KOENIG - MARK KOENIG
LAY - KEN LAY
WHALLEY - GREG WHALLEY
MCMAHON - JEFF MCMAHON
MAZE - WILLIAM MAZE
FEYGIN - ANATOL FEYGIN
BARONE - RON BARONE
MORTON - BEN MORTON
CAUSEY - RICK CAUSEY
TICE - PAUL TICE
FERGUSON - JIM FERGUSON
FLEISCHER - DAVID FLEISCHER
EASSEY - DONATO EASSEY
BOWEN - RAY BOWEN
DONOVAN - BRAD DONOVAN
OPERATOR - Unknown Female
UI - Unintelligible
Enron Corporation Conference Call
Date: 11/14/2001
KLH/ewb - Revised 1/11/2006

(BEGINNING OF SESSION ON 11/14/2001)

1 OPERATOR - Good morning everyone, and welcome to the ENRON investor update
conference call. Today’s call is being recorded. At this time I would like

to turn the call over to the, Vice, Executive Vice President of Investor
Relations, Mr. MARK KOENIG. Please go ahead sir.

5 KOENIG - Thank you. Uh, before I introduce KEN I’d just like to remind everybody
the call does include, uh, this call will include forward-looking statements
within the meaning of several sections of various Securities Acts of 1933
and 1934. The statements are not historical facts but do reflect ENRON’s
current expectations, estimates, and projections. All the statements
contained in the call which address the future operating performance,

events, or developments that are expected to occur in the future are

forward-looking statements. Although we believe that the expectations are

based on reasonable assumptions, we can give no assurance, of course,

that these goals, will be achieved. Uh, important factors that could cause

results to differ materially from those in the statements include the

development of, uh, retail and wholesale natural gas markets, and of

course the receipt of regulatory approvals and customary closing
conditions on PORTLAND GENERAL and conditions in the capital markets and equity markets. At this time, I’d like to turn it over to KEN.

Thank you MARK. Uh, good morning, this is KEN LAY. Uh, with me today are GREG WHALLEY, President and Chief Operating Officer of ENRON, uh, JEFF MCMAHON, Executive Vice President and Chief Financial Officer, of course, MARK KOENIG, uh, Executive Vice President of Investor Relations, uh, RAY BOWEN, Executive Vice President, Finance and Treasurer, and RICK CAUSEY, Executive Vice President and Chief Accounting Officer. Uh, thank you for joining us on the call and webcast today. Uh, we want to take this opportunity to provide you with an update on the status of the company, and respond to any questions you have about our business. On Monday we held a conference call to discuss the signing of a definitive merger agreement with DYNEGY. We’re excited about the opportunities of the new combined company. Uh, the purpose of today’s call is to tell you about activities and concerns, uh, directly pertaining to ENRON. First of all, let me say that I could not have ever contemplated the events we as a company, and you as a stakeholder have faced over the last few weeks. The ENRON management team is focused on protecting the investment for all investors, and stockholders, bondholders, banks, and other creditors, including
trading counterparties. To maximize the return for all investors, our focus
remains on our cred, credit quality and liquidity, which are paramount to
the continued success and expansion of our wholesale business activities.
We believe we’ve taken many important steps to address many of the
recent concerns in the marketplace. Uh, before we discuss those steps, let
me provide you with my perspective on how we got, uh, to where we are
today. In hindsight, we made some very bad investments in non-core
businesses. Our investments in various international assets such as
AZURIX, India, and Brazil, to name a few, have performed far worse than
we could ever have imagined when we made these investments. Because
of these investments and other matters, uh, ENRON became over-levered.
While the poor performance of our investments was bad enough, uh, the
negative impact of these investments on the company have been
exascerbated through the extensive use of debt capital both on and off the
balance sheet. Uh, we entered into related party transactions that produced
various conflicts of, of interest, both real and perceived. Although we put
in place significant, uh, safeguards to protect ENRON and its stakeholders,
investors still perceived conflicts, and the loss of investor confidence from
these transactions has been very damaging. We’ve been criticized
regarding the breakdown of the results of our various business activities as
being opaque and difficult to understand. And on top of it all, we
discovered and disclosed errors in our financial statements which will
require restatement of our previously reported, uh, financial statements.
We fully understand and regret that the combination of these events has
resulted in the complete loss of investor confidence. We are fully
committed to fixing the problems. We remain committed to making the
difficult decisions and taking the steps necessary to collectively address all
of these matters. Uh, for instance, I’ve replaced the two most senior
finance individuals in the company, the Chief Financial Officer and the
Treasurer. I’ve asked the Board of Directors to form a Special Committee
to investigated re-, related party matters, and that is well underway with
separate outside legal counsel and outside auditors. We want to regain
your support and trust in ENRON. Our core business is still the best
franchise in the industry, as evidenced by the recent DYNEGY merger
announcement. Prior to the events over the last month, our operational
performance in our core businesses was at all-time highs. However, with
the turbulence around the ENRON name over the last month, the business
has been affected. As a result, we are changing, and have initiated an
action plan for restoring our operational and financial momentum, as well
as regaining investor confidence. We’re getting back to the basics and will
focus on our core energy businesses which continue to provide
significant earnings opportunities with unique competitive advantages. We
are taking aggressive steps to rationalize our cost structure. We are
accelerating the process of divesting non-core businesses. We’ve
implemented a sound financial strategy to regain our financial health and
flexibility, and will continue our initiatives in this regard. We’re taking
aggressive, sweeping action with a complete investigation by the Special
Committee of the Board with respect to related party transactions. We are
reviewing and strengthening our corporate governance. And finally, we
will attempt to regain your confidence with our expanded disclosure
initiatives and focus on transparency. To lead the company through this
period of transformation, GREG WHALLEY, our President and Chief
Operating Officer, will be responsible for focusing the business in the right
markets and areas, and JEFF MCMAHON, Chief Financial Officer, will
be responsible for restructuring the financial position of the company.
Together, GREG, JEFF, and I, along with many of our other colleagues,
will do everything in our power to rebuild investor confidence. I’m sure
you have plenty of questions, as I’ve merely provided the broad strokes for
where we are taking the company. Now let me assure you there will be
plenty of time for your questions. I would now like to ask our President
and Chief Operating Officer GREG WHALLEY to update you on the
business. GREG?

Thank you, KEN. I'd like to provide you with an overview and assessment
of where we are in the business today. First of all, we've broken ENRON
down into three fundamental groups of businesses: core, non-core, and
those businesses which we currently consider under review. So let me
explain what falls into each category. Core businesses are our consistent
franchise businesses in which we believe ENRON has a distinct
competitive advantage. These businesses collectively generate significant
earnings and cash flows for the company. They include our natural gas
pipelines, our gas and power businesses in North America and Europe, our
retail businesses in North America and Europe, and our coal business. Our
non-core businesses are businesses which do not provide value to our core
businesses. These primarily are part of our global assets segment and our
broadband division. We have over $8 billion invested in these businesses,
and the return from these businesses and investments are dismal.

Accordingly, we plan to exit these businesses in an orderly fashion, and
expect that the sale of these non-core businesses will generate billions of
dollars in cash that ENRON will use to repay debt and redeploy into its
core businesses. Businesses under review are the businesses that we
believe have strong future prospects. However, under the current environment, we will look closely at each of these businesses’ capital requirements, near-term growth pro-, prospects of these businesses, both in terms of earnings and cash generation. These businesses are primarily our wholesale businesses outside of gas and power, and include both energy related as well as our industrial markets activity. With respect to these businesses, we are performing an in-depth assessment of each business. We will be making determinations quickly about the resources that we intend to expend in these areas, and exactly what the prospects are for each of these businesses. I would like to provide you an update on our energy businesses which include gas, power, and coal in North America and Europe. Our recent events have caused what I believe to be a temporary but negative impact on our projected fourth quarter profitability. We’re only about halfway through the quarter, so it’s too early to tell exactly what this, what the impact this difficult market will have on our operating results. Additionally, the quarter is likely to be negatively impacted by severance costs and other restructuring costs resulting from our repositioning many of the businesses. It is important to understand that we are considering these actions now in order to help us swiftly return to normal business in 2002. I remain optimistic that the actions that we have
taken over the past few weeks have substantially answered the credit and
liquidity questions that our counterparties may have had. While working
with counterparties has been difficult recently, especially last week, we
have seen improvement in our relationship with our counterparties and
their willingness to transact with us as we have moved through this
week. Our current transaction levels, while lower than the recent averages,
have remained strong, and there seems to be growing acceptance to our s-,
to our stability. For the status of our non-core businesses, this group of
businesses principally consists of our international assets held by the
global assets segment and the broadband businesses, together which have a
book value over $8 billion. We have an aggressive program in place to
divest these assets and our intention is to use the proceeds from these
businesses and from the sale of these assets to repay outstanding debt and
redeploy into our core businesses. We have over $800 million in assets
already contracted for sale to respective third parties that are expected to
close in the fourth quarter of 2001. Also, PORTLAND GENERAL, the
$2.9 billion sale, is also contracted for sale and is targeted to close in late
2002, pending various regulatory approvals. As for the remaining
businesses, as I mentioned, they are under review, and we will be
assessing our approach toward these businesses in the coming weeks. Now
I'd like to turn the call over to our Chief Financial Officer, JEFF MCMAHON, to provide you with a financial update.

Thanks, GREG. Um, I’d first like to take you through an in-depth assessment of our current financial position. Uh, but first of all I’m gonna provide you with an overview of our liquidity situation which is currently our most acute financial issue. Uh, we’ve recently taken a number of steps to assure that our customers can fulfill our, that we can fill our commitment, uh, in the ordinary course of business of investor uncertainty. Uh, first of all, three weeks ago, we drew $3 billion on our committed lines of credit, and used those proceeds to redeem ENRON commercial paper. And this gave us much more confidence in our access to daily liquidity, uh, by eliminating the execution risk of flooding the commercial paper market each day as investors were questioning our finan-, our financial position. Then a week ago we announced the signing of commitment letters for $1 billion of secured credit lines with J. P. MORGAN CHASE and CITIGROUP. These proceeds will be used to further supplement short-term liquidity from the committed lines of credit, uh, previously mentioned and to refina-, and refinance maturing obligations. And clearly our borrowing on a secured basis is not a preferred way to go, but our goal is to rapidly restore investor and
customer confidence. Then we intend to return to our normal capital
program as quickly as possible, thereby eliminating the need for the
secured facility. As you know, yesterday re-, we received $1.5 billion in
equity from DYNEGY as part of the recently announced merger
agreement. And adding to our near-term liquidity profile are over $800
million in assets sales scheduled to close by year end, as GREG just
mentioned. And these include $250 million associated with CEG RIO
which is a gas, local distribution company in Brazil, $266 million for ECO
ELECTRICA which is a power plant and LNG receiving terminal in
Puerto Rico, and $332 million from the sale of certain oil and gas
properties that we own offshore in India. In addition, we’ve also engaged
in discussions with various institutions interested in investing in ENRON
equity. We’re diligent, diligently pursuing a program to raise an
incremental five hundred million to one billion dollars of private equity
from these sources in the near future. And finally, on a longer-term basis,
the liquidity and financial profile of ENRON will be greatly enhanced
from our previously announced sale of PORTLAND GENERAL, which
will result in approximately $1.8 billion in cash proceeds as well as the
transfer of $1.1 billion in related debt to the buyer. This sale, this sale is
scheduled to close, uh, late next year. Furthermore, additional non-core
asset sales will occur over the next several months, providing us with
additional opportunity to de-lever the company. Now let me move on to
the credit rating of ENRON. Um, we believe the liquidity enhancements
and scheduled asset sales will strengthen our balance sheet eventually, and
help maintain our investment grade rating. We continue to meet regularly
with all three credit rating agencies, and the concerns th-, that are
expressed by the agencies can be addressed in the short run as further
progress pertaining to debt refinancing and asset sales becomes
demonstrated. An update on the current rating by the rating agencies:
MOODY’S has us rated at C double A 3, under review for further
downgrade, FITCH at triple B minus, evolving outlook, and STANDARD
AND POOR’S at triple B minus, credit watch negative. Also, um, ment-,
or comment on the bank and the capital market situation for ENRON. Um,
now that we’ve stabilized our liquidity profile by all the above-mentioned
items, we will, beginning with this call, attempt to mitigate investor
concerns associated with our overall financial position, as well as certain
financial arrangements that we’ve entered into over the past several years.
I, I believe that once everyone fully understands these arrangements and
the related repayment plan, their concerns will be diminished and we will
be able to return to a more normalized bank and capital markets funding
program. So with that, let me turn, uh, the attention of the call for a few
minutes to three of our existing financing vehicles, uh, namely OSPREY,
MARLIN, and the credit-linked note program that we've previously
discussed and disclosed in ENRON's financial statements. There's been a
significant amount of discussion in, about these financings so I want to
take the time to make sure that everyone has all the facts available to them.
For each of these financings, I'm going to start by telling you what they
are, why they were done, how they were intended to work, and very simply
and straightforward what the impact that we can expect to have, what the
impact of these financings can, uh, have on ENRON going forth. Let me
begin with the MARLIN, uh, uh, structure. MARLIN is a trust owned by
institutional investors that was formed for the purpose of investing in the
ATLANTIC WATER TRUST, which is an entity formed by ENRON and
MARLIN for the purposes of acquiring AZURIX, which holds the water
business of ENRON. MARLIN was capitalized originally by issuing $915
million of 144A debt and $125 million of equity. The debt, the MARLIN
debt, is supported by the assets of AZURIX, and a contingent obligation of
ENRON to issue additional equity to repay the 144A debt if the assets of
AZURIX are insufficient to do so. Uh, that's what I would call the
ENRON top-up obligation. These notes are due July 15, 2003, uh,
however, they must be defeased 120 days prior which is March 17, 2003,

unless an acceleration event occurs, which would make the, uh, maturity,

uh, more current, um, if ENRON was downgraded to a below-investment-

grade credit rating by one major rating agency. Uh, l-, there’s been lots of

discussion around this financing but it really is s-, straightforward. Primary

asset of AZURIX is WESSEX, a regulated water utility i-, in the U.K. If,

at maturity, WESSEX is worth $2.6 billion, there’s no top-up, (UI)

obligation for ENRON or any additional impact on ENRON’s financial

statements. Now to give you a little sensitivity of that, if WESSEX is

worth, uh, $1.9 billion at maturity, which is a 25% haircut, uh, to that

earlier number, then there would be a $650 million impact to ENRON’s

income, equity, and cash related to the top-up obligation. So that’s

MARLIN. Let me just address OSPREY briefly. Uh, the OSPREY

transaction relates to, uh, another financing where OSPREY is an investor

in a joint venture formed by ENRON and outside institutional investors to

acquire and own certain energy related assets and other assets. OSPREY

was capitalized originally by issuing $2.4 billion of 144A debt and $220

million of equity. This is basically an asset-backed financing again with a

top-up obligation by ENRON. Now the OSPREY debt is supported by

three things: one, the assets within the vehicle; two, ENRON convertible
preferred stock, which converts into 50 million common shares of
ENRON; and three, a contingent obligation of ENRON to issue additional
shares if needed to satisfy the debt obligations if the assets and the
preferred stock are insufficient to retire the 144A debt at maturity. So
that's the structure of OSPREY. Now what's the current status of the
financing? Well, if that maturity, the assets are valued, the assets are
valued with, using a 25% haircut to the book value. This would result in
an approximate $600 million incremental use of cash by ENRON, and a
corresponding reduction in income and equity related to the top-up
obligation. Additionally, the liquidation of the vehicle would result in the
retirement of the original $1 billion preferred stock issued to the vehicle,
uh, at the origination which is currently on our balance sheet. These notes
are due January 15, 2003, and, and, and, like MARLIN need to be defeased
120 days prior to that which is September 17, 2002, and also like
MARLIN, unless an acceleration event occurs related to a below-
investment-grade rating by one major rating agency. And finally on the,
sh-, uh, financings, I wanted to address YOSEMITE and the credit-linked
note program. Uh, there's also been considerable confusion in the media, I
believe, regarding two other, uh, uh, the, uh, rel-, uh, regarding these
structures, YOSEMITE and the ENRON credit-linked note. Uh, these
instruments are really effectively the same, and allow for certain of
ENRON's on-balance-sheet bank obligations to be transferred from the
bank market into the capital market. And these transactions are
predominant related, predominantly related to commodity transactions
entered into with large financial institutions. And, as I said, the underlying
obligations are reflected on ENRON’s balance sheet. Now in all these, the
ingrating agencies, two of our lead banks have worked with us closely over
the last several weeks through this crisis, and DYNEGY have reviewed all
of these obligations and structures in detail and have factored these
obligations into their respective valuation and analysis. And just one final
item, uh, before I turn it back to KEN, is that with everything that’s
occurred over the last week or two, uh, we will be filing our third quarter
form 10-Q five days late which will include all the details that we’ve
discussed today as we-, the, as, as well as any other, uh, current events that
need to be talked about. And with that let me turn it back to KEN.
All right, thanks, JEFF. All right, we’ll now go to your questions. Uh, I
would say we will attempt, of course, to answer all of your questions as
fully and candidly as, uh, as we can, but if, for whatever reason, uh, there
is a question that we’re, we cannot answer this morning, uh, we’ll of
course take that question and we’ll get back to you just as soon, uh, uh, as
we, as possible. And with that, let’s open the line for, uh, questions.

Thank you gentlemen. The question answer session will be conducted
electronically. If you do have a question, simply press the star key
followed by the digit one on your touch-tone telephone. We will proceed
in the order that you signal and take as many questions as time permits.
Again, that’s star one for questions. And our first question today will
come from WILLIAM MAZE at BANK OF AMERICA.

Yeah, good morning. Um, um, thanks for the discussion, it’s helpful. Just
on the, uh, first off on the, uh, uh, YOSEMITE. I was wondering is there,
uh, um, any obli., you didn't talk about any sort of direct obligation to
ENRON, uh, you know, sort of worst case scenario. Is there anything, uh,
a-, anything there?

JEFF?

I'm not sure if I quite understand. The worst case scenario. I mean
there's...

Well, if, I mean, what, what exactly are the obligations of, uh, ENRON here
with YOSEMITE?

Yeah, I mean our obligations are to top up any deficiency.

And what's the number associated with that?

Well I'm sorry. Maybe I've misunderstood your question. Did, did you say
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1  OSPREY?

2 MAZE  -  No, Y-, Yo-, YOSEMITE.

3 MCMAHON - No I'm sorry. I'm sorry. No, there are no obligations uh, um, to ENRON

4  uh related to YOSEMITE. Uh, that is a uh, uh, financing that was done by

5  moving bank, uh, bank obligations into the capital market. So that is what

6  it is.

7 MAZE  -  Okay...

8 MCMAHON - Fixed obligations.

9 MAZE  -  And the, uh, and then of course, there's been, uh, much to do about

10  CHEWCO and if there's potentially any other, um, um, partnerships out

11  there? I mean obviously there's LJMI and 2. Are your, you know, are you

12  completely, uh, uh, separated from those now? Is there any other

13  contingent liabilities from other partnerships that we should be aware of?

14 MCMAHON - Let me tell you where we are on all that. We, we believe we've identified

15  all the, uh, uh, items related to these related party transactions. Um, you

16  know, they were all as we know, discussed in that 8-K that we filed, uh,

17  about a week ago. Uh, so we're not aware of any additional ones, uh, but I

18  do want to say that, there is the investigation that's ongoing from the

19  Special Committee. Uh, until that's complete, um, you know, we'll see

20  where we are. But, uh, uh, as far as we know, everything was disclosed in
the 8-K recently.

And can you give us a progress report on that, uh, internal investigation?

Is, um, you know, I mean how confident are you that we won't have further revisions, et cetera?

Well the investigation is ongoing. Uh, I think it's fair to say it's, it's only a few weeks into its uh, er, uh, original progress. Um, we've done a lot of work internally and, uh, identified the items that we, uh, uh, outlined in the 8-K. But frankly, until the, uh, work of the Special Committee is completed, I really can't comment on, on what further items could occur.

I, I, I will say that the Special Committee is working very, uh, uh, attentively and aggressively to bring, uh, uh, their review to conclusion. That, that Special Committee is meeting probably two or three times a week, eh, some weeks even more. Uh, of course we, uh, we have the outside legal firm and the outside auditors, uh, working virtually seven days a week, uh, on all of this. And w-, we're trying to bring it to a head just as quickly as we can.

Uh, (UI), Is there any sort of time frame we can expect or...

I, I think we still - it's still going to be a few weeks. And that's about the best we can give you right now.

Okay, and then just lastly, and I won't hog up the time here, but you, uh,
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talked about, uh, a-, uh, asset sales, um, about $8 billion worth of
investment. Um, you know, as you see it now, can we expect, uh,

writedowns or, or, or how do you see that?

Well I think it’s way too early to t-, t, tell that frankly because what, as GREG
outlined, uh, we’ve really moved a lot of businesses from core to non-core.

And I, I think now putting these things, valuing them on a discrete asset sale
basis versus, uh, an integrated business strategy is going to take some time to
determine, uh, market value versus carrying value. So I, I just think it’s way
too early to tell that frankly.

Okay. Thank you and good luck.

Thank you.

We’ll now move on to ANATOL FEYGIN at J. P. MORGAN.

Good morning everyone. Um, can you provide us with some color on the
OSPREY vehicle and what are the major assets behind there with, with
MARLIN? Um, it’s, it’s obviously pretty transparent with WESSEX and,
and the Mexican concession that remains. Um, what are the big ticket items
so to speak, in OSPREY so that, uh, we can have some more color on, on
where the 25% haircut is coming from?

Yeah, um, ANATOL, uh, what OSPREY ended up having in there was
several of our, uh, European electric power projects, um, in, uh, both
European, uh, sorry, European power projects which would include TRAYKA, um, um, and SARLUX in ITALY. And then there's some variety of, uh, NORTH AMERICA merchant investments, um, uh, which are typically, uh, debt and equity instruments of, of energy companies.

And ANATOL, you probably know the two, the two large, first, uh, items that, uh, JEFF mentioned are two large power plants, one in TURKEY and one at...

Sure.

...in ITALY.

No, at, at some point it held, um, about 47% of, of, uh, your Brazilian investments or at least a portion of that. Is that still the case or...

Yeah, I think it's actually less than that. I think it's about 25%.

That is still the case.

Yeah. Now the merger agreement has a no-shop provision that exempts, um, I believe it's 15% of assets, uh, or revenues, et cetera. Is that set up so that, uh, ENRON can kind of continue this asset divestiture program relatively unencumbered?

Um, can you ask that question again, ANATOL? This is GREG, I...

Yeah GREG. Um, in the merger agreement that was filed, uh, I guess yesterday, there's a, uh, overall no-shop provision, but, uh, there's an
exemption for 15% of, um, assets or revenues, meaning that, I guess up to
15% of the company can be sold, uh, I guess without the approval of
DYNEGY as far as I understand it. Is that...

WHALLEY - Uh huh.

FEYGIN - ...intended so that over the course of the next six, nine months, this process
can go on, um, relatively unencumbered?

WHALLEY - Yes. Uh, there is also an annex on the merger agreement which lists out,

uh, specifically virtually all of our international assets, um, as, as being

allowed to sell. So we can continue down this path to, uh, dispose of these

assets, and we need not go to, uh, to DYNEGY, although, uh, we will

probably be coordinating with them throughout this process.

FEYGIN - Great. Thanks very much.

OPERATOR - We'll now go on to JAY YANELLO at UBS WARBURG.

BARONE - Good morning. This is RON BARONE. I'm sitting in with, uh, JAY. Uh,

KEN, with all due respect, uh, to the employees of broadband, uh, how fast
can you, um, shut that down or sell it? Uh, it is hemorrhaging money. And

secondly, I know it's early in the fourth quarter, but will we be getting

additional guidance as the quarter unfolds?

LAY - L-, I-, uh, let, let, let me answer the last one first and I'll let GREG answer

the broadband question. But, uh, you will be getting additional guidance as,
as, uh, as the quarter unfolds, probably within the next two or three weeks.

But we, uh, uh, we're just now of course, uh, uh, evaluating the, the impact

of the last, uh, month and all of the, uh, distractions and so forth that

occurred during that month. But also we're, we're beginning to, uh, uh, try

to wrap up our, our annual budget process for next year. And then once

that's done, I think we can give you some pretty, pretty good guidance.

GREG?

In, in terms of, uh, in terms of broadband, uh, you know we've already, uh,
scaled it down to a great degree. Um, it would take some period of time, uh,
to completely wind it down depending on, uh, how orderly pro-, how

orderly a process that we have. Um, I would expect that over the course of

the next year without hemorrhaging too much more cash, we would be able
to substantially wind down, um, our activities in the broadband arena.

Okay, thank you.

Thank you.

BEN BORT, excuse me BEN MORTON at SALOMON SMITH

BARNEY.

Good morning. Yes, my question actually, uh, has to do with the

restatement, um, specifically, uh, how they flow through the income

statement, um, whether or not they, you know, hit specific EBIT segments,
um, and even specifically the wholesale segment.

2 CAUSEY - Uh, yes, it's RICK CAUSEY. They, um, uh, they will hit the wholesale

3 segment principally in the investments and the other category that, uh, um,

4 investment and other assets bucket i-, in terms of our old thinking. A-, an-, and

5 so it will be non-core in certain terms of, uh, the way GREG laid that out. It's

6 not a part of the gas and power business moving forward.

7 MORTON - Okay.

8 CAUSEY - But it, it could have fallen into the wholesale investment in using the old

9 terminology, the investment and other assets, uh, item would be the one most

10 significantly impacted.

11 MORTON - Will we see that in the upcoming Q?

12 CAUSEY - Uh, yes, w-, you'll see that in the upcoming Q but more in, in, in the, uh,

13 new segment, uh, approach that we laid out, uh, uh, in the third quarter

14 release.

15 MORTON - Right, right. Okay, thank you.

16 OPERATOR - We'll now move on to PAUL TICE at DEUTSCHE BANK.

17 TICE - Uh, morning. Just a few questions about the, the share trust deals. Uh, first,

18 um, if you, uh, said on a call on Monday that the plan was to probably have

19 OSPREY go away before you close the merger, but MARLIN would stay

20 outstanding. Now the mechanism is that that convertible preferred would
convert into DYNEGY equivalent shares, after the merger?

MCMAHON - Well, which one are you talking about, MARLIN?

TICE - Yeah MARLIN, assuming that stays outstanding.

MCMAHON - Yeah, that, I mean, i-, i, it, I, I believe the agreement provides for whatever is, is, ENRON turns into or if there's an exchange offer, uh, it'll convert it to the equivalent, uh, DYNEGY shares.

TICE - Okay. And now, just so I got my numbers straight, JEFF, on, on MARLIN, you're saying that, uh, how, how much debt do you have right now below the MARLIN bondholder, 1.9 billion?

MCMAHON - Yes, that's about right at the WESSEX or AZURIX level, right.

TICE - Okay, and, and the total amount is 920 million of MARLIN bonds?

MCMAHON - That's right.

TICE - Okay, but the, the, deficiency that you have was 650 million?

MCMAHON - Well what I said was i-, y-, you have to take a view of what you think WESSEX is worth...

TICE - Mm hmm.

MCMAHON - ...at the end of the day, right? And so if you took WESSEX worth, uh, $1.9 billion, um, you ended up with the $650 million impact to us.

TICE - And you were saying evaluate anything else in, in AZURIX besides WESSEX,
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could you check (UI)?

Yeah, there's uh, there's, what is there AGOSBA in, uh, Buenos Aires, and there's some North American things left. (UI).

There's still some assets held for sale that were adjusted to fair value in the third quarter, those sales are ongoing. So that, that's, uh, also in AZURIX.

Yeah, and there's cash sitting in AZURIX now because NORTH AMERICA got, the, the majority of the NORTH AMERICA business got sold.

That was 140 million bucks?

Yes, 135, I think, something like that, yeah.

Okay, now, WESSEX is a regulated asset. How much lead time would you need from the time you sign a deal to when you could get it past the regulators?

Uh...

I'm thinking there's 18 months left really before, uh, the defeasance.

Yeah. And, and, and, you know that also, that depends a lot on who the buyer is. Um, so I mean, uh, I think where we would, uh, our view would be is we would attempt to, uh, if we were to liquidate it, i-, attempt to find someone who could, uh, qualify pretty fast and not have a, uh, potential prolonged, uh, regulatory process. But typically in the U.K. these things,
as long as there's, um, no overlap of, of market share and all, these things
generally happen pretty quickly.

Now I, I know you, you had the, you, when you went through the
structures you had the topmost being the convertible shares that you have.
But, I mean it's fair to assume that, given that you're merging, that that,
you know, is not an option. And I, I think Monday you did make the point
that other non-core asset sales from outside of the trust were a likely
source of cash to pay these deals off. Is that still the plan?
Well that plus the equity we're, we've already raised, plus the equity we're
raising in the future. Um, I mean I, I guess at the end of the day what I
would say is, is, is timing-wise, cash is pretty fungible, and, and we're,
we've just got in a billion and a half of equity from DYNEGY. We're
going to be raising some additional private equity. And we're, and we
expect to raise billions of dollars in asset sales. So, uh, some combination
of all of the above, um, coupled with, frankly, if the markets can return, I
mean, that's another option for it.
And I assume the agencies are okay with that given everything else that's
going on that, you could, paying off with, uh, other than the convertible p-
sh-, sh-, shares within the trust right?

Yeah, I think it's fair to say equity is equity to the, uh, rating agencies.
Okay, and one last question on the, um, on the opt outs that DYNEGY has around the merger, is there anything else specific away from the three-and-a-half billion dollar litigation, uh, bucket that they set up?

Yeah, the only other real opt out, opt out is a MAC clause on ENRON's business.

A-, anything specific around that? It was reported in the FT that if your earnings guidance was 10% to 15% errant, that that was a, uh, an option for them to opt out.

Nah, that's, that's not accurate.

Okay. And, and one last question around OSPREY. The 25% haircut to book value, if I'm doing my numbers right, that would imply something north of two billion as the book value for the assets that you have right now?

Yeah, I think that's right, 2.1, 2.1 billion bucks.

Excluding the preferred. Excluding the (UI)...

Right, yeah, (UI) just the energy assets. That's right.

Just the physical assets.

Right. That's correct.

Okay, great. Okay, thanks.

We'll now move on to JIM FERGUSON at ALLIANCE CAPITAL.
FERGUSON - Good morning. On, uh, YOSEMITE and the CLNs, will you be trying, i-,
to, uh, sell the underlying assets, uh, sooner than waiting for the maturity?
Will those be part of your ongoing asset sales effort?

MCMAHON - No, not at all. These are, these are bank obligations that are converted into
uh, uh, effectively ENRON CORP., uh, senior unsecured credit that, that
have a term out there that's part of our normal maturity schedule.

FERGUSON - Okay, but as I understand it, they were bank loans made, uh, and
guaranteed by ENRON that then were swapped with CITIBANK. And I'm
just wondering, uh, how they come back and would, uh, be able to pay, uh,
pay the notes off.

MCMAHON - Well, it's still at the end of the day it's, it's effectively, uh, senior
unsecured obligation of ENRON CORP. It's, you know, it's already on the
balance sheet and it's in our scheduled material. Maybe, JIM, maybe I'm
missing your point. I'm sorry.

FERGUSON - Well I guess, uh, one other thing is, I don't know if it's allowed under the,
uh, terms of the swap and other things, to, uh, detail what the assets are.

MCMAHON - Well I mean, uh, again from a bondholder standpoint, y-., your, your, your
obligation is, is a senior unsecured obligation of ENRON that's effectively
backed by CITI as far as, uh, uh, how that ultimately will behave in the
marketplace. I mean, I guess what I'm trying to say and I think that you,
you saw this when the bonds were issued, the underlying asset is really not
something the bondholder looks to here. What they're looking to is
ENRON's ability to service that debt and pay the maturities from its
normal operating cash flow.
Ferguson - Right, okay. Uh, and that's the case in both the YOSEMITE and the
CLNs?
McMahon - Yes. Those are all basically identical, uh, deals.
Ferguson - You, you said that they were commodity-based transactions. Can, can we
have some more information about what they are?
McMahon - Yeah, I mean it's, it's part of our asset liability management of our
commodity books. Uh, we entered into transactions with a variety of
counterparties in, in crude markets and gas markets. Uh, it's related to the
physical movement of, of commodities.
Ferguson - Okay. So we could end up, uh, at the end w-, owning a swap that ENRON
has to perform to physically deliver oil or something?
McMahon - N-, no, not as bondholder you wouldn't.
Ferguson - Oh. But wouldn't that be the ENRON obligation that underlies...
McMahon - Oh, oh, oh, I'm sorry, yeah. I mean, yeah, okay. You're talking (UI).
Ferguson - We're not going to end up with an ENRON bond, uh, or unsecured note?
McMahon - Well you could end up, that's, that's a CITIG-, BANK's obligation, uh,
CITIBANK's option on what they want to put in there that effectively
senior unsecure obligation of, of ENRON...

Yeah...

...uh...

...so CITIBANK would have to go into the market and buy something.

You're not going to issue them notes are you?

Well I suppose if we're in that situation we wouldn't be issuing notes
anyway. But that's, that's right. So, so it's at CITI's option what they put in
there. But

a-, anyway, o-, o-, on these swaps, they would be financially settled, uh,
rather than physical delivery of 'em.

Okay. Thank you.

We'll now move on to DAVID FLEISCHER at GOLDMAN SACHS.

Okay. Uh, let me see if I can fill, fill in a couple places that haven't been
asked as much. Uh, first of all, uh, i-, i, I know it's only been two days and,
and maybe into the third day in terms of business, GREG, but, uh, maybe
you can give us a sense for, uh, you know, what you see in terms of
business returning to ENRON, and particularly the, the willingness of, of,
uh, customers, what they're saying in terms of coming back to the long-
dated, uh, uh, you know, transactions, uh, you know, structured products,
uh, risk management services, what, uh, what not. Can you give us an
update on that please?
Yeah, DAVID, I, I really can't give you much of an update on, uh, on
customers returning to the long-dated structured products type agreement.
Um, I can tell you that, uh, that we had, you know, deals that were under
negotiation at the time. And, uh, and, and over the past week, people got
concerned and some of those were put on hold. I'm sure we'll be finding
out over the next couple of weeks, how comfortable they are in dealing
with us for term product. What we're watching at the moment is, uh, is to
make sure that everybody is comfortable dealing with us in the short-dated
markets, um, and that basically our transaction and flow business can
continue to, uh, to occur. And at this point in time we have seen, uh,
greater acceptance, uh, beginning to occur in the marketplace, uh, both in
the U.S. and in Europe. And, uh, and we're hoping to see progress there as
people become more comfortable with, uh, with our financial stability.
But it, it may be, um, uh, a couple of weeks before we can give you much,
uh, in terms of, of the comfort of the longer-dated customer.
Can you tell us then on the short-dated, uh, deals that you're doing in terms
of, you know, willingness of customers to come back to old levels of
business, uh, and, and, you know, have they relaxed their requirement for,
for credit letters of credit or other backing, uh, you know, yet?

Um, there hasn't been a major relaxing of, uh, of any requirements, especially given that the requirements that we were operating under, uh, were the specific requirements in the contracts that we, that we already had with them. Um, most people are, uh, we're seeing very little requirement to change, uh, the terms of our existing agreements with the exception of people wanting to move to, uh, to get in place, uh, master netting agreements which we think is probably a good thing for us and the industry. Um, we have seen a return of, uh, of some of the, some of the transactions and some of the flows. And, um, I mean, this, early this week, it's been better than Thursday and Friday last week. And, uh, and we'll continue to monitor and call counterparties as necessary, um, and try to ensure that everyone's comfortable. I really believe with, um, with the infusion of this, uh, billion and a half dollars in equity capital along with, um, other capital that we have coming in the door, uh, that we're going to see people get much more comfortable in dealing with us. And I'm hoping to see everything return to much more normal levels by, uh, later this week or sometime next.

Okay second separate question, uh, back in your initial comments, KEN, you, you talked about aggressive, uh, steps to reduce cost. Uh, i-, is that,
uh, just in the non-core operations or are you talking about, uh, doing
something along those lines in your core operations as, as well? And if you
could, you know, I know that you can't be too, too specific about that, but
if you could help frame, uh, what you're trying to accomplish, i-, is this is a
downsizing of the company for a lower level of business, or is this just
trying to cut costs, period, or is it, you know, in the, the non-core
businesses that you're mostly talking about?

LAY - Well, I, I, I think it's, uh, in really all of our businesses, DAVID. I mean
we're, we're still developing our plans. But the, clearly the cuts will be
deeper in some of the non-core areas than the core areas, and, but, but
there is, is an opportunity to also reduce overheads and just generally bring
the cost structure down somewhat, and not necessarily downsizing the
company as much, it's just making sure that we're, uh, conserving cash
and, and, and getting the very best performance out of the, out of the
businesses that we are going to carry forward with.

WHALLEY - Let me, let me clarify though that in our, uh, in our core energy businesses
we have, uh, no intentions to downsize our business operations there
whatsoever. Um, that the review is going to be, uh, regarding, uh,
streamlining any processes that we can anywhere as well as a thorough
review of, uh, of any of the businesses while they were, uh, viewed in the
wholesale business, uh, that are outside of energy, as to whether or not in accordance with, uh, uh, earnings growth and cash generation, we can continue those businesses or whether we need to scale them down.

FLEISCHER - Okay, let me just ask one final question then. It's probably a harder, hardest one to answer. Uh, you know, you, you helped, uh, I think, guide us a little bit in, in where you thought the liabilities might be in MARLIN or OSPREY in the $600, $650 million range each it sounds like. Uh, uh, you know, you know, i-, i-, although you're going to take another several weeks to complete the investigation, you think the Special Committee needs that much time. You know, clearly you've done a lot of work and a lot of looking, um, looked under a lot of rocks. And I'm just wondering, you know, you know, what kind of conviction you can give investors at this point, that, you know, you said you're not aware of anything else out there. I guess maybe the question is more how hard have you looked? How thoroughly have you looked? What might be the risk of, of something, you know, significant be, being, still hiding out there?

MCMANON - I, I, you know that's a fair, that's a fair question DAVID. And, and I can tell you, RICK CAUSEY's here as well, we've, uh, performed, uh, fairly extensive, uh, I shouldn't say fairly, a very extensive review of the related party transactions, um, that, that we are aware of and that we had, uh,
documentation of between ENRON and the related parties. And, uh, that
resulted in the filing of the 8-K and the, and the, uh, restatement of, of, or
the ultimate, w-, will result in the ultimate restatement of, of some of our
financial statements, earlier financial statements. Um, so I, I think we
believe we have certainly done a pretty comprehensive, uh, look at
everything. Um, but I, I, I do want to leave out the point that the Special
Committee's not finished its work, work. The SEC has not completed their
investigation. So there are still things going on that could, uh, impact us on
a go-forward basis. But, uh, I can assure you, we've spent a lot of time, I
mean, this area, especially over the last several weeks, uh, to try and
identify for not only the investors but for our own sake, well, what's
lurking out there.

And then, and then let me underscore too DAVID, uh, uh, it probably goes
without saying, I mean everything we know now, uh, you know, or, or
those, those that read the 8-K and so forth know. So, so we, but, but we are
still, we, we, as, as JEFF said, we still do have the ongoing, uh, uh,
investigation by the Special Committee and of course the SEC.

Okay, thank you.

We'll now hear from DONATO EASSEY at MERRILL LYNCH.

Thank you and, uh, appreciate you hosting the call as well. DAVID kind of
hit upon what I was most interested in. And it, it's really, I know the Q's
not ready, and you got, uh, you know, another five days I guess you said
before it's out. But what is really causing, you know, the, is it, it, having to
satisfy, uh, contracts or whatever? What's c-, i-, where's your cash position
at the end of the quarter? Do we know that yet? And, you know, you've
drawn down, you had 1.2 billion left after paying off the, uh, uh,
commercial paper. You've got this one-and-a-half billion infusion from the
equity with, uh, uh, DYNEGY. And now you're talking about another, uh,
if I heard you right, another five hundred to a billion of private equity
pursuant as well. I mean, what is, what's, what's causing the cash drain I
guess is, is one question? And then as far as the, as, you're, uh, you're
seeing your business book work everyday, uh, is it improving as a result of
the, you know, the DYNEGY infusion?

MCMAHON - Uh, uh, yeah, let me address your first comment. I, I, I don't think we're
seeing a cash drain. Wh-, what KEN started out the call with was, uh, the
company's over-levered. And that's just a fact. Um, our, our debt balances
are too high and we need to raise equity capital. Uh, in this environment,
um, we really cannot raise public equity capital very, uh, efficiently. Uh,
so obviously we've gone to other sources. So it's really more of a means to,
to, one, get the balance sheet or at least get on the road to get the balance
sheet to, uh, a, healthier level by getting equity capital and combine that
with some asset sales. Um, and we feel, I certainly feel confident that over
time, um, all these things, uh, will, will, will de-lever this company and get
it back to where we think it ought to, ought to be. Uh, now we also, the
reason we drew our revolvers down and whatnot is that we, we, there was
a perception in the market that we didn't have access to liquidity. So we
wanted to put those concerns to rest by, um, effectively putting cash on the
balance sheet. And, and, uh, sorry, your second question, DONATO?

It, it dealt with the business environment on a day-to-day trading basis,
you know, since the, uh, (UI) DYNEGY, has it improved? And, um, and,
and you know, following up on that first one, do we have a feel for what
the cash balance was at the end of the second, or third quarter? Thank you.

As far as the business goes, um, as I said, um, we've been, uh, at least
better at the start of this week than we were at the end of last. Uh, and
having had some conversations with, uh, with counterparties, I believe that
we will be, uh, uh, moving that up, and I think, uh, I'll get an assessment as
we go across the day and hoping to move back to normal flow levels in the
near future.

And as far as cash balances, what, I think what you guys see in your Q’s,
it's about a billion dollars we ended the third quarter with, which i-, in
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1 those days actually was...unusual because we typically pay down, revolv-
2 uh, commercial paper when we had that outstanding.
3 EASSEY - And, and, and that would be before any of the draw down obviously
4 because that all transpired afterwards. So, from a cash standpoint, you're
5 in, you're, you're very liquid, that's the point I'm trying to get?
6 MCMAHON - Yeah, yeah...
7 LAY - Very liquid. Very liquid.
8 MCMAHON - I guess I probably should have said that. Sorry about that.
9 EASSEY - Thank you, thank you very much. Good luck guys.
10 LAY - I, I think we have time for probably just about one more question.
11 KOENIG - KEN, before we take that last question, I'd, I'd just like to remind all the
12 investors on the phone, we have, um, uh, introduced, uh, some new
13 information on, um, MARLIN and WHITEWING and other, uh, bank and
14 financing vehicles. TIM DESPAIN in our Treasury group, I think many of
15 you know, but TIM's available for questions along with my group. Uh, but,
16 uh, we do have a limited amount of time on these lines this morning, so
17 we'll take one more question.
18 OPERATOR - And our final question today will come from BRAD DONOVAN at
19 GEORGE WEISS ASSOCIATES.
20 DONOVAN - Uh, two quick questions. Um, one, can you give a status on the update of
the SEC investigation? And two, DYNEGY indicated at their meeting in
New York, that they expected to close in the middle of next year. Yet you
indicated PORTLAND GENERAL's not to close until the end of next
year. Does that raise any issues with the closing being pushed back 'til the
PORTLAND GENERAL deal c-, is closed?

LAY - I, I'll take the latter. I, uh, I, I, I don't think so. I mean certainly DYNEGY's
been well aware that the scheduled uh, uh, close on PORTLAND
GENERAL is late next year. Now there is a fairly good chance that that
may get moved up a little bit, uh, but still unlikely to close before, uh,
before the transaction with DYNEGY closes.

DONOVAN - Okay.

MCMAHON - And, and as far as the SEC investigation goes, um, it is, it is ongoing. Um,
we are cooperating a hundred percent with the SEC. They've requested
certain documents obviously. That 8-K filed was, was part of, uh, was a,
was a response to certain questions they asked that, that, uh, I wouldn't
believe need to be in the public domain. Um, and how long that will take,
you know, frankly that's a question for the SEC. I, I, I think, uh, uh,
everyone is endeavoring to, uh, get this behind us. So the information that
needs to get to the public gets to the public as quickly as possible.

DONOVAN - Okay, thanks guys.
Thank you. And I think with that, we are going to need to wrap it up within our, uh, our limitation on the lines. And, uh, appreciate all of you, uh, participating today and certainly, uh, uh, welcome your questions, either online or off-line. Obviously we want to get, uh, any, any and all information out to you that we can so that in fact, uh, uh, you will feel that you really do understand, uh, the company’s financial, uh, uh, operation and financial position. Uh, so thank you very much.

And that does conclude today’s conference. Thank you for your participation and have a great day.

(END OF SESSION)