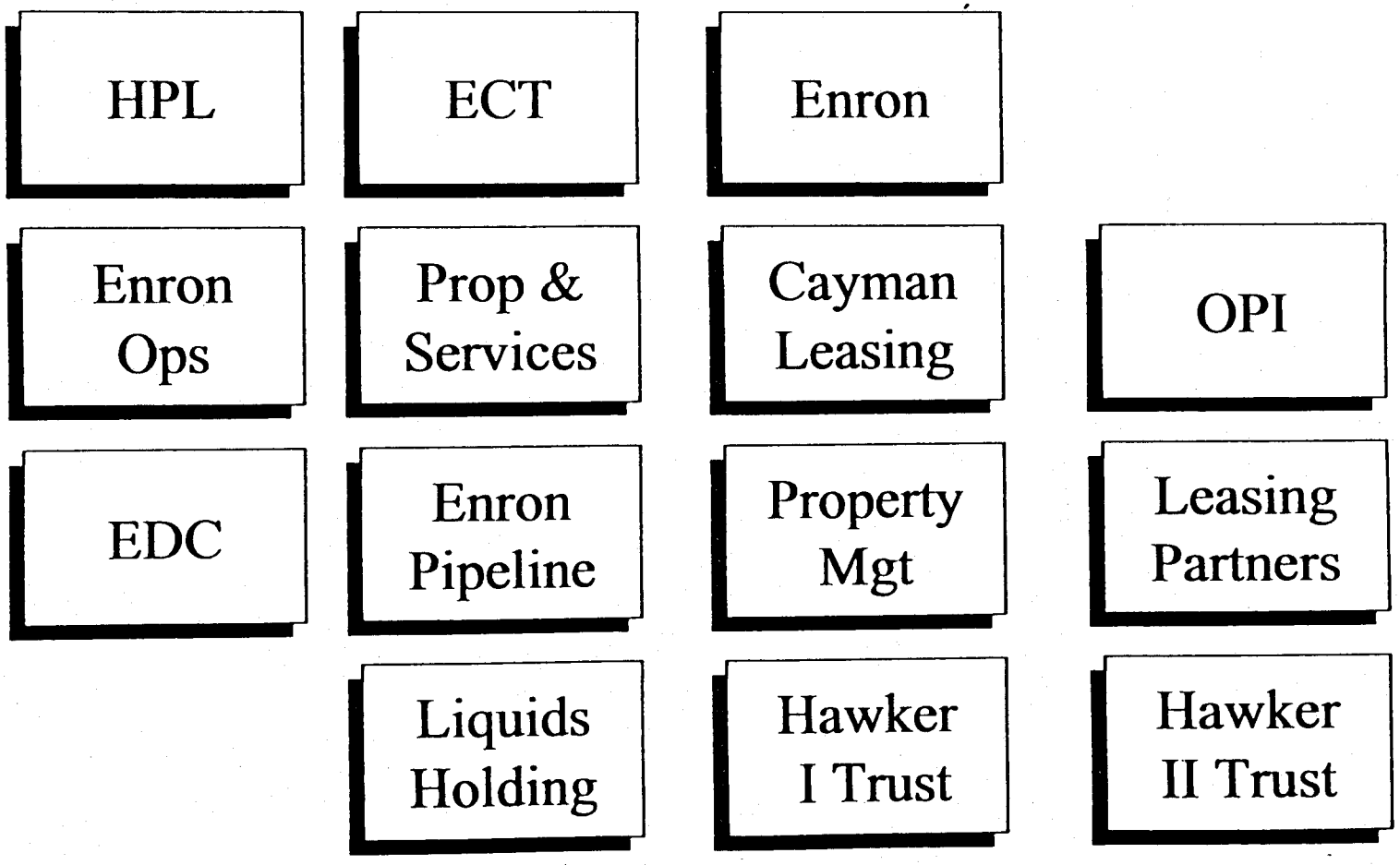
EC2 000038519

ENRON

Full Acctg, Finance & Tax
Project Teresa

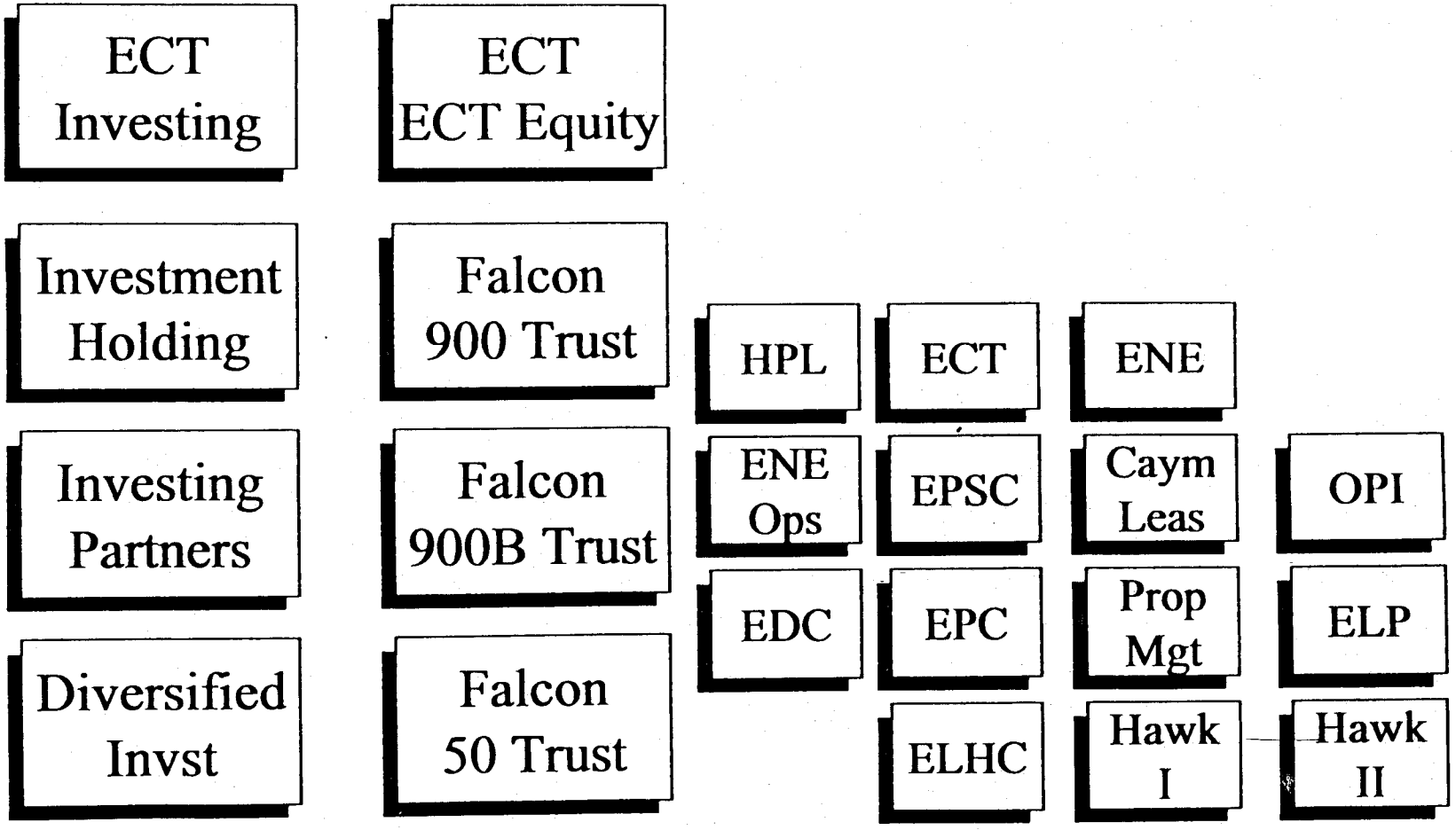


Acctg, Fin, Tax Overview
Project Teresa

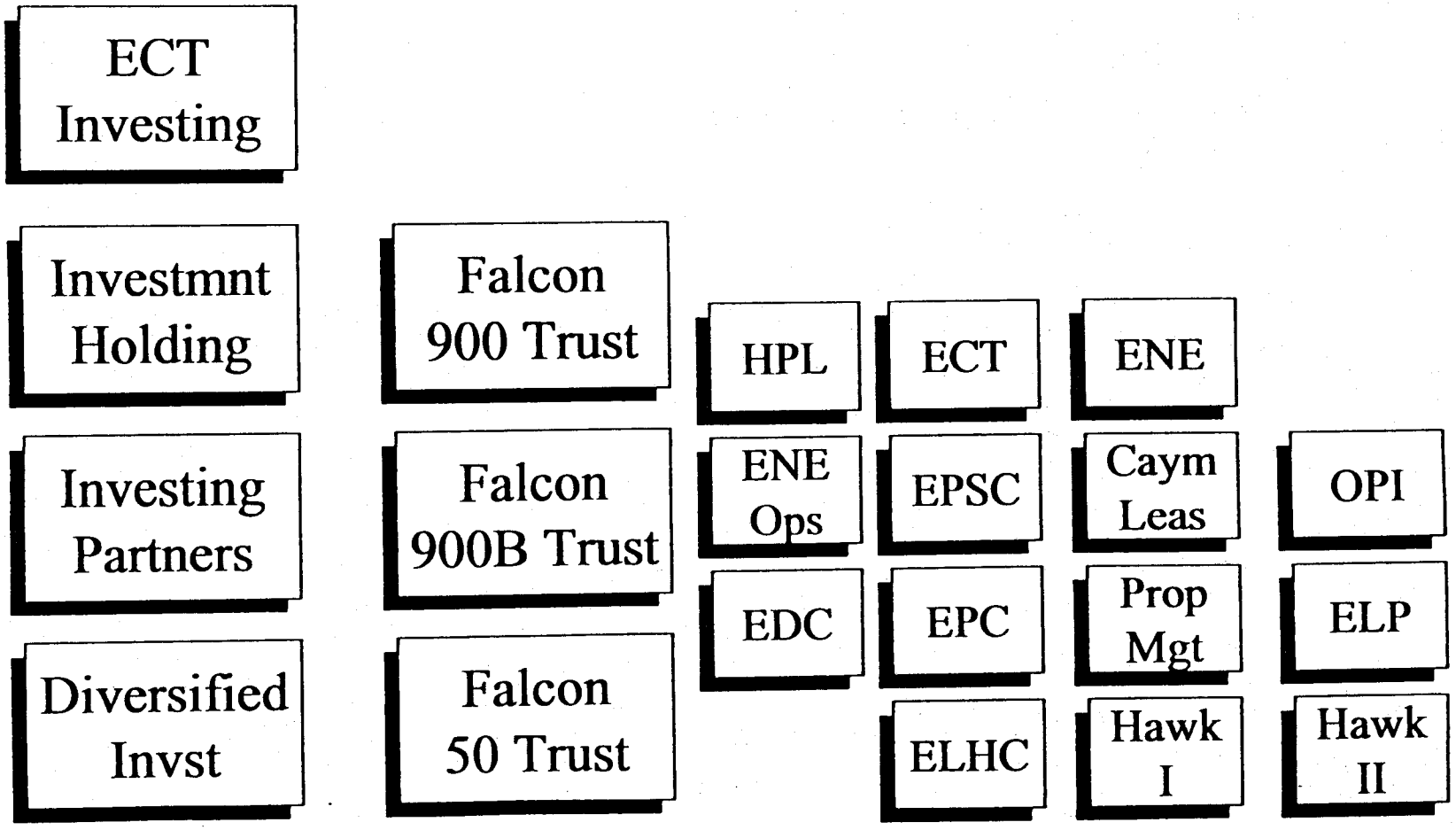


Full Acctg, Finance & Tax

Project Steele

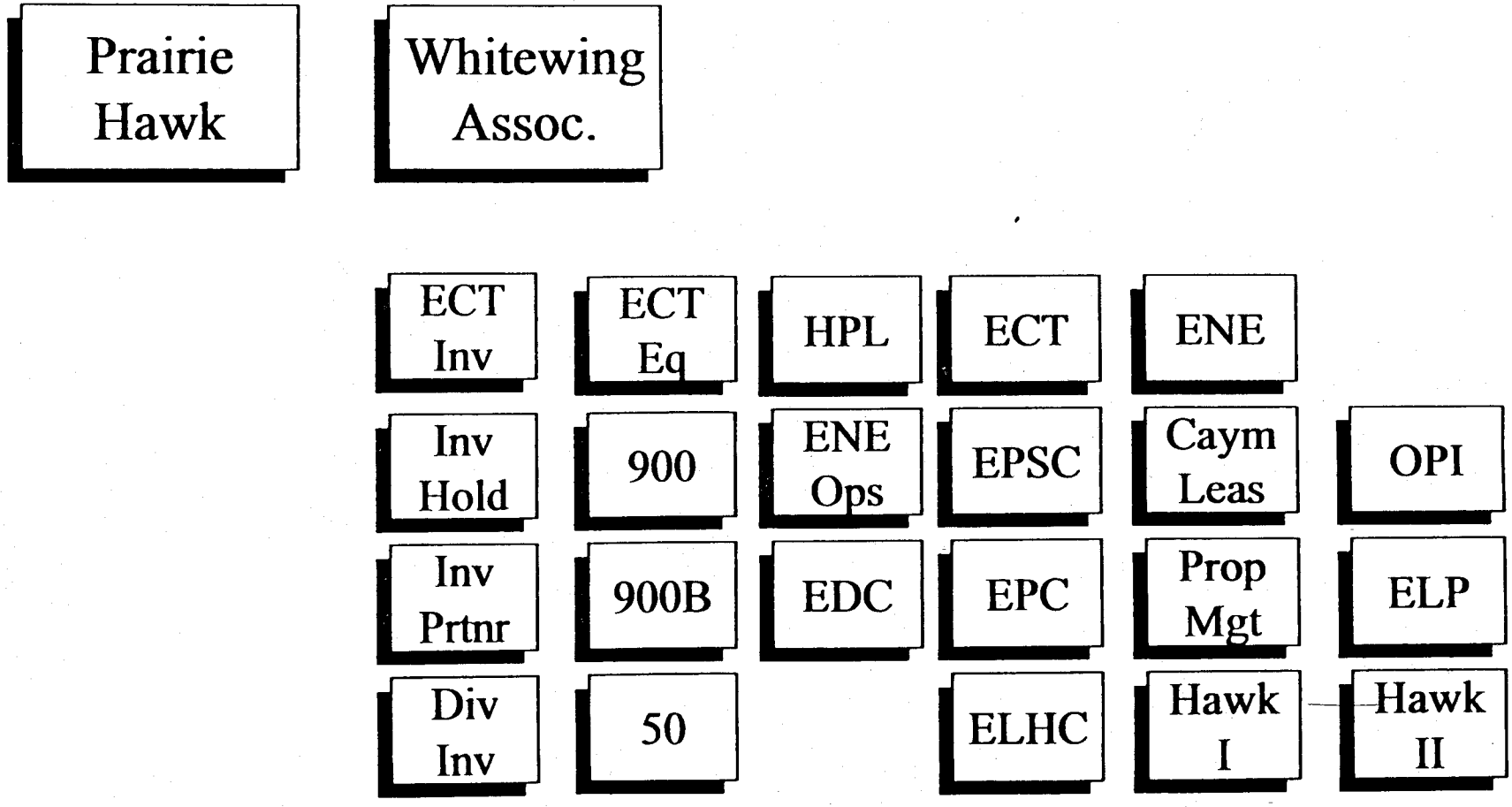


Acctg, Fin, Tax Overview
Project Steele



EC2 00038523

Full Tax
Project Nighthawk



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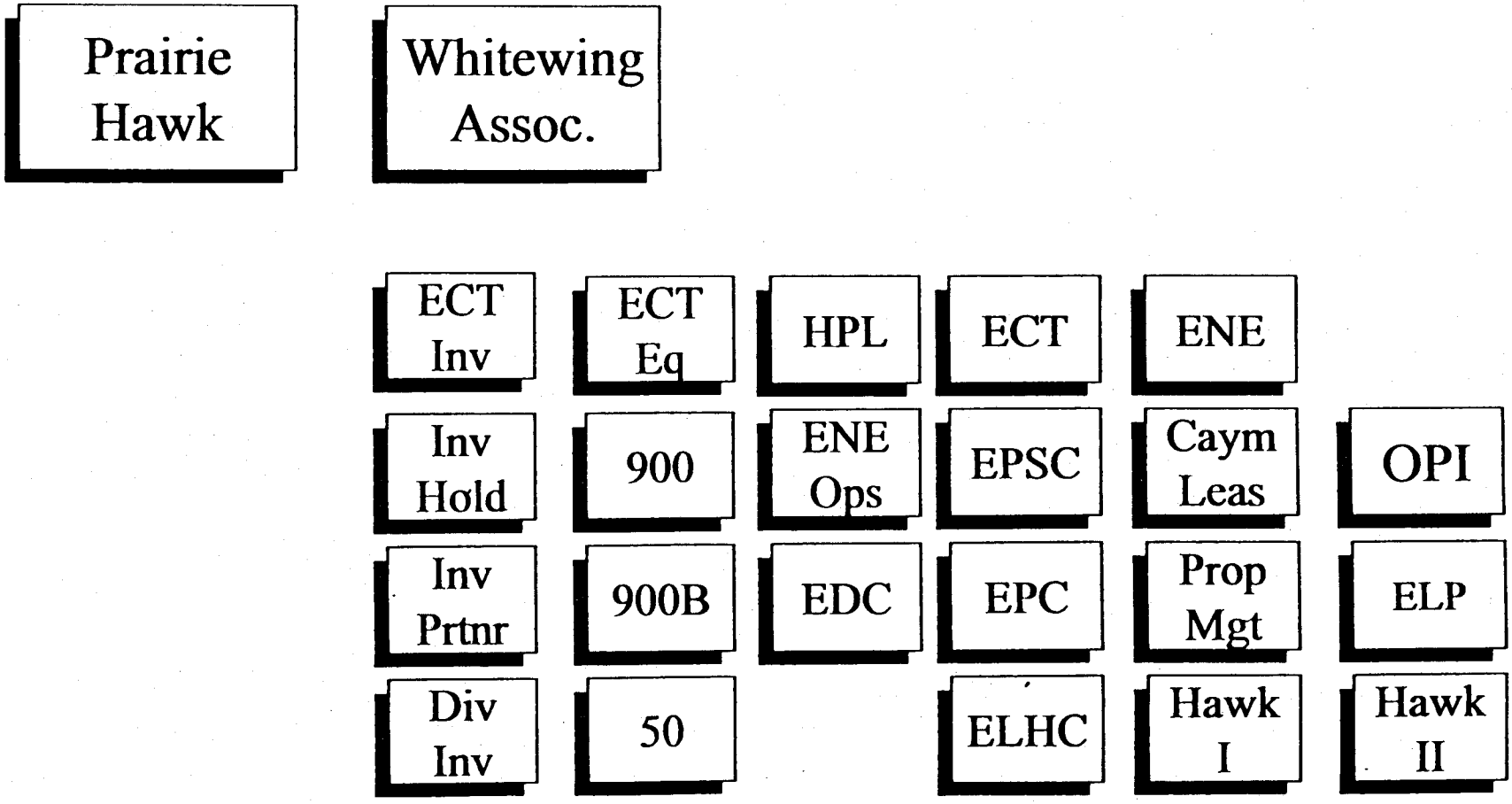
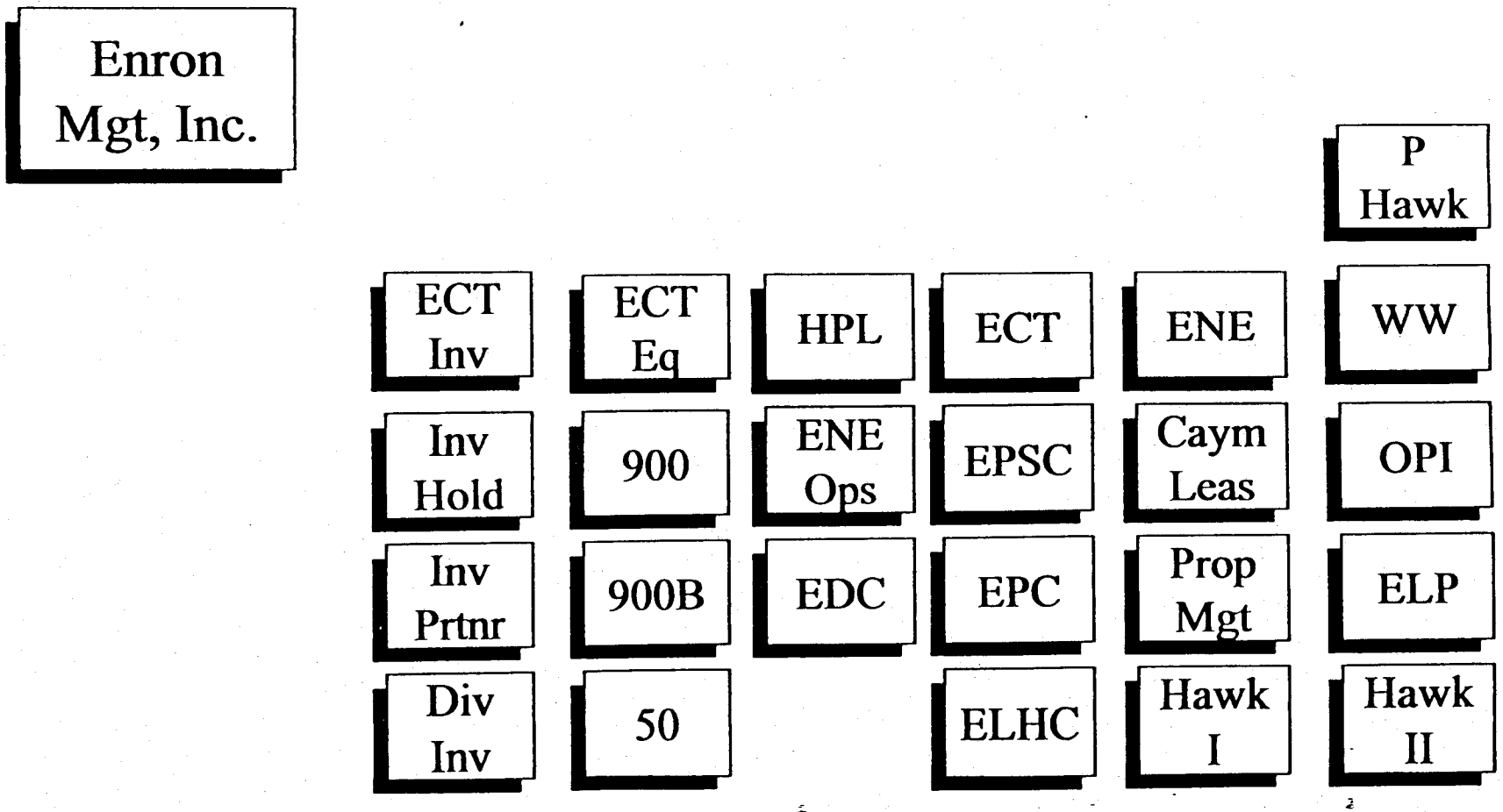
Acctg, Fin, Tax Overview
Project Nighthawk



Acctg, Fin, Tax Overview
Project Tanya



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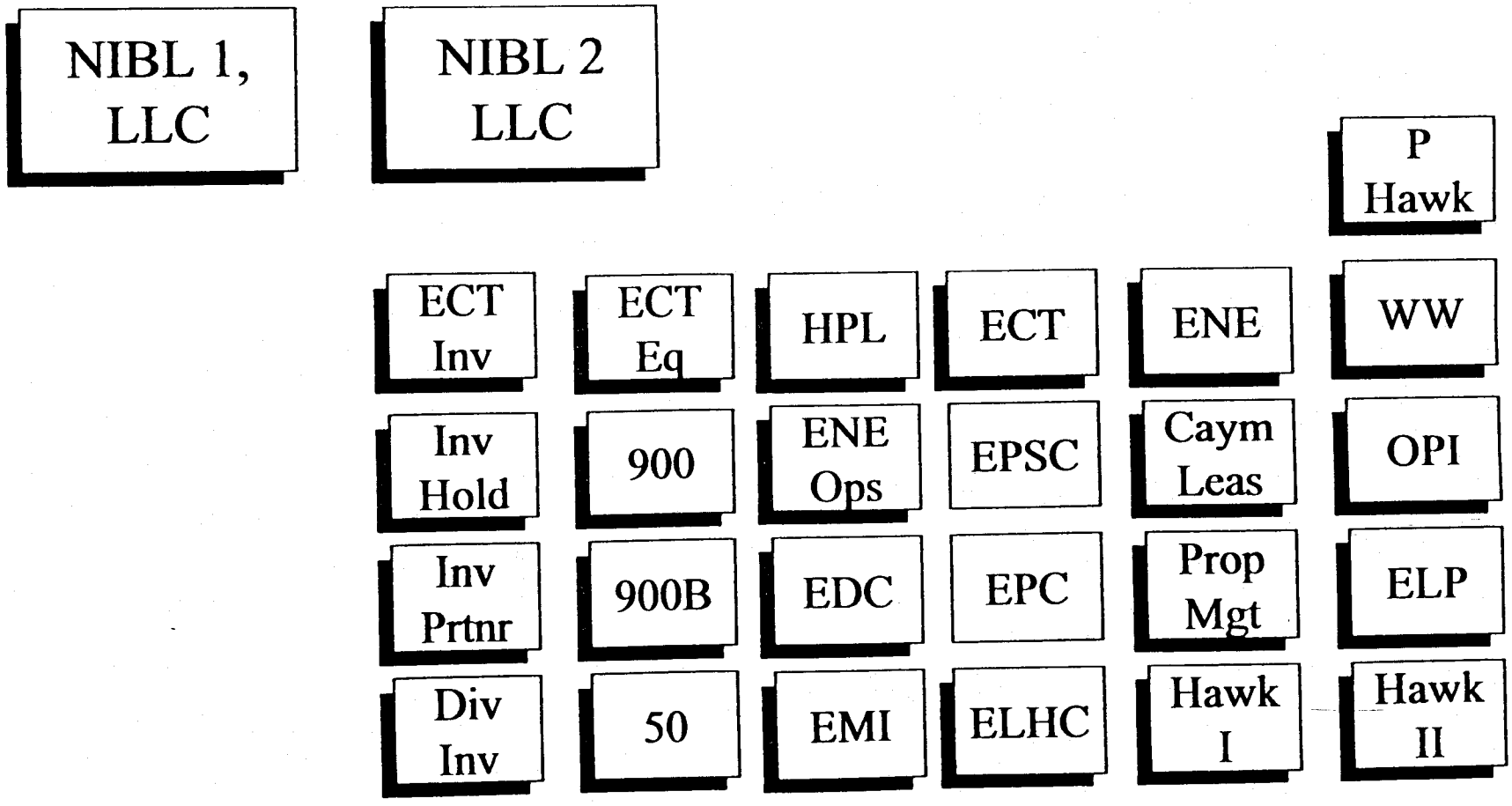
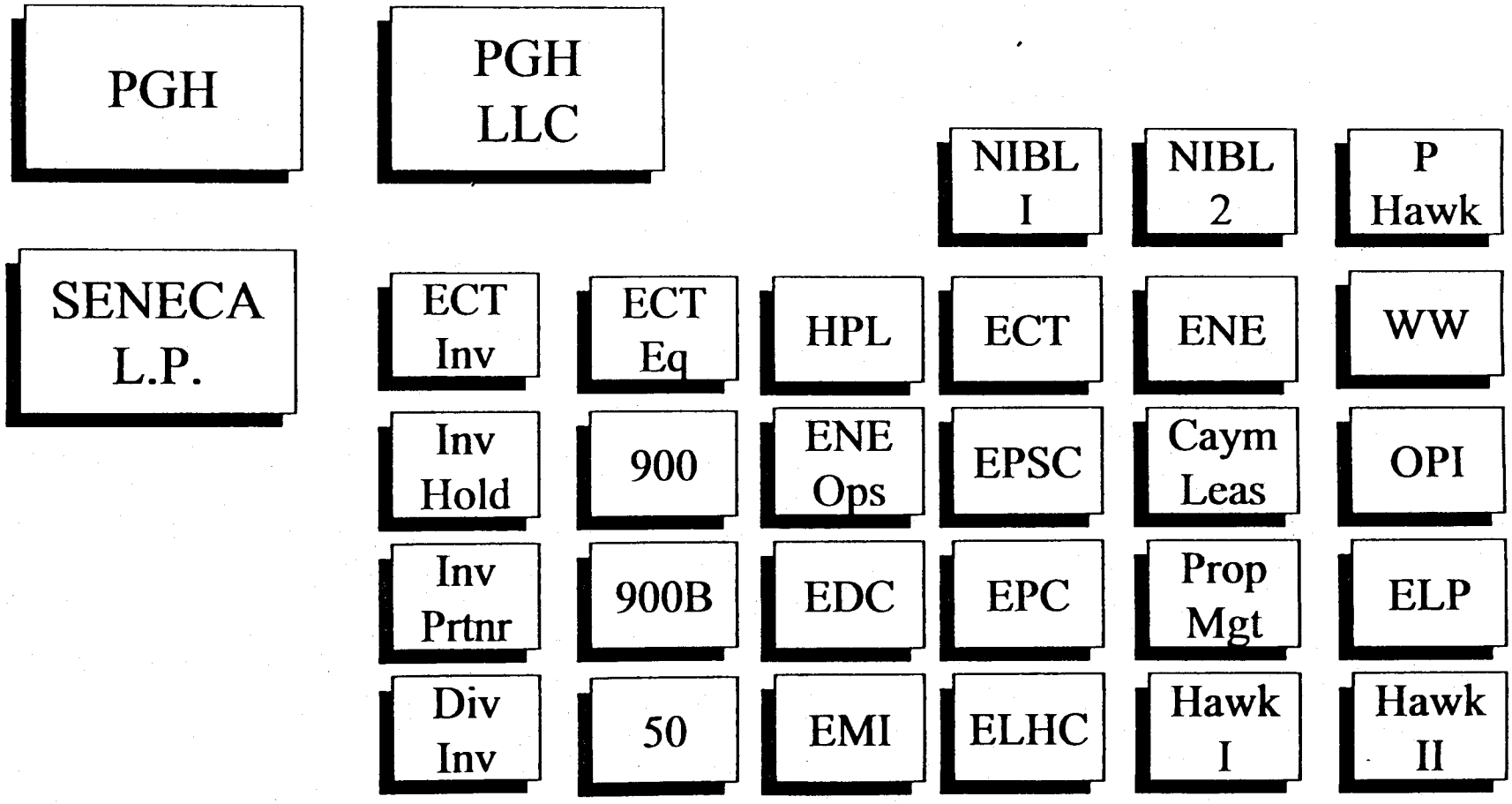
Acctg, Fin, Tax Overview
Project Cornhusker



EC2 000038527

Acctg, Fin, Tax Overview

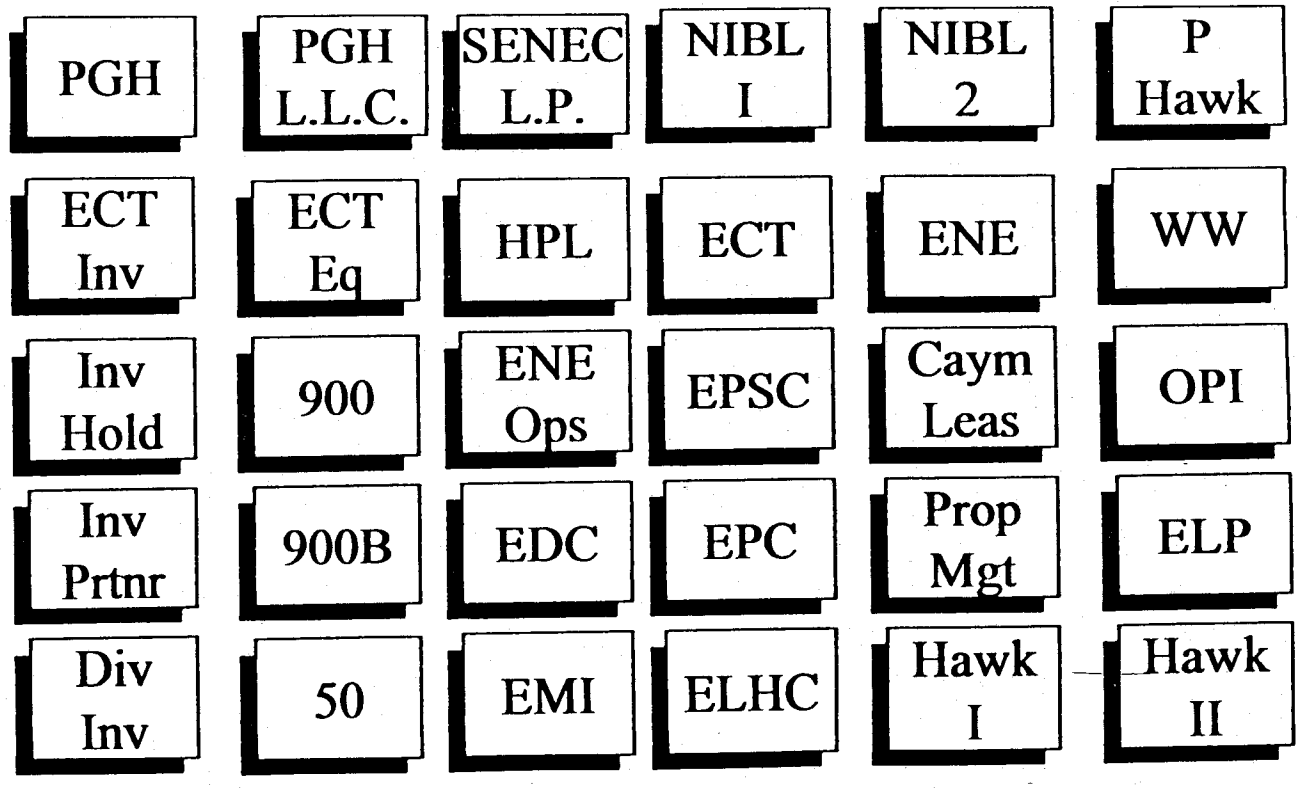
Project Tomas



EC2 000038528

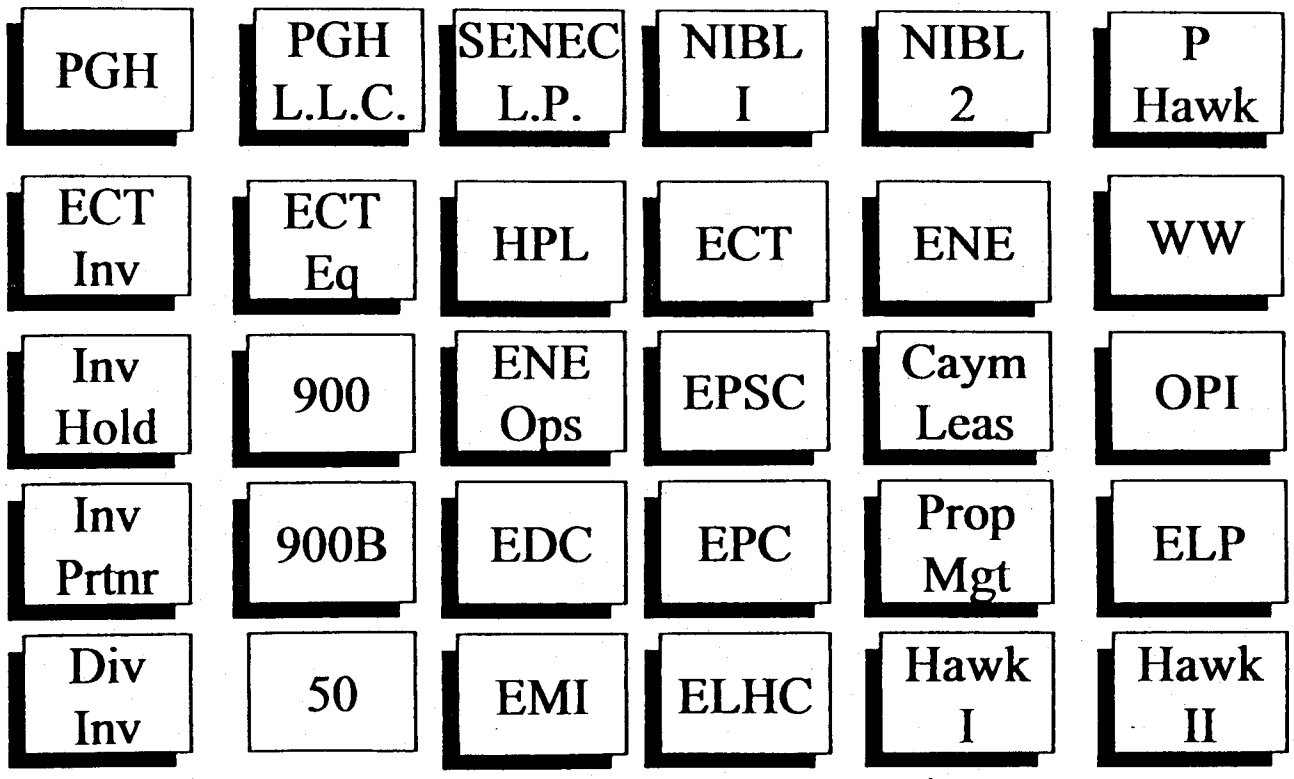
Full Acctg, Finance & Tax

All Projects

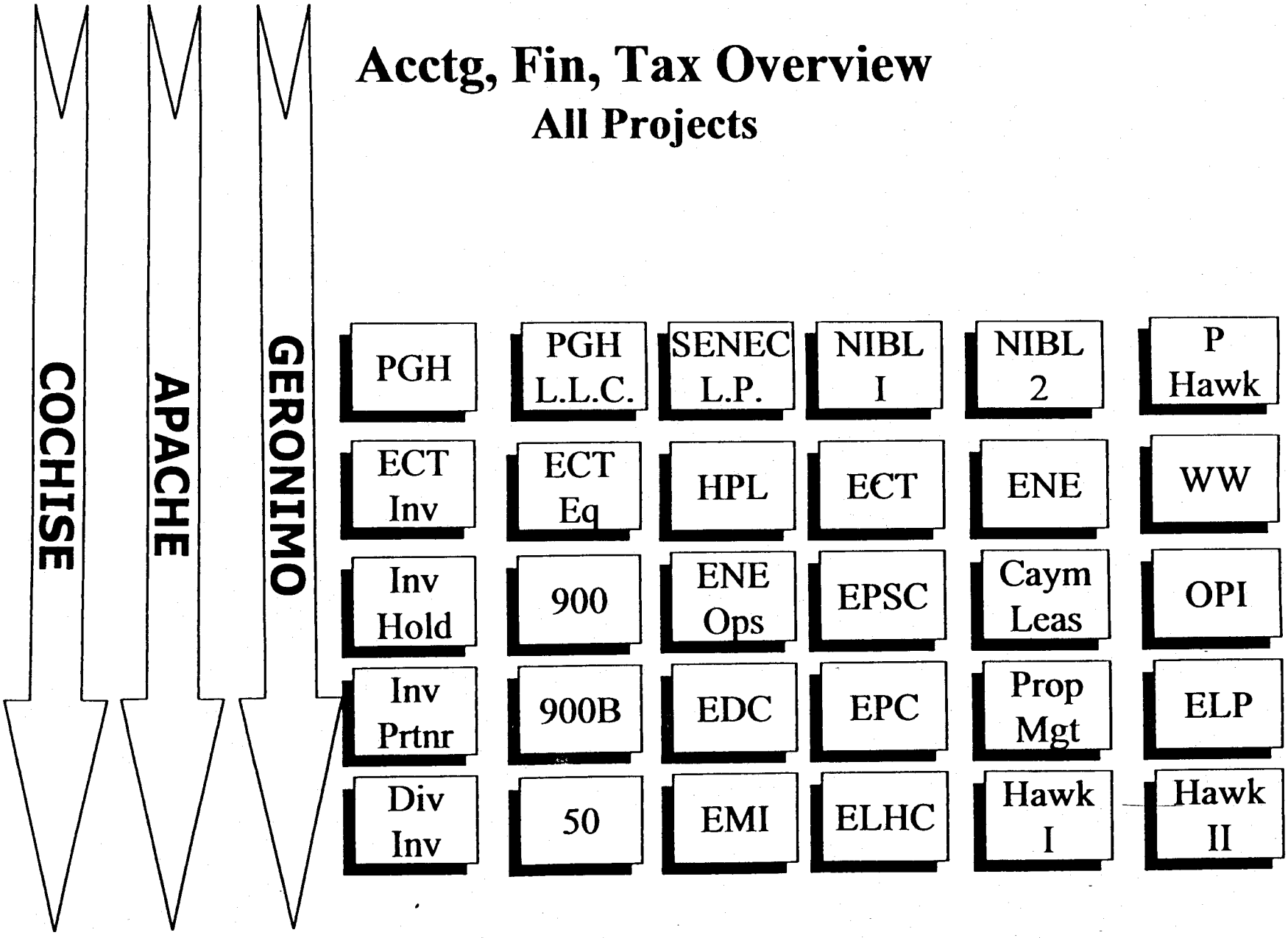


EC2 000038529

Full Tax
All Projects



Acctg, Fin, Tax Overview
All Projects



EC2 000038531

Primary Advantages

- More control over accounting process.
- Less time spent locating accounting info for return preparation.
- Better safeguard for transactions since group monitors project assets and business transactions.
- Better understanding of business operations.

EC2 000038532

Admin / Technical Issues

- Crossing Tax Department Boundaries
  - Company Responsibilities for ECM Split Between Corporate Tax and ECT Tax
- Crossing Operating Group Boundaries
- Adherence to Departmental Project File Guidelines

EC2 00003853

Project Teresa

Structured Finance Operations

Project Teresa

Overview & Benefits

Overview

- Purpose
  - Increase below the line after tax earnings
- How Accomplished
  - Created limited partnership holding preferred stock of Enron subsidiary (ELHC) and other leased assets
  - Quarterly pro rata redemptions of ELHC stock are treated as dividends
  - Redemptions create book/tax difference in basis of partnership interest
  - Upon liquidation distribute leased assets with high tax basis and low book basis

- ***Benefit Calculation Example***

Income Before Tax	0
Permanent Differences	
Total Stock Redemptions	100
X Dividends Received Deduction Rte	80%
Total Permanent Differences	(80)
Timing Differences	
Total Stock Redemptions	100
Total Timing Differences	100
Taxable Income	20
Current Tax Expense @ 35%	7
Deferred Tax Expense	(35)
Total Tax Effect	(28)
Book Income After Tax	28

ENRON

B-801

EC2 000038535

Structured Finance Operations

Project Teresa

Overview & Benefits

Overview - Cont'd

- Actual Benefits

	$000,000						
• *By Year*	***Total***	***1997***	***1998***	***1999***	***2000***	***2001***	***2002***
Total Stock Redemptions	*343.00*	*68.60*	*37.40*	*42.50*	*69.50*	*69.50*	*55.50*
Tax Effect	*95.94*	*16.74*	*11.73*	*13.04*	*19.03*	*18.23*	*17.17*
Gross After Tax Acct. Benefit	*247.06*	*51.86*	*25.67*	*29.46*	*50.47*	*51.27*	*38.33*

Quarterly ELHC Stock Redemption Activities

- Obtain and verify redemption calculation from Banker's Trust
- Obtain necessary signatures from appropriate personnel to document redemption
- Initiate and verify booking of redemptions

Accounting Activities

- Prepare both closing and monthly journal entries
  - Approximately 30 entries over 10 separate entities prepared monthly
    - Initiate and verify that dividend payments and fees are paid on time
    - Work with 3rd parties to verify that lease payments are paid on time
    - Verify amounts are in agreement with applicable agreements
  - Review monthly general ledgers

EC2 000038536

ENRON

Structured Finance Operations

Project Teresa

Overview & Benefits

Overview - Cont'd

Accounting Activities - Cont'd

- Work with accounting groups to explain and verify accounting treatment of items
- Support all accounting groups by providing a central source of information
- Provide forecast information for operating plans and current estimate
- Provide partnership earnings forecasts to minority interest partners upon request

Tax Activities

- Prepare all federal and state corporate and partnership tax returns
- Quarterly tax payments
- Obtain transaction documentation for audit support
- Prepare monthly tax accrual
- Maintain deferred tax account balance
- Provide research assistance

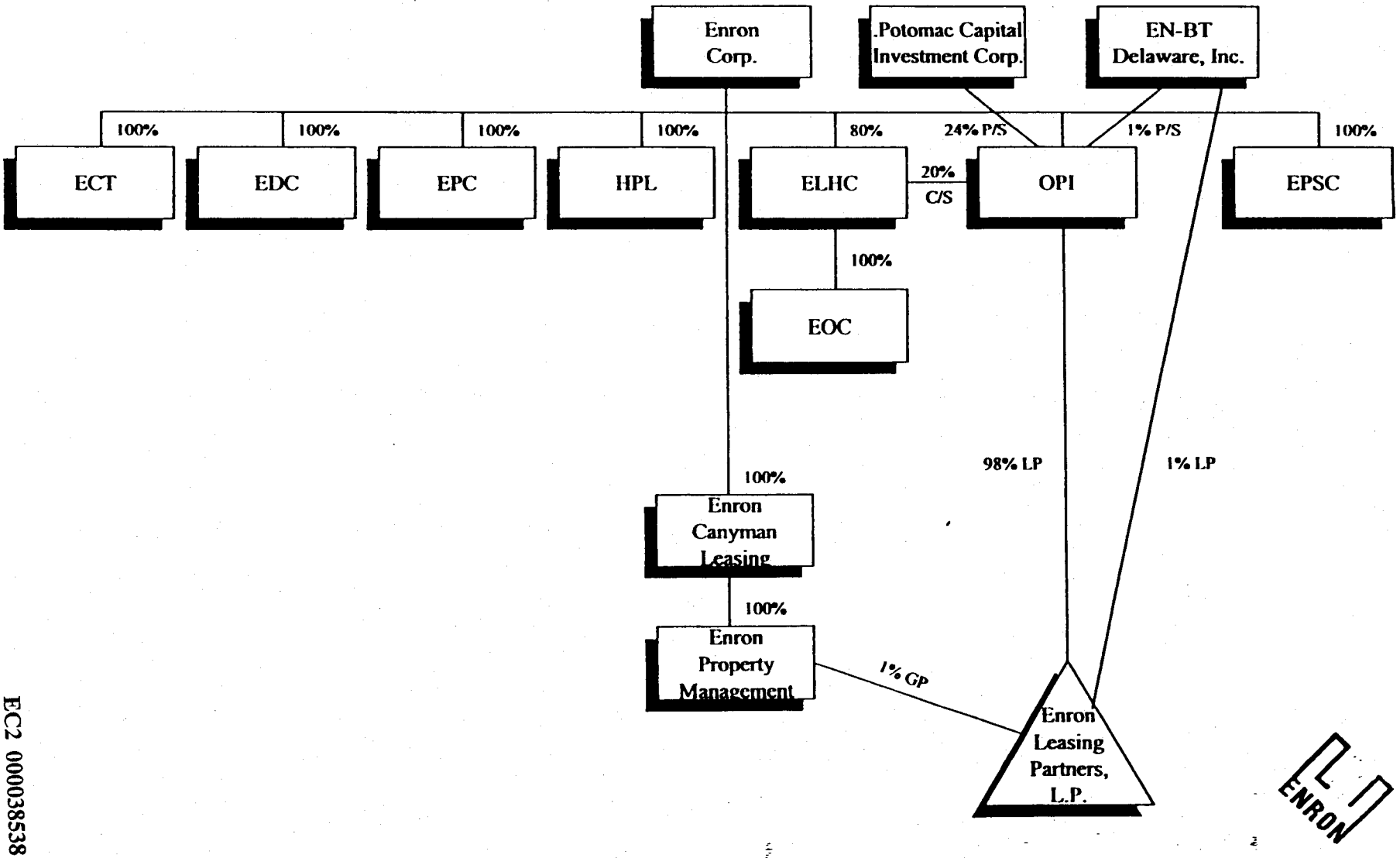
Other Activities

- Corporate data sheets updates
- Provide earnings and cash flow analysis

EC2 000038537

ENRON

Structured Finance Administration
Project Teresa
Structure Chart



Project Tomas

B-805

EC2 00038539

Structured Finance Operations
Project Tomas
Administrative Issues

Overview

- Obtain leveraged lease asset portfolio from PGE
  - Direct financing lease using substantial amount of non recourse debt
- Purchase accounting adjustment to portfolio resulted in removal of deferred tax liability
  - Substantially increased effective tax rate
- Formed limited partnership and contributed leveraged lease portfolio, stock, and recourse debt
  - Received 95% limited partnership interest and retirement right
  - Retirement right allows Enron to retire its interest in the partnership in 2 years
  - Equity investment for reporting purposes

EC2 000038540

ENRON

Structured Finance Operations
Project Tomas
Administrative Issues

Overview - Cont'd

- Accounting gain recognized upon contribution:

Pre Tax Gain	$64.2M
Taxes	12.4M
After Tax Gain	51.8M

  - Gain recognition allowed since no future obligation to support partnership
  - Only book current deferred tax expense on partnership income timing differences.

Accounting Activities

- Prepare closing entries
- Prepare gain calculation
  - Obtain Arthur Andersen agreement
- Prepare internal models for:
  - Comparisons to 3rd party valuation models
  - Earnings and cash flow analysis
- Obtain final lease portfolio pricing runs for valuation of portfolio

EC2 000038541

ENRON

Structured Finance Operations

Project Tomas

Administrative Issues

Accounting Activities - Cont'd.

- Coordinating monthly partnership earnings entries from Banker's Trust to PGE
  - Verifying calculation
  - Verifying bookings
- Obtaining and verifying earnings forecast
- Support accounting groups

Tax Activities

- Review partnership return
- Obtain transaction documentation for audit support
- Review monthly tax accrual
- Maintain deferred tax account balance
- Provide research assistance

Other Activities

- Portfolio management activities
- Corporate data sheet updates

EC2 000038542

ENRON

Structured Finance Administration

Project Tomas

Administrative Issues

Tax

- Review and verify partnership return prepared by Banker's Trust
  - Verify earnings allocation
- Obtaining transaction documentation for audit support
- Review and verify monthly tax accrual calculation from Banker's Trust and ensure it is appropriately reflected
- Coordinate response to minor issues as they arise

Other Items

- Review and provide updates to corporate data sheets where needed

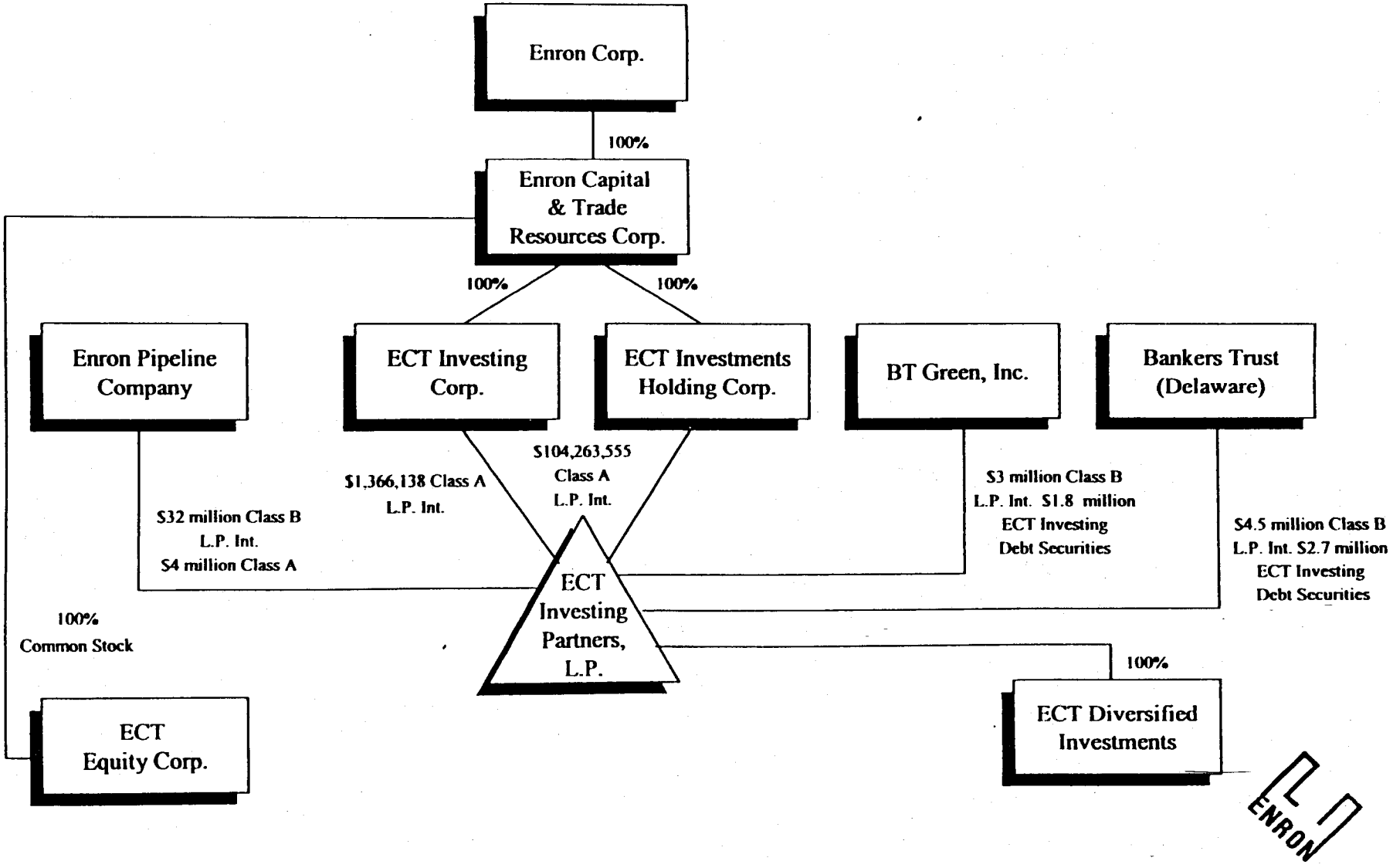
EC2 00003854 3

ENRON

Project Steele

EC2 00003854

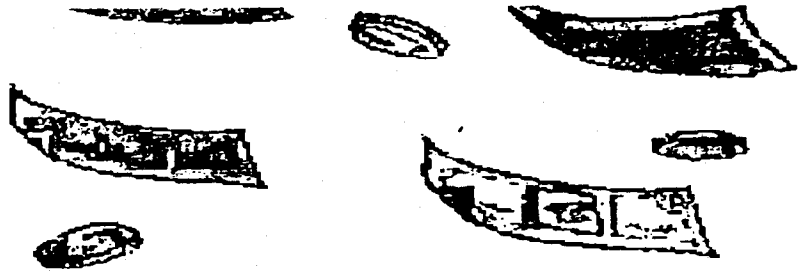
Structured Finance Operations
Project Steele

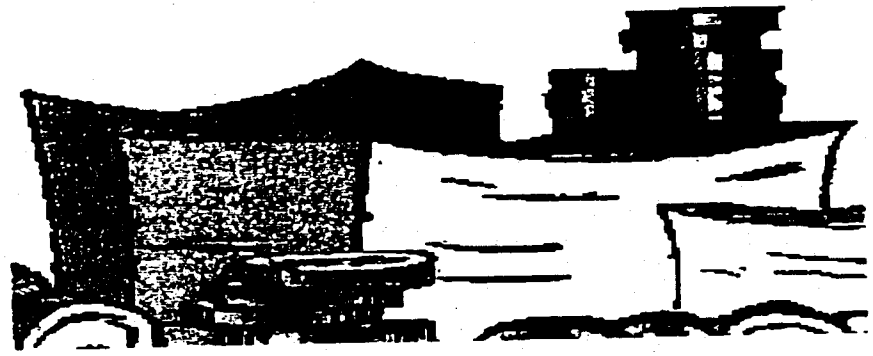


Show Me the Money!

Project Steele Earnings Benefits

(in millions)





1997	6.1
1998	23.4
1999	23.3
2000	24.7
2001	24.5
2002	18.6
2003-2024	12.2

Pre-Tax Operating Earnings **132.8**

ENRON

B-812

EC2 000038546

How Does it Work?
Key Concepts

- High Tax Basis in REMICs
  - Phantom Income
    - Difference Between income received by REMICs from individual mortgages, and interest paid to residual interest holders.
  - Carryover Tax Basis
- Low Book Basis in REMIC's
  - Asset is Recorded at FMV

EC2 000038547

ENRON

Key Concepts

- Purchase Accounting
  - Goodwill recorded
  - Negative Goodwill if "Bargain Purchase" (i.e., FMV < Book Basis)
  - Deferred Credit for Financial Assets
    - Pre-Tax Operating Income Treatment
- Financial Assets Acquired By ECT Investing Partners, L.P.
  - Energy Bond Portfolio = 51 million
  - REMIC Portfolio (236) = 7.6 million

Deferred Credit Calculation

Tax Basis in REMICs	*233.7*
Book Basis in REMICs	*7.6*
Basis Difference	*226.1*
Tax Rate	*37%*
Deferred Tax on REMIC Basis Diff	*83.7*
Total Deferred Credit *	***132.8***

** (Gross Up - Book Tax Diff for Deferred Credit)*
[Basis Difference x Tax Rate/(1-Tax Rate)]

EC2 000038549

ENRON

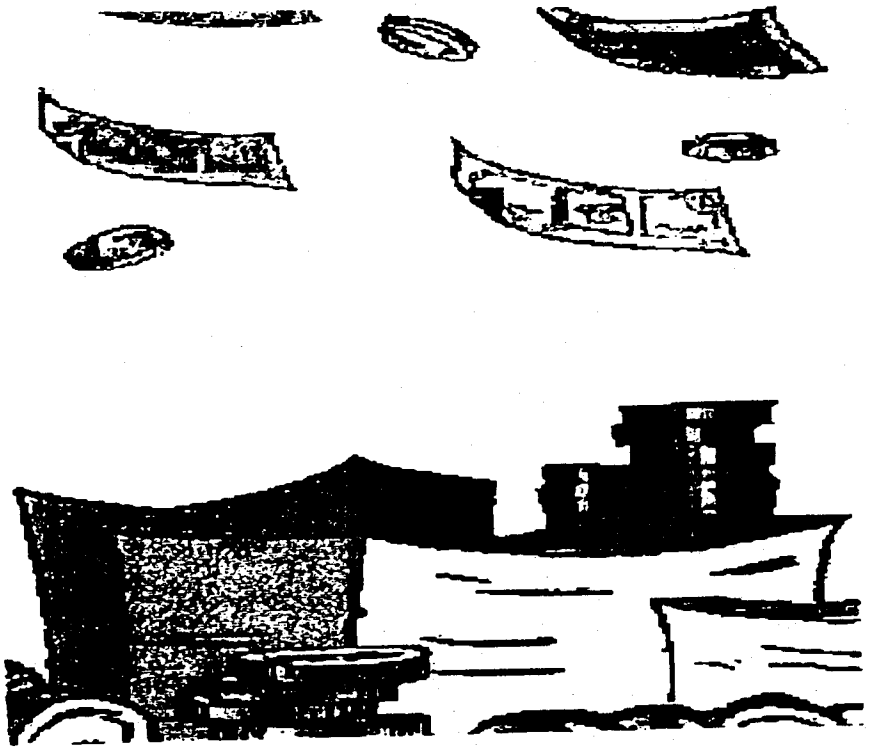
Quick Amortization of Deferred Credit

- Based Life of Investments Owned by ECT Investing Partners
- Energy Bond Portfolio
  - Bond Life = 5 years
  - % Value of Bonds = 87%
- REMIC Portfolio
  - REMIC Lives = 30 years
  - % Value of REMICs = 13%

EC2 000038550

Project Steele Earnings Benefits

(in millions)



1997	6.1
1998	23.4
1999	23.3
2000	24.7
2001	24.5
2002	18.6
2003-2024	12.2

Pre-Tax Operating Earnings **132.8**

ENRON

EC2 000038551

Primary Responsibilities

- Tax
  - Federal & State Tax Compliance
  - Tax Accruals
  - Operating Plan
  - Current Estimate
  - Tax Research

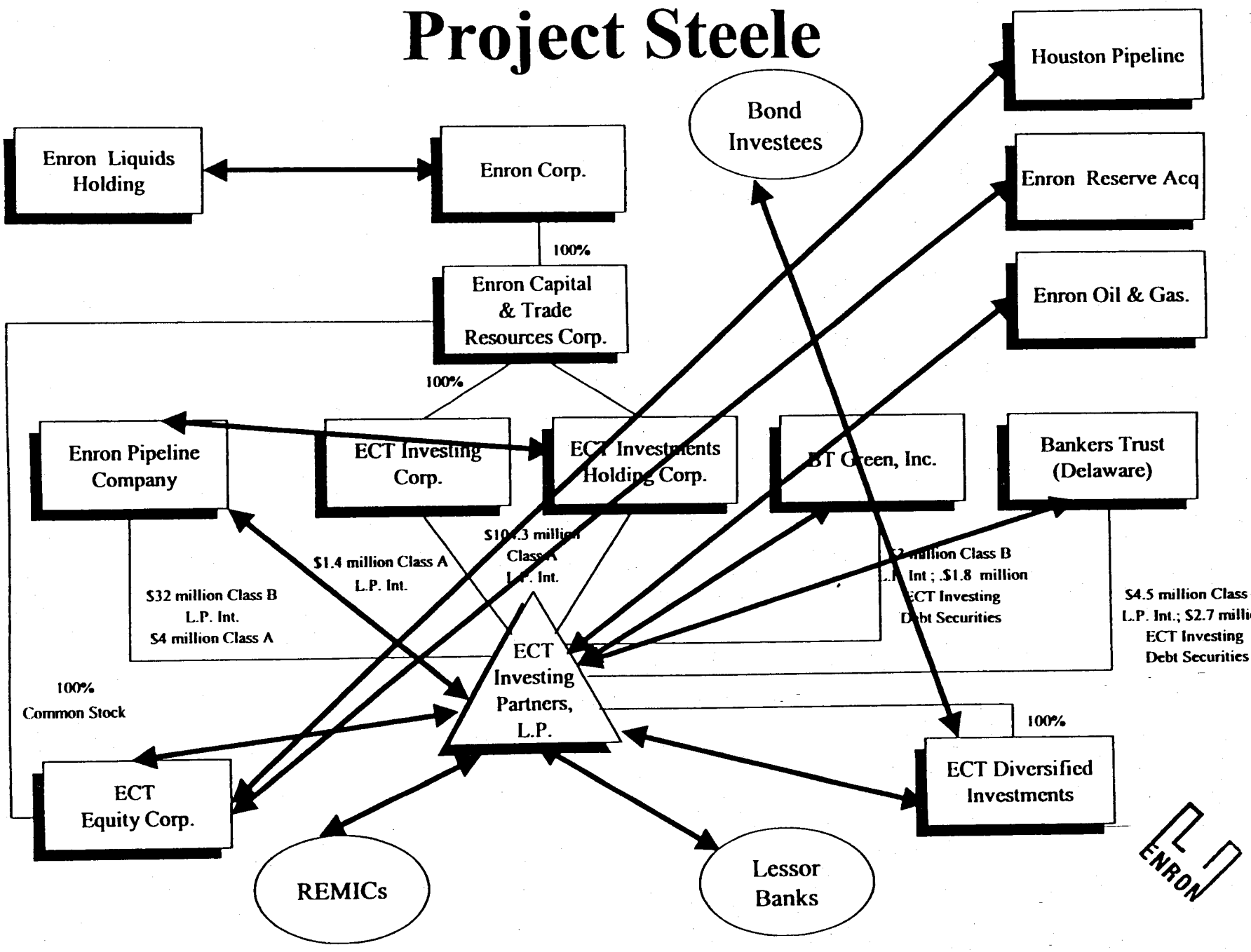
EC2 00003852

Added Responsibilities

- Monthly Accounting Journal Entries
  - Review All Closing Documents
  - Determine Relationships Between All Entities
  - Calculate All Accruals and Payments Required
  - Coordination Between Various Accounting Close Schedules
    - 3rd, 5th and 12th Workday Close
  - Coordination of Cross Charges Between Accounting Systems
  - 30 - 40 Entries Per Month

EC2 000038553

Project Steele

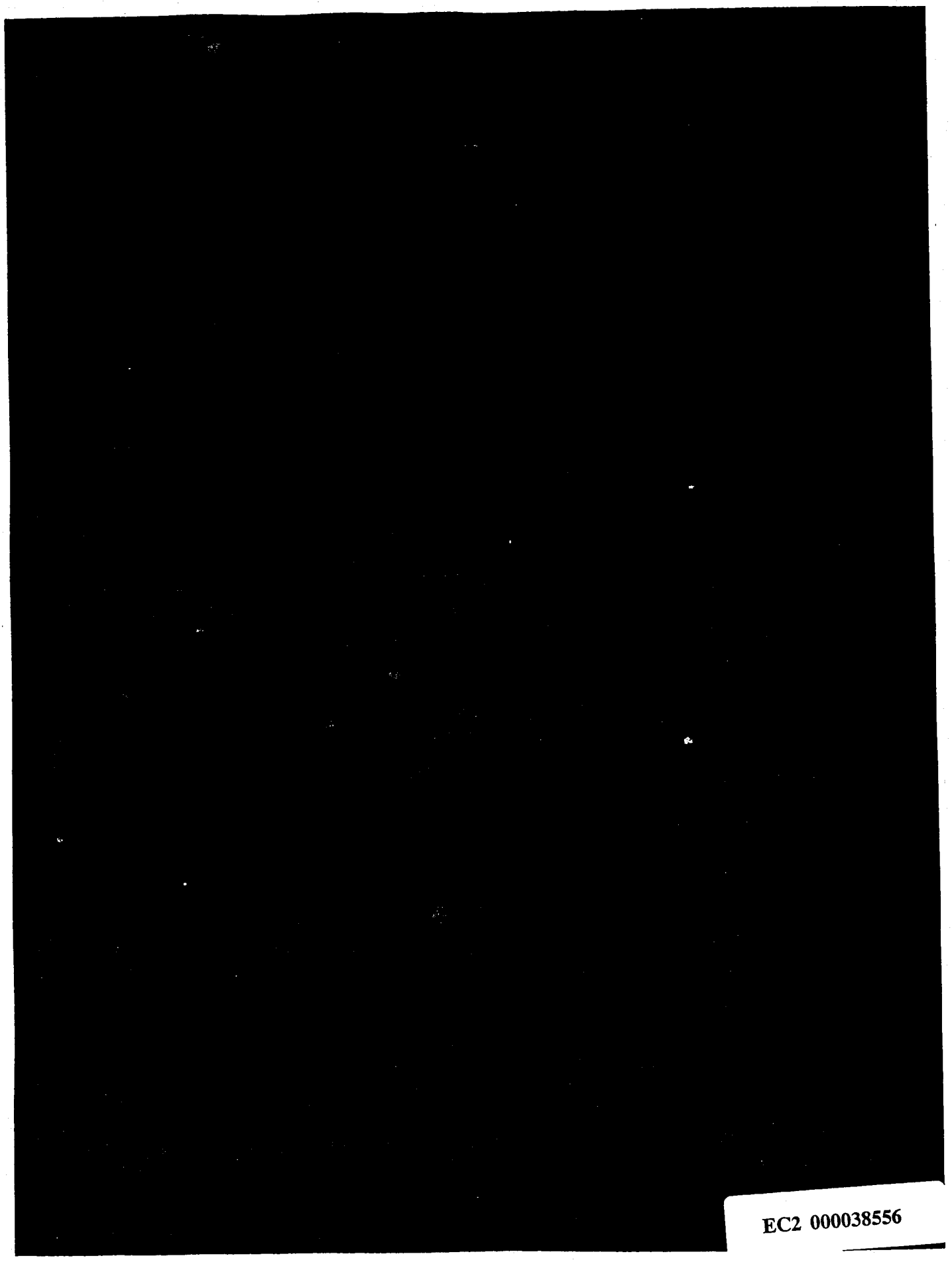


EC2 000038554

What Else?

- Investment Management
  - Energy Bond Portfolio
    - Reconcile Bond Interest Income to Accrual
  - REMICs
    - Custody
    - Account For and Reconcile Distributions
    - Update Tax Basis in REMIC Residual Interest

EC2 000038555



EC2 000038556

- Cash Management
  - Banking
  - Accounts Payable
    - Ensure Payment of all invoices
      - Legal, Investment Banking Fees, Lease Payments

EC2 00038557

- Legal / Administrative
  - Ensure Proper Declaration of Dividends
  - Update Corporate Data Sheets
  - Monitor Adherence to all Reps & Warranties
  - Develop Comprehensive Calendar For Project Events / Transactions

EC2 00003858

VI.

WIND CREDIT MONETIZATION STRUCTURES

EC2 000038559

ENRON

Lake Benton I

B-826

EC2 000038560

Executive Summary

- Form a new Delaware limited liability company with two Enron Wind Corp. subsidiary owners ("Holdco").
- Cause Holdco to purchase the current equity interest held by an Enron Wind Corp. subsidiary in Lake Benton Power Partners I, LLC ("Project Company") in exchange for a purchase money note in the approximate amount of $2.5mm and the settlement of intercompany payables in the approximate amount of $15.5mm.
- Sell a 99% interest in Holdco to a subsidiary of General Electric Capital Corp. ("GECC") for a minimal amount.
- GECC and the Enron Wind Corp. member of Holdco each contribute 99% and 1% respectively of approximately $58mm in cash for their equity interests. In addition, GECC lends Holdco $4.5mm and takes a subordinated note in exchange.
- Holdco uses its funds to fund the Project Company in the approximate amount of $58.5mm.
- Project Company borrows approximately $75.8mm in senior and junior debt from a consortium of banks led by Mees Pierson. These funds and the cash provided by Holdco are used to repay a construction bridge loan from ECM in approximate amount of $135mm.

EC2 000038561

ENRON

Executive Summary

- The closing of the permanent debt facilities and the equity funding complete the sale of a 107 megawatt wind project constructed by Enron Wind Construction Company with turbines built by Zond Energy Systems. The gross purchase paid to these two companies under the Engineering, Procurement and Construction Contract is approximately $143.5mm.

The transaction should provide:

- 1998 net accounting income before taxes of approximately $22mm.
- Future gross income from fees of approximately $4.9mm.
- Wind tax credits of $593,000 over 10 years.
- Depreciation Deductions of $1.5mm over 10 years.

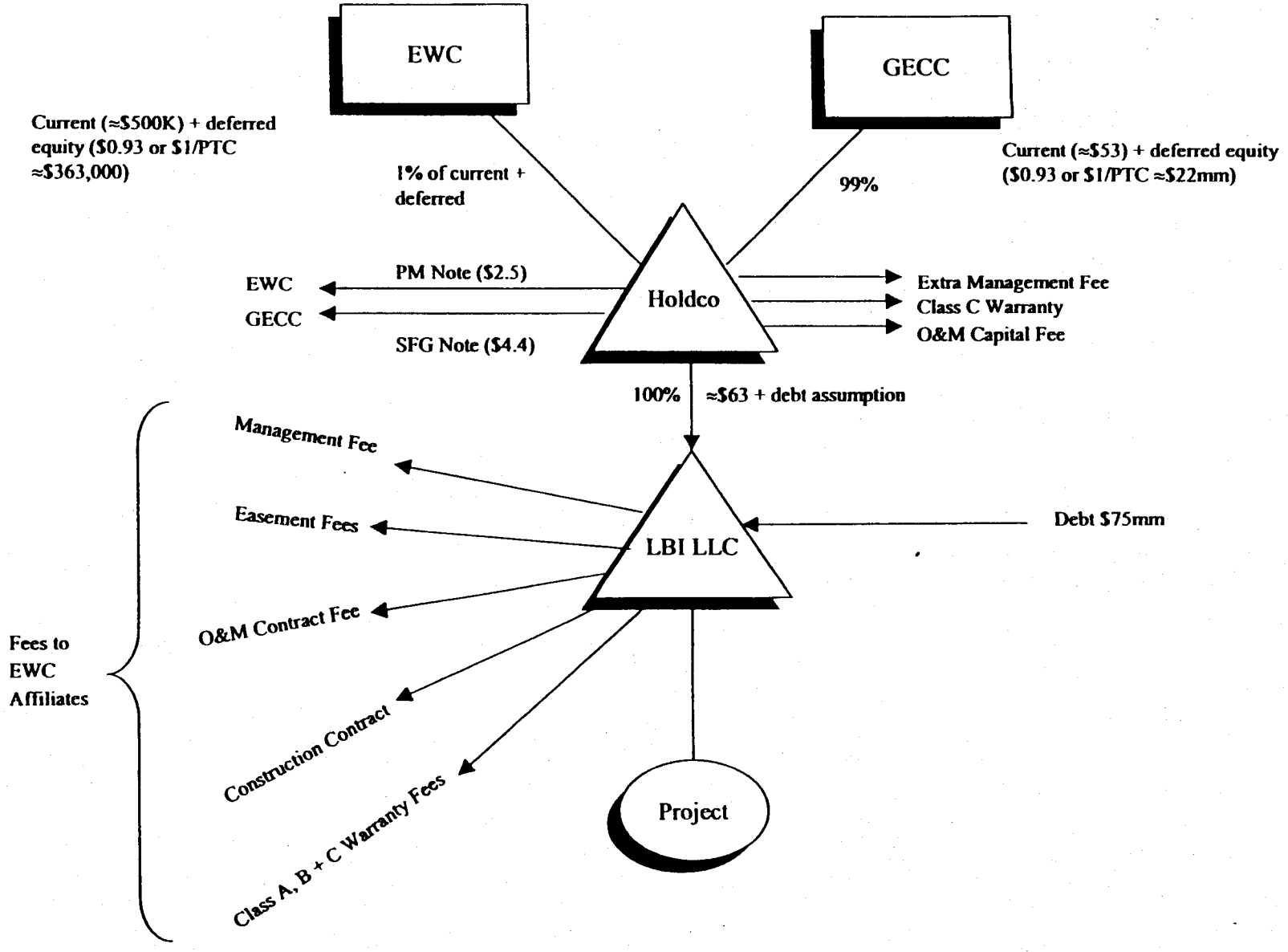
Additional Benefits provided by tax structuring:

- The net profit from the sale of this project in a structure which did not effectively monetize the tax credits and the MACRS depreciation deductions was approximately $15.2mm. The net profit under the monetization structure is approximately $22mm. The added value in the current year from the tax planning is approximately $6.8mm.

EC2 000038562

ENRON

LAKE BENTON I



Cabazon

B-830

EC2 000038564

Executive Summary

- Sell a 99% interest in Enron Wind Cabazon LLC ("Cabazon LLC") to a subsidiary of First National Bank of Chicago Leasing Corp. ("FNBC") for a minimal amount.
- FNBC and the Enron Wind Corp. member of Cabazon LLC each contribute 99% and 1% respectively of approximately $25mm in cash for their equity interests.
- Cabazon LLC uses its funds plus approximately $37mm in senior and junior debt financing to complete the purchase of the Wind Project for an approximate amount of $61.5mm cash and a $2.7mm subordinated note payable to Enron Wind Constructors, Inc.
- The closing of the permanent debt facilities and the equity funding complete the sale of a 40 megawatt wind project constructed by Enron Wind Construction Company with turbines built by Zond Energy Systems.

EC2 00003856S

ENRON

Executive Summary

The transaction should provide:

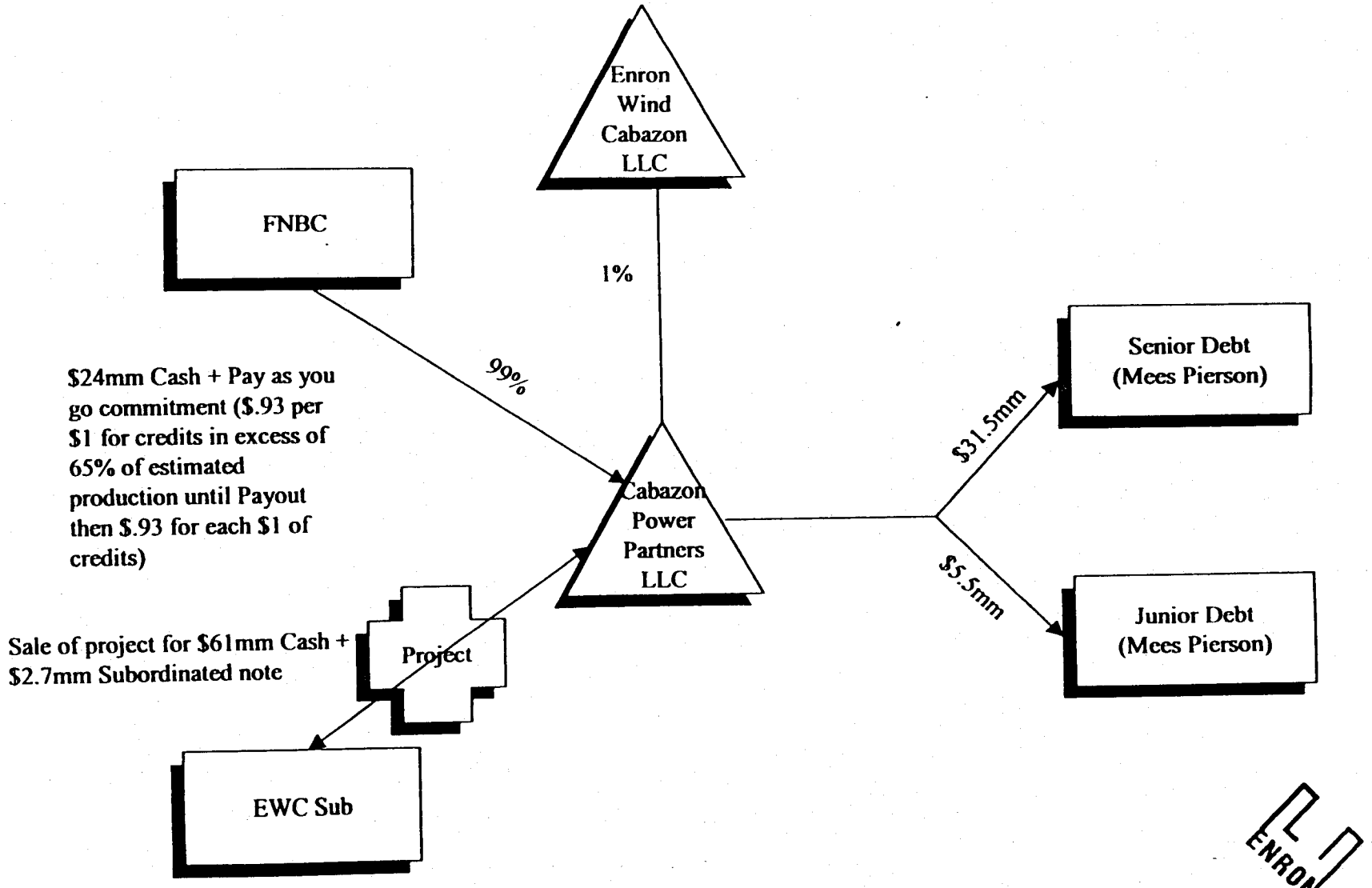
- -1998 net accounting income before taxes of approximately $5.5mm.
- -Future gross income from fees of approximately $6.9mm.
- -Wind tax credits of $258,870 over 10 years.
- -Depreciation Deductions of $626,000 over 10 years.

Additional Benefits provided by tax structuring:

- This transaction has many legal and regulatory complexities which make it unattractive as an equity investment to investors who cannot use the wind tax credits and depreciation deductions. Unless the credits are monetized, this project is essentially unsellable.

ENRON

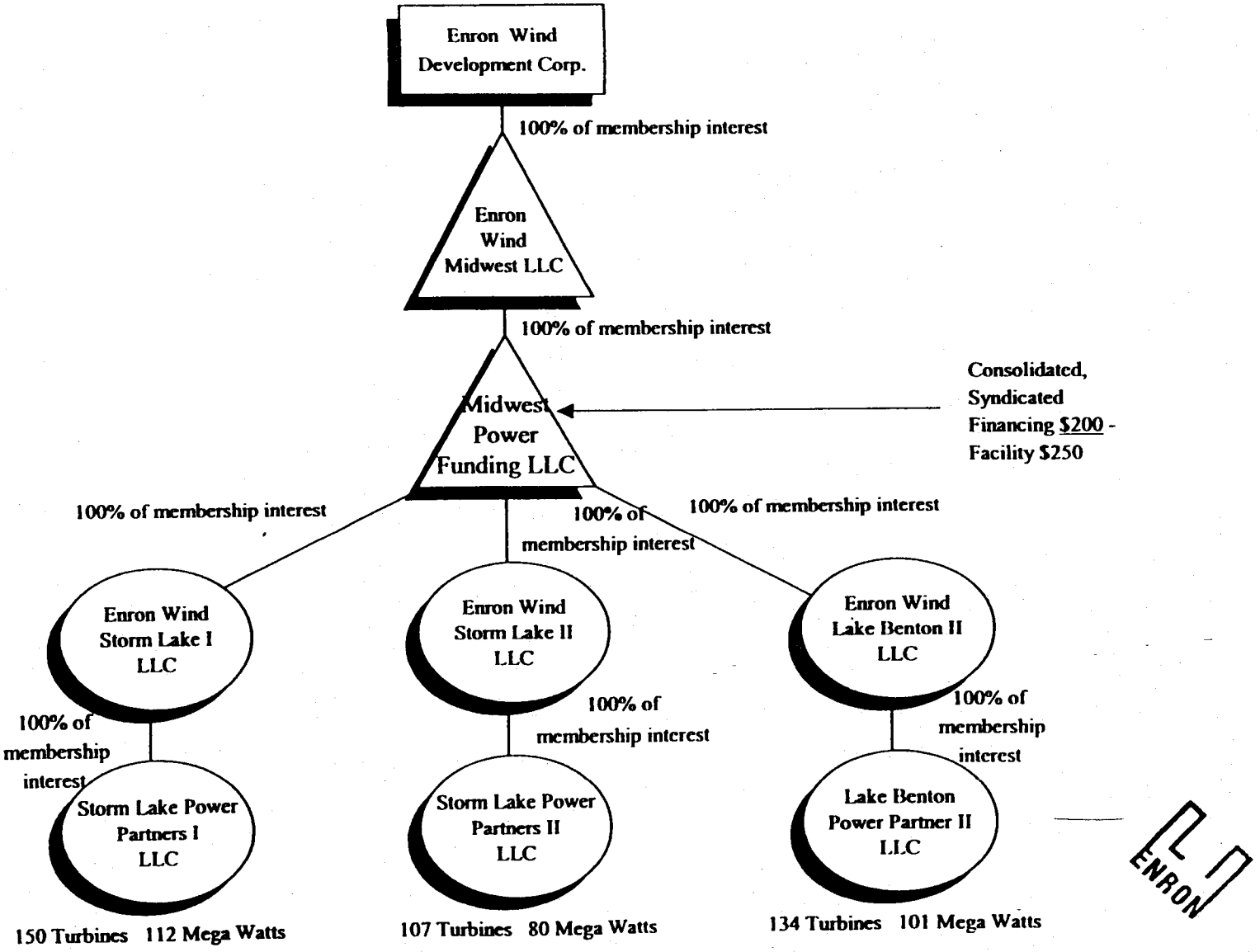
Cabazon Power Partners
(40 MW Wind Project in Minnesota)



ENRON

Future Midwest Wind Projects

Ownership After Transaction

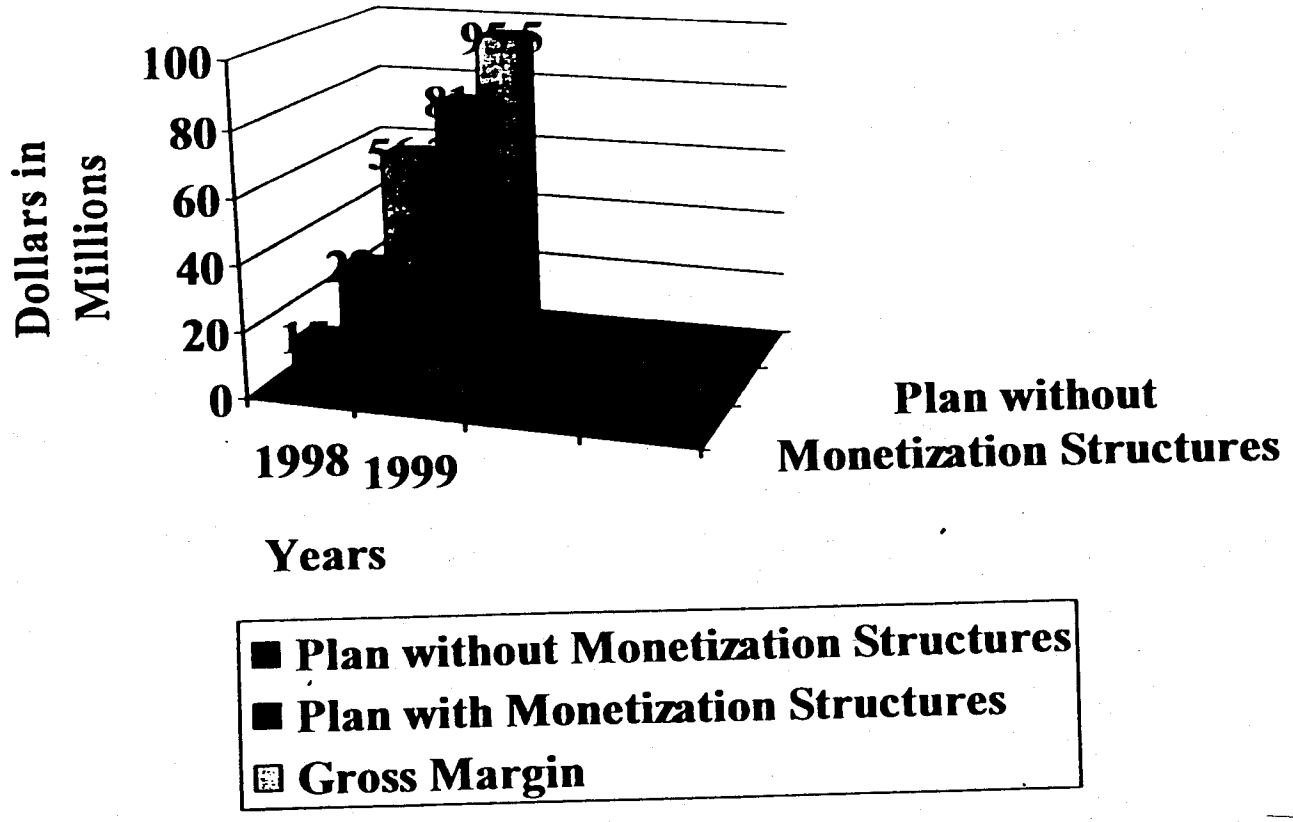


Future Midwest Projects

EC2 000038569

ENRON

Value Added From Tax Planning for Wind Projects



VII.

SFAS 125 MONETIZATIONS

EC2 000038571

ENRON

SFAS 125 Transaction

A **securitization of financial assets** is **accounted for as a sale** only if all of the following conditions are satisfied:

- The transferor of the financial assets **receives consideration**
- The transferor **surrenders financial control** over the assets, generally requiring the following showing -
  - **Isolation.**
  - **Pledge or exchange.**
  - **Control.**

1996 and 1997 Transactions Financial Summary

Project Name	Pre-Tax Earnings	After-Tax Earnings	Cash
EOG	$179.3M	$	$203.58M
EPP I	$_____M	$	$33M
EPP II	$_____M	$	$33.2M

1998 Transactions Financial Summary

Project Name	Pre-Tax Earnings	After-Tax Earnings	Cash
Project Cornhusker	$54.992M	$25M	$99.16M
Project Churchill	$168M	$168M	$200M
Project Shogun	$21	$12.8M	$49
TOTALS	$243.9M	$205.88M	

ENRON

SFAS 125 Transaction
(Continued)

- A **QSPE** is said to be **"brain dead"** or on **"automatic pilot"** and that **"is not allowed to think"**.
- An entity with legal standing distinct from the transferor;
- Whose activities are permanently limited by its legal documents

All 1998 transactions were characterized as debt or financing transactions of the transferor of the assets

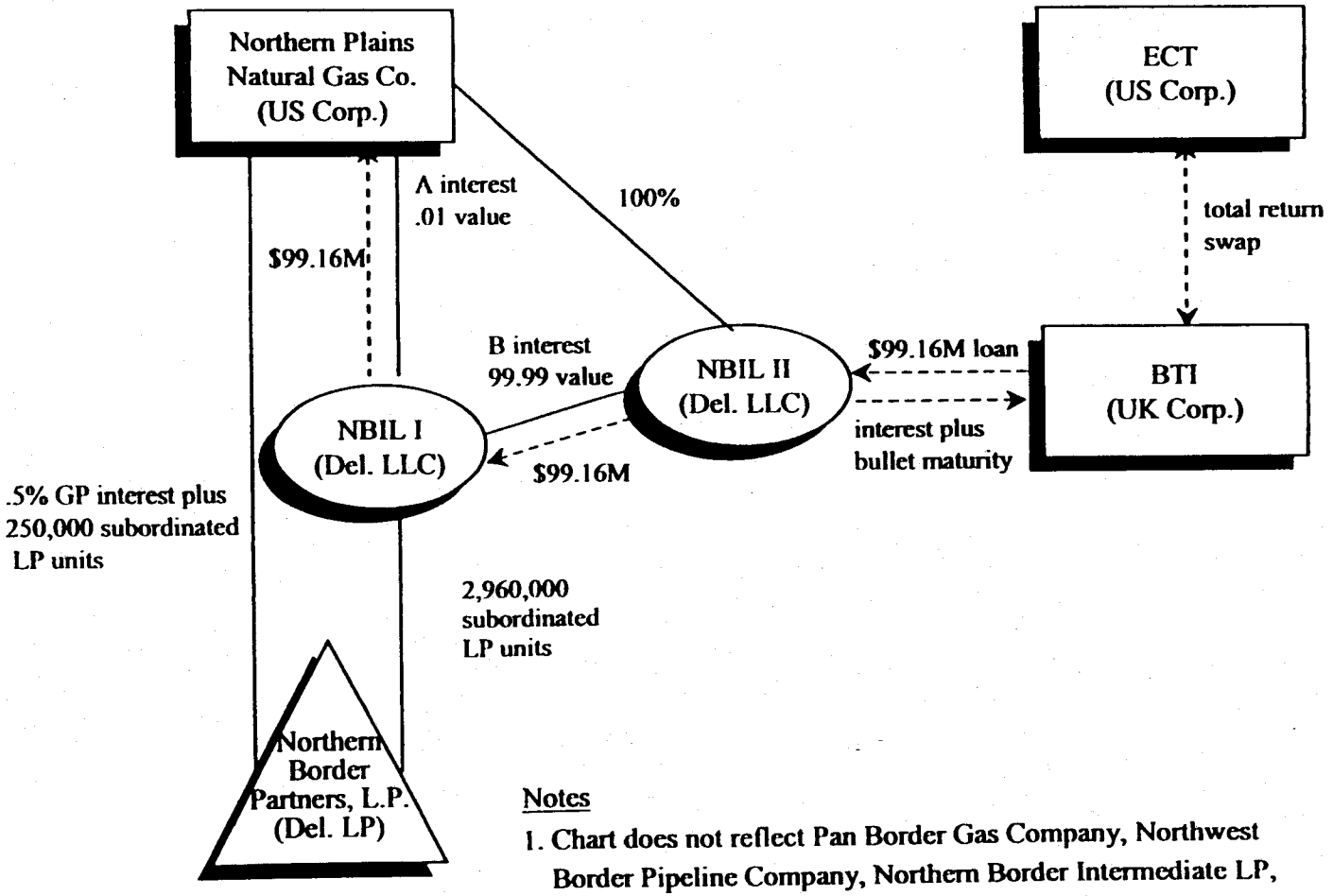
1996/1997 transactions SFAS 125 transactions were treated as sales for tax as well as for accounting purposes because they relied on a different, less flexible, structure.

The **FASB recently acted to preclude the use of SFAS 125** transactions for entities which hold nothing but real estate (including pipelines and power stations) which will limit the investments for which we can continue to use this tool in the future. Other recent FASB action will required better disclosures of cash flows resulting from securitization transactions, categorized by major securitization types, effective for transactions occurring after 1/1/99.

EC2 000038574

ENRON

Northern Plains Natural Gas Company
Bank Loan Funding
March 24, 1998



Legend

□ -corporation

○ -branch

△ -partnership

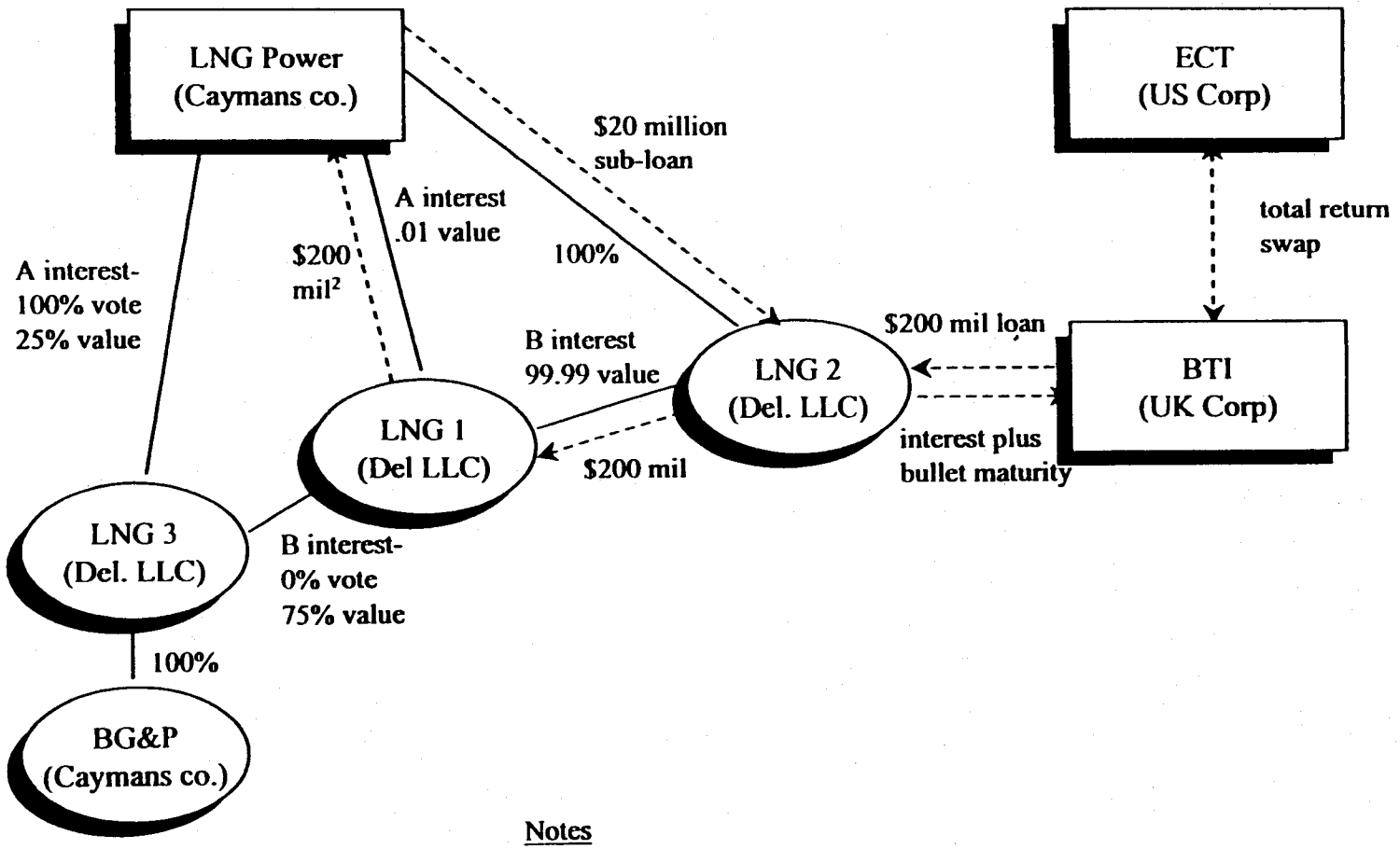
Notes

1. Chart does not reflect Pan Border Gas Company, Northwest Border Pipeline Company, Northern Border Intermediate LP, and Northern Border Pipeline Company.
2. For accounting reasons, $49.58M distributed March 27, 1998 and $49.58M distributed April 2,1998.

ENRON

EC2 000038575

LNG Power Group[1] - US Tax Characterization
Bank Loan Funding - June 29, 1998



Legend

-corporation

-branch

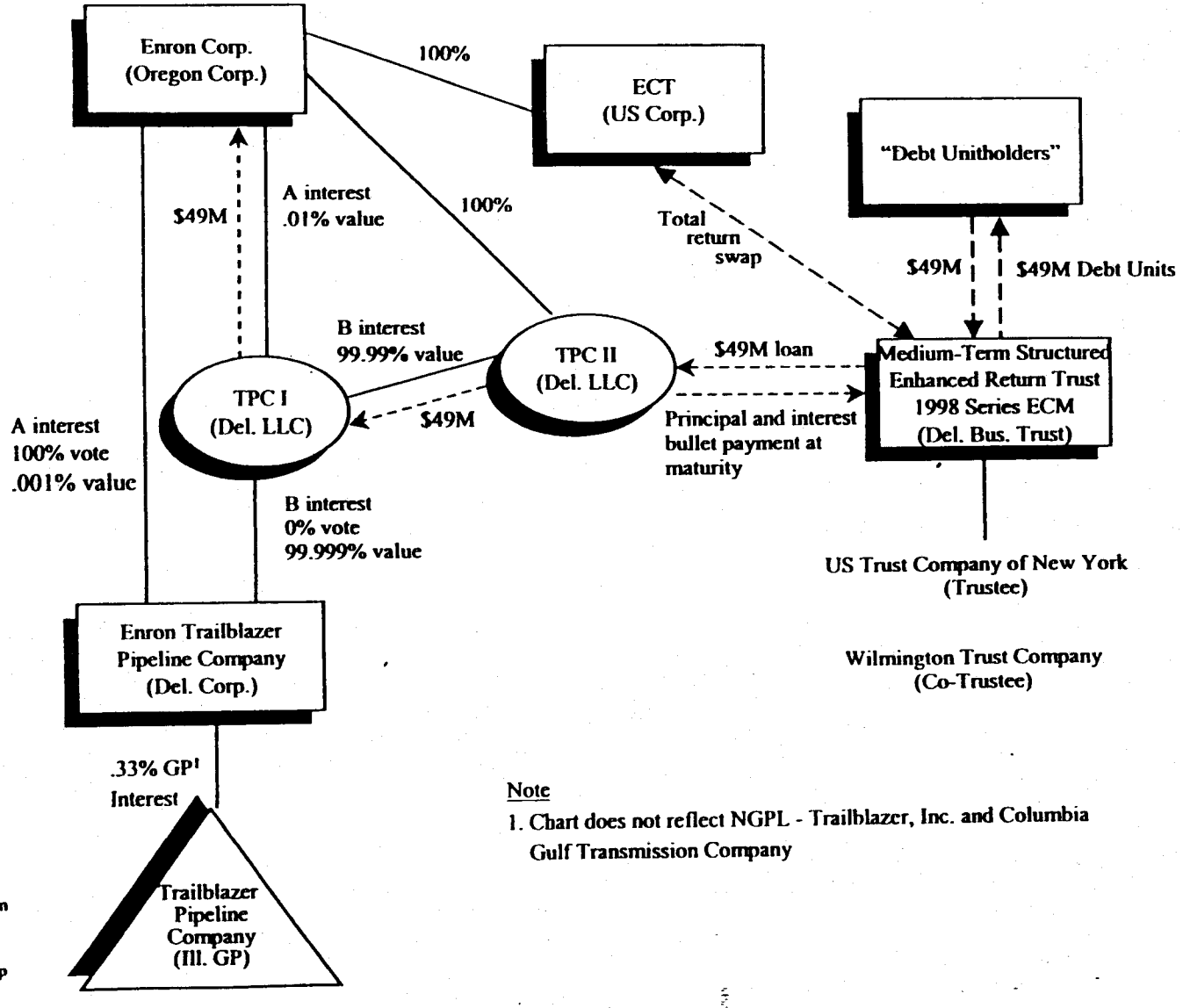
Notes

1. Chart does not reflect BEPR, EHL, EL or ELP.
2. For accounting reasons, $100 million distributed June 29, 1998 and $100 million distributed July 2,1998.

ENRON

EC2 000038576

Enron Trailblazer Pipeline Company
Bank Loan Funding
November 12, 1998



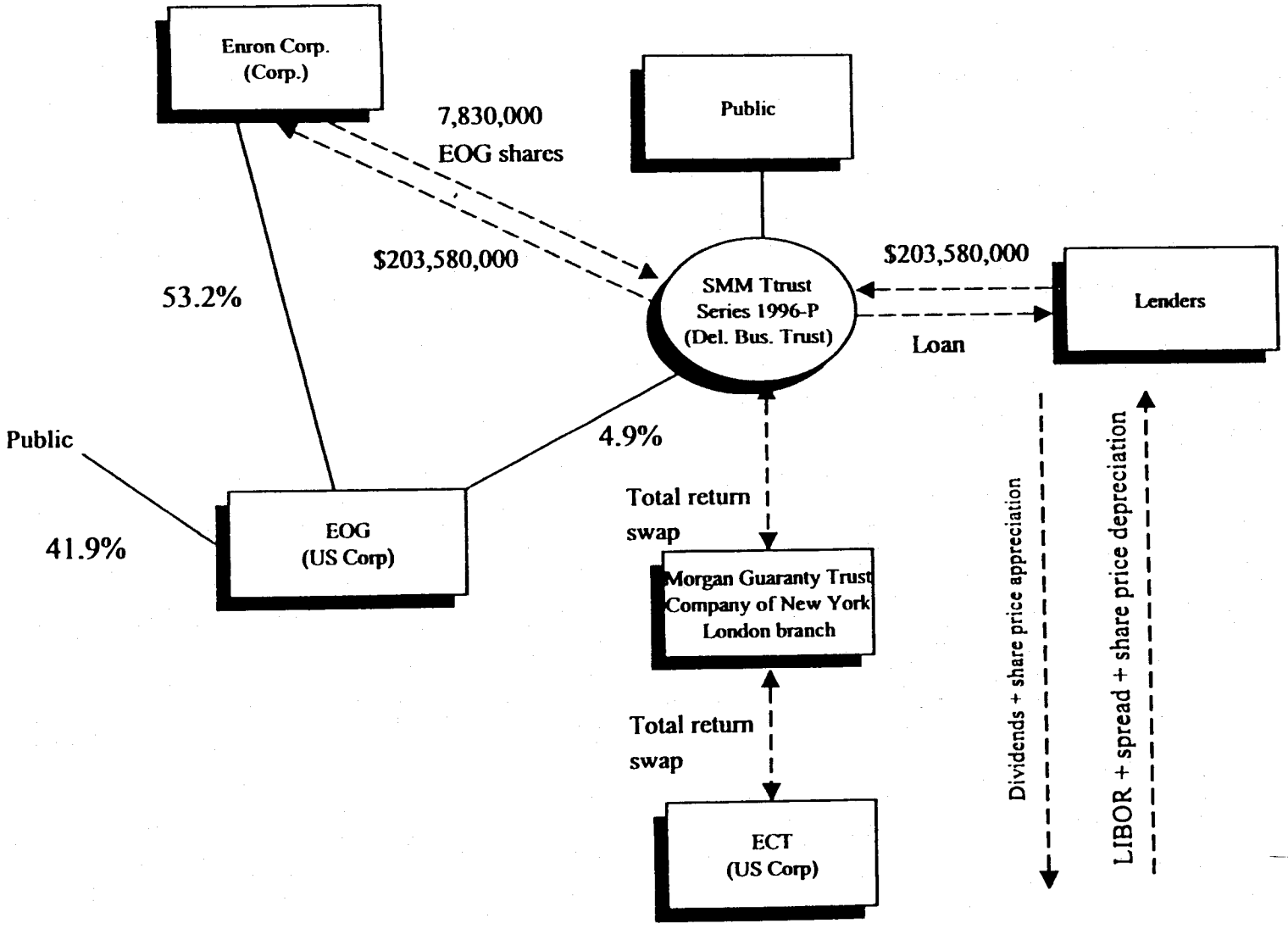
Note

1. Chart does not reflect NGPL - Trailblazer, Inc. and Columbia Gulf Transmission Company

ENRON

EC2 000038577

Enron Corp's Sale of EOG Shares to SMM Entity
December 16, 1996



VIII.

CAPITAL MARKETS PRODUCTS

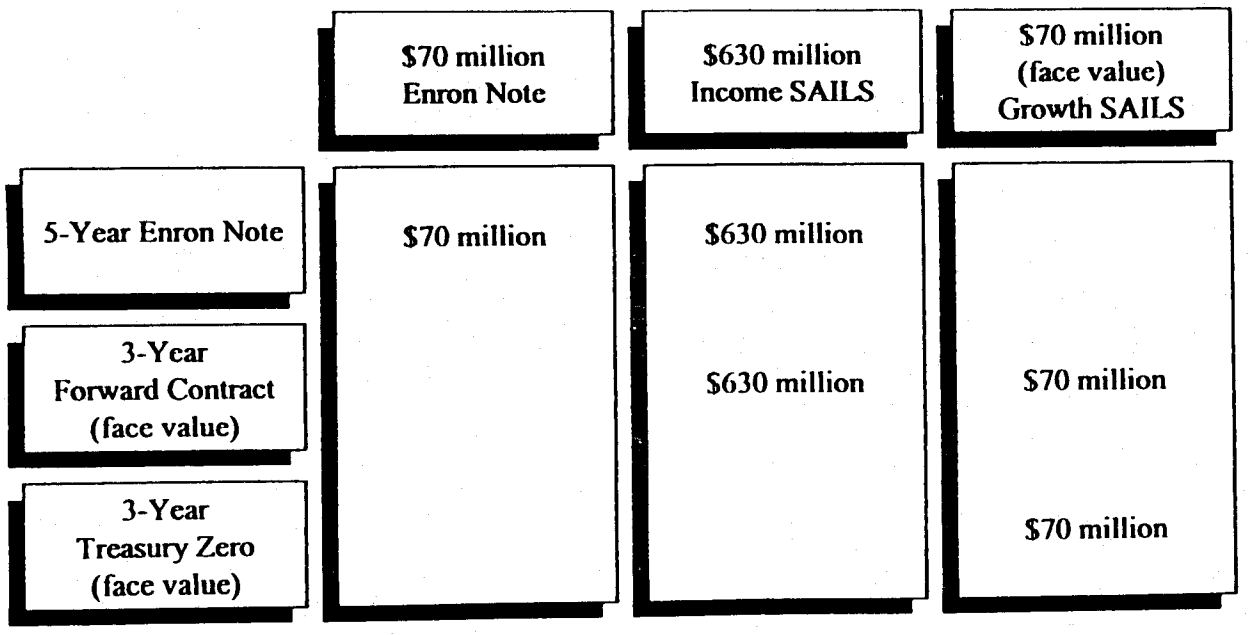
EC2 000038579

SAILS

B-845

EC2 000038580

Capital Markets Products
SAILS



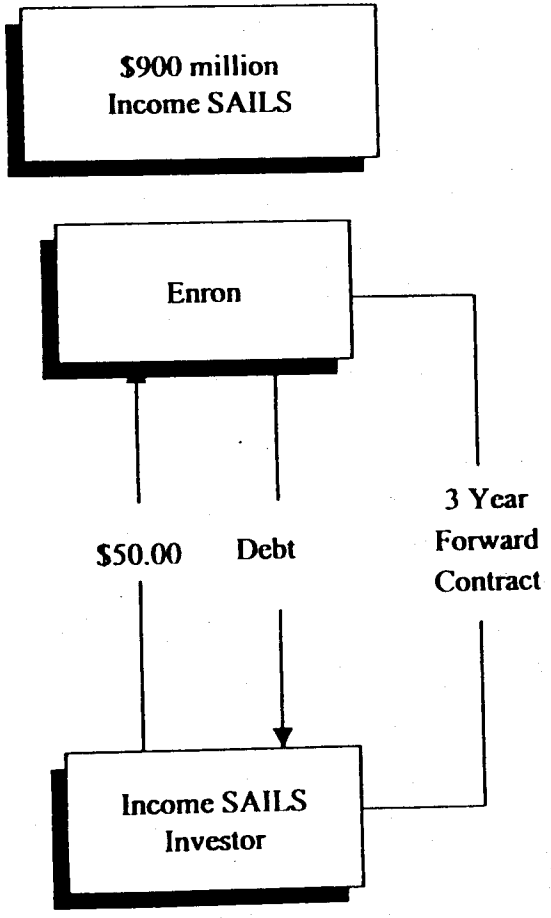
Proceeds to Issuer

$1,000 million proceeds to Enron today in exchange for Enron Note

$1,000 million proceeds to Enron in 3 years in exchange for common stock

$0

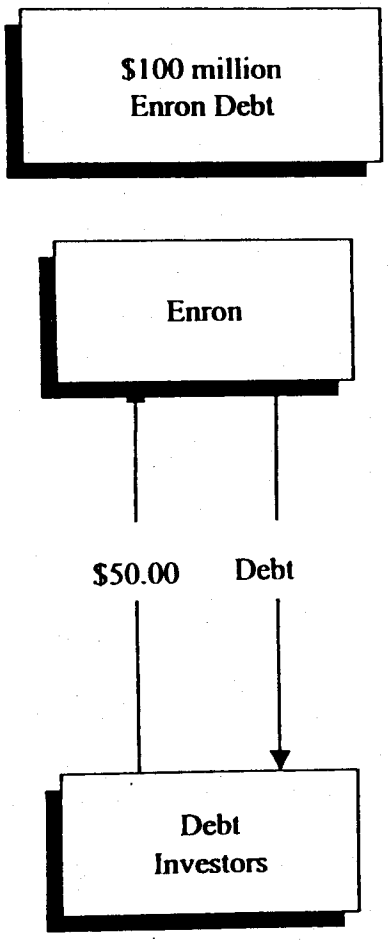
Capital Markets Products
SAILS



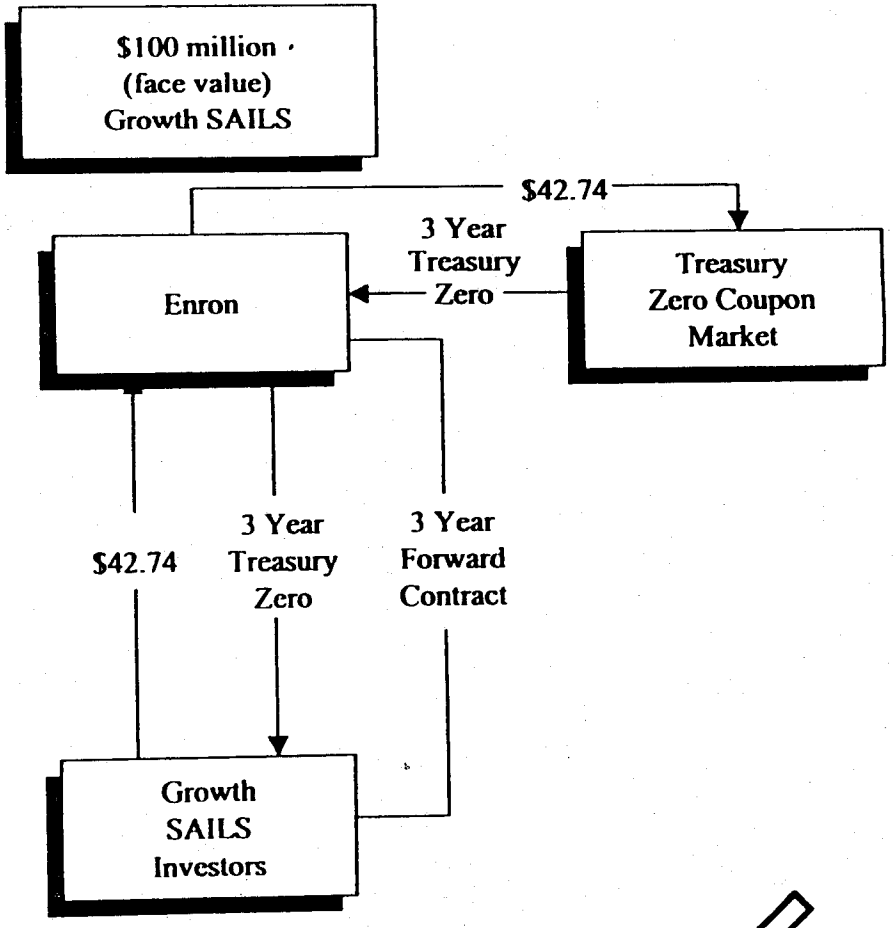
- Income SAILS are Forward Contracts collateralized by Enron Note
- Enron Note with coupon at 6.40%
- Adjustment payments of 1.10% on total value of Forward Contract

ENRON

Capital Markets Products
SAILS



- Growth SAILS are Forward Contracts collateralized by zero coupon Treasuries
- Debt coupon at 6.40%
- Adjustment payments of 1.35% on Forward Contracts



ENRON

German PINTS

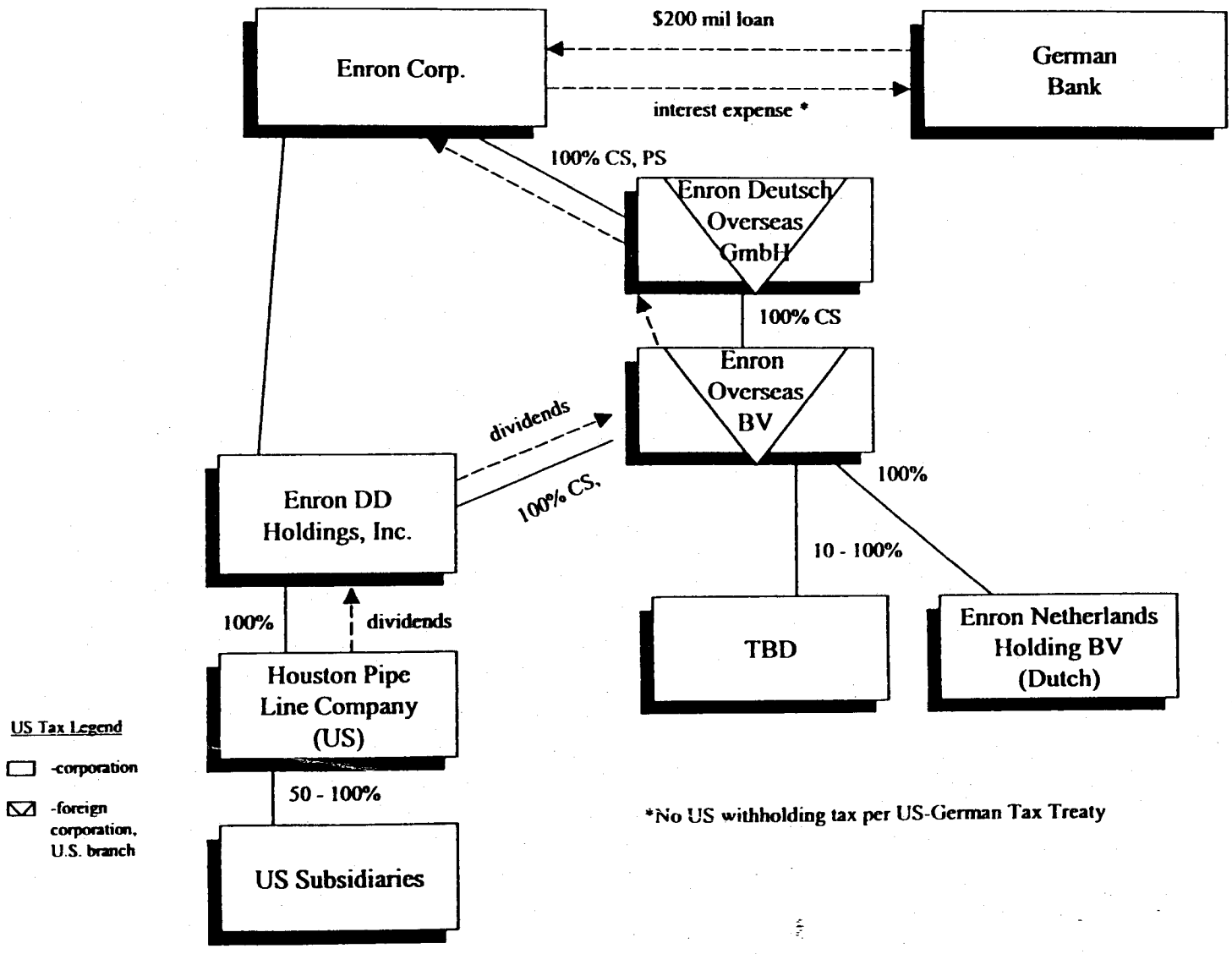
B-849

EC2 000038584

Capital Markets Products

PINTS Financing

US Tax Characterization

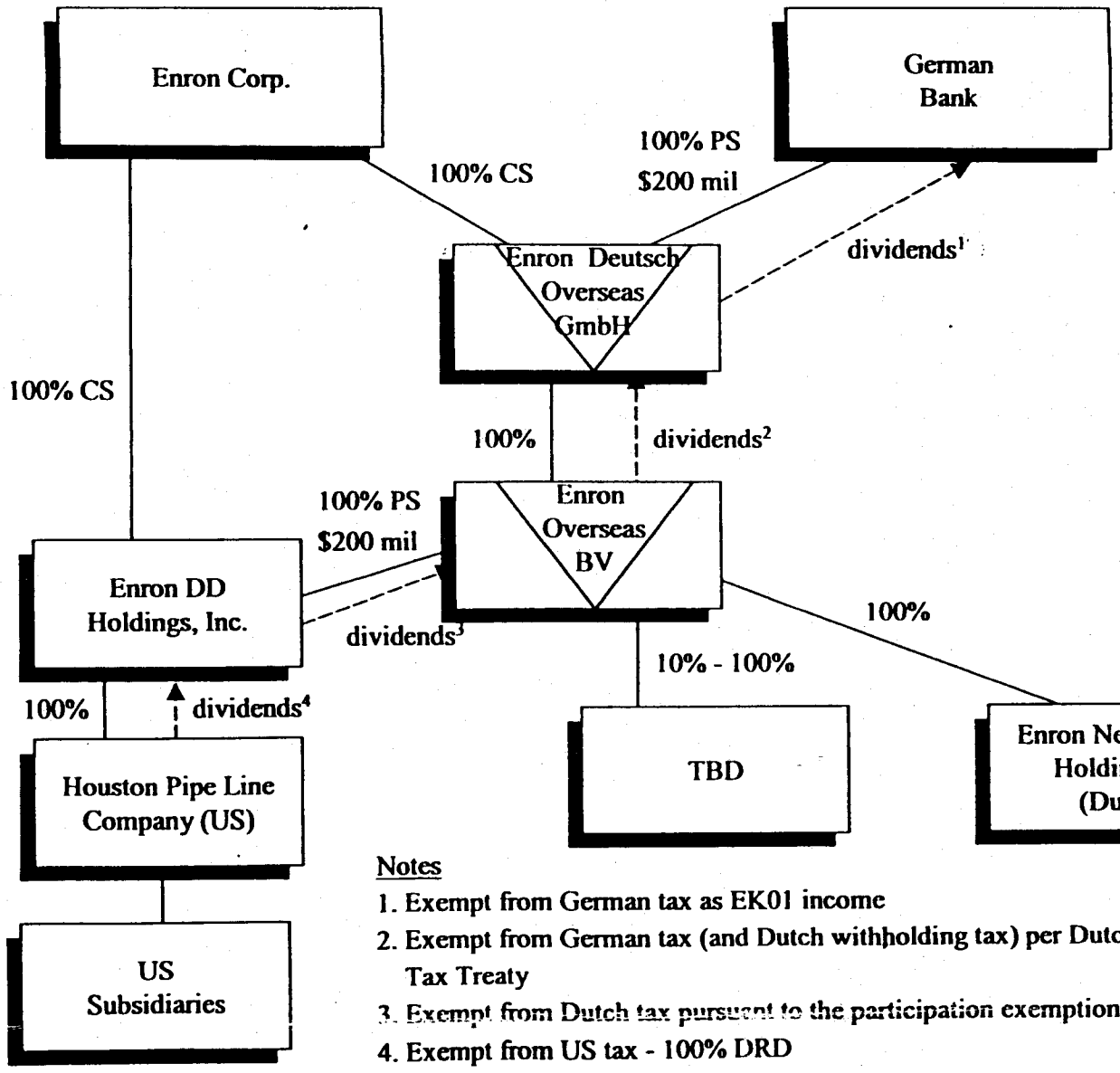


*No US withholding tax per US-German Tax Treaty

Capital Markets Products

PINTS Financing

German/Dutch Tax Characterization



Notes

1. Exempt from German tax as EK01 income
2. Exempt from German tax (and Dutch withholding tax) per Dutch-German Tax Treaty
3. Exempt from Dutch tax pursuant to the participation exemption rules
4. Exempt from US tax - 100% DRD

ENRON

EC2 000038586