Enron Corporation Conference Call
Date: 11/14/2001
KLH/ewb - Revised 1/11/2006

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

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(BEGINNING OF SESSION ON 11/14/2001)

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.

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.

LAY - 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 assests 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 pr-, 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?

WHALLEY - 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 w-, 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.

MCMAHON - 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 aquiring 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 rating 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.

LAY - 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.

OPERATOR - 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.

MAZE - 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?

LAY - JEFF?

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

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

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

MAZE - And what's the number associated with that?

MCMAHON - Well I'm sorry. Maybe I've misunderstood your question. Did, did you say

OSPREY?

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

MCMAHON - No I'm sorry. I'm sorry. No, there are no obligations uh, um, to ENRON uh related to YOSEMITE. Uh, that is a uh, uh, financing that was done by moving bank, uh, bank obligations into the capital market. So that is what it is.

MAZE - Okay...

MCMAHON - Fixed obligations.

MAZE - And the, uh, and then of course, there's been, uh, much to do about CHEWCO and if there's potentially any other, um, um, partnerships out there? I mean obviously there's LJM1 and 2. Are your, you know, are you completely, uh, uh, separated from those now? Is there any other contingent liabilities from other partnerships that we should be aware of?

MCMAHON - Let me tell you where we are on all that. We, we believe we've identified all the, uh, uh, items related to these related party transactions. Um, you know, they were all as we know, discussed in that 8-K that we filed, uh, about a week ago. Uh, so we're not aware of any additional ones, uh, but I do want to say that, there is the investigation that's ongoing from the Special Committee. Uh, until that's complete, um, you know, we'll see where we are. But, uh, uh, as far as we know, everything was disclosed in the 8-K recently.

MAZE - 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?

MCMAHON - 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.

LAY - I, 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.

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

LAY - 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.

MAZE - Okay, and then just lastly, and I won't hog up the time here, but you, uh, 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?

MCMAHON - 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.

MAZE - Okay. Thank you and good luck.

LAY - Thank you.

OPERATOR - We'll now move on to ANATOL FEYGIN at J. P. MORGAN.

FEYGIN - 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?

MCMAHON - 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.

LAY - 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...

FEYGIN - Sure.

LAY - ...in ITALY.

FEYGIN - 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...

MCMAHON - Yeah, I think it's actually less than that. I think it's about 25%. That is still the case.

FEYGIN - 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?

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

FEYGIN - 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-, l-, 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?

WHALLEY - 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.

BARONE - Okay, thank you.

LAY - Thank you.

OPERATOR - BEN BORT, excuse me BEN MORTON at SALOMON SMITH BARNEY.

MORTON - 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.

CAUSEY - Uh, yes, it's RICK CAUSEY. They, um, uh, they will hit the wholesale segment principally in the investments and the other category that, uh, um, investment and other assets bucket i-, in terms of our old thinking. A-, an-, and so it will be non-core in certain terms of, uh, the way GREG laid that out. It's not a part of the gas and power business moving forward.

MORTON - Okay.

CAUSEY - But it, it could have fallen into the wholesale investment in using the old terminology, the investment and other assets, uh, item would be the one most significantly impacted.

MORTON - Will we see that in the upcoming Q?

CAUSEY - Uh, yes, w-, you'll see that in the upcoming Q but more in, in, in the, uh, new segment, uh, approach that we laid out, uh, uh, in the third quarter release.

MORTON - Right, right. Okay, thank you.

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

TICE - Uh, morning. Just a few questions about the, the share trust deals. Uh, first, um, if you, uh, said on a call on Monday that the plan was to probably have OSPREY go away before you close the merger, but MARLIN would stay 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, could you check (UI)?

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

CAUSEY - 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.

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

TICE - That was 140 million bucks?

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

TICE - 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?

MCMAHON - Uh...

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

MCMAHON - 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.

TICE - 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?

MCMAHON - 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.

TICE - 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?

MCMAHON - Yeah, I think it's fair to say equity is equity to the, uh, rating agencies.

TICE - 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?

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

TICE - 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.

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

TICE - 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?

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

WHALLEY - Excluding the preferred. Excluding the (UI)...

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

TICE - Just the physical assets.

MCMAHON - Right. That's correct.

TICE - Okay, great. Okay, thanks.

OPERATOR - 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,