DISCUSSION MATERIAL FOR

Project Condor

April, 1999

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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 (1 Billion?) 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. operating lease

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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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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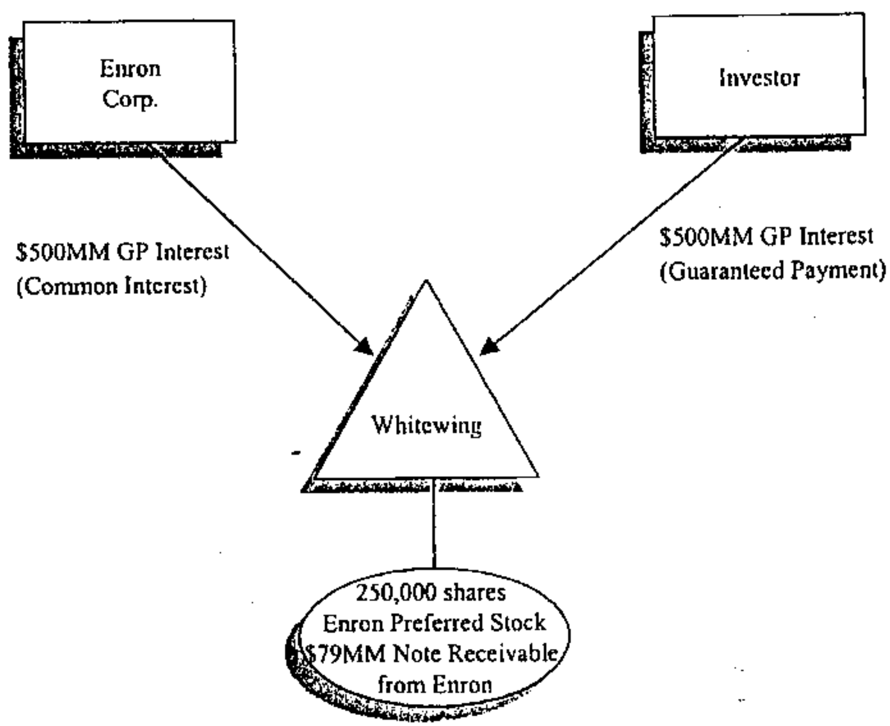
II. Transaction Structure

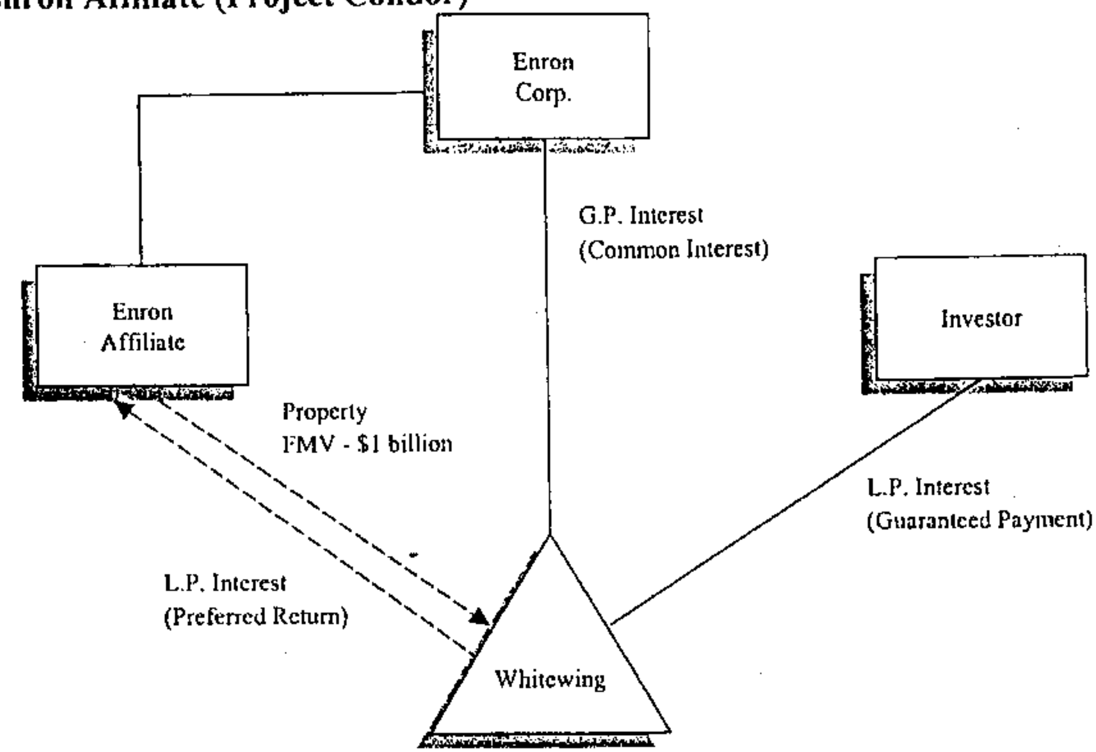
1. Current Structure (Project Nighthawk)



- 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.

II. Transaction Structure

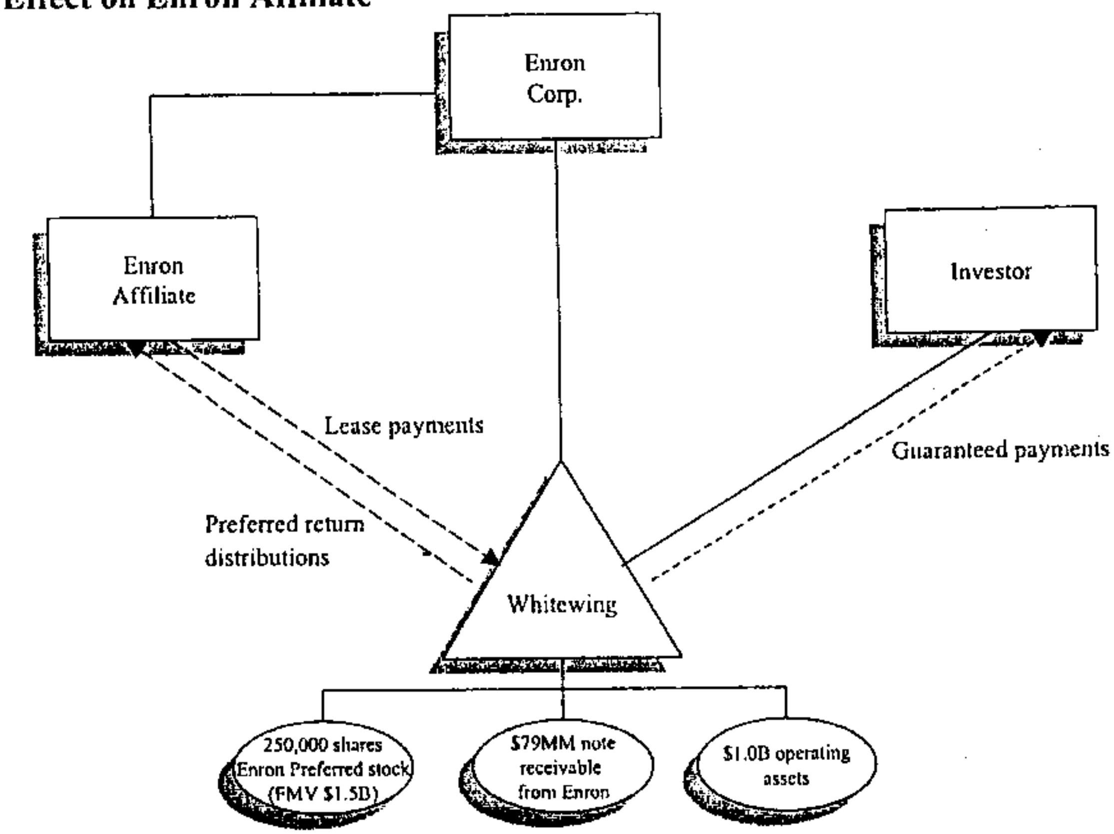
2. Admission of Enron Affiliate (Project Condor)



- 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.

II. Transaction Structure

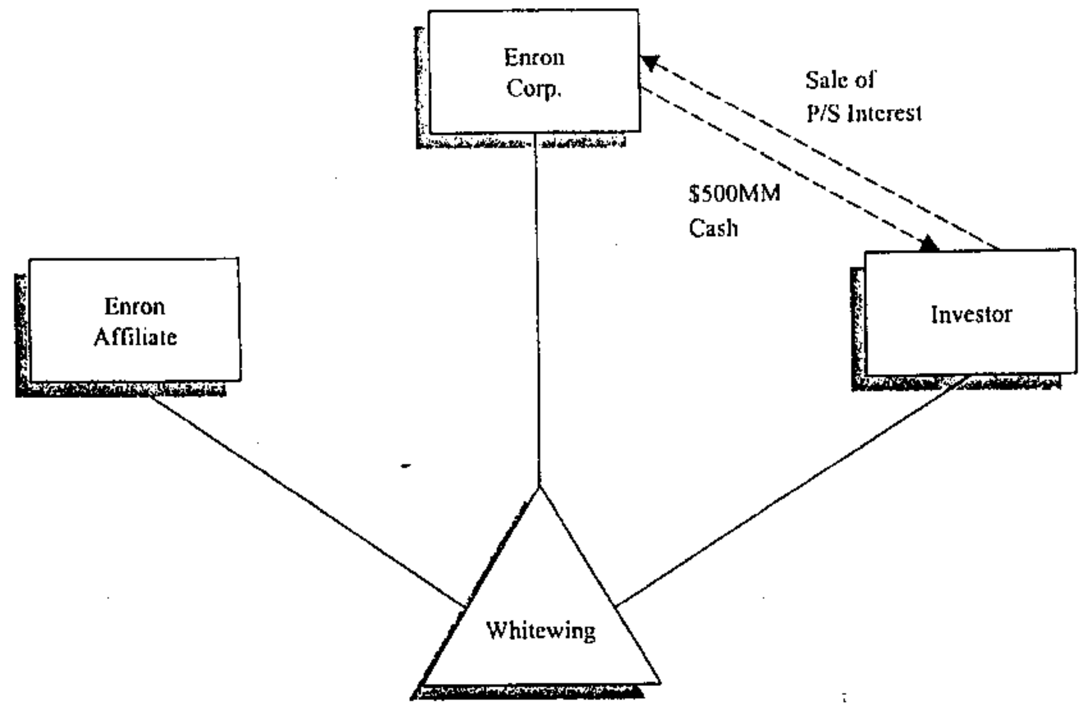
3. Transaction's Effect on Enron Affiliate



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

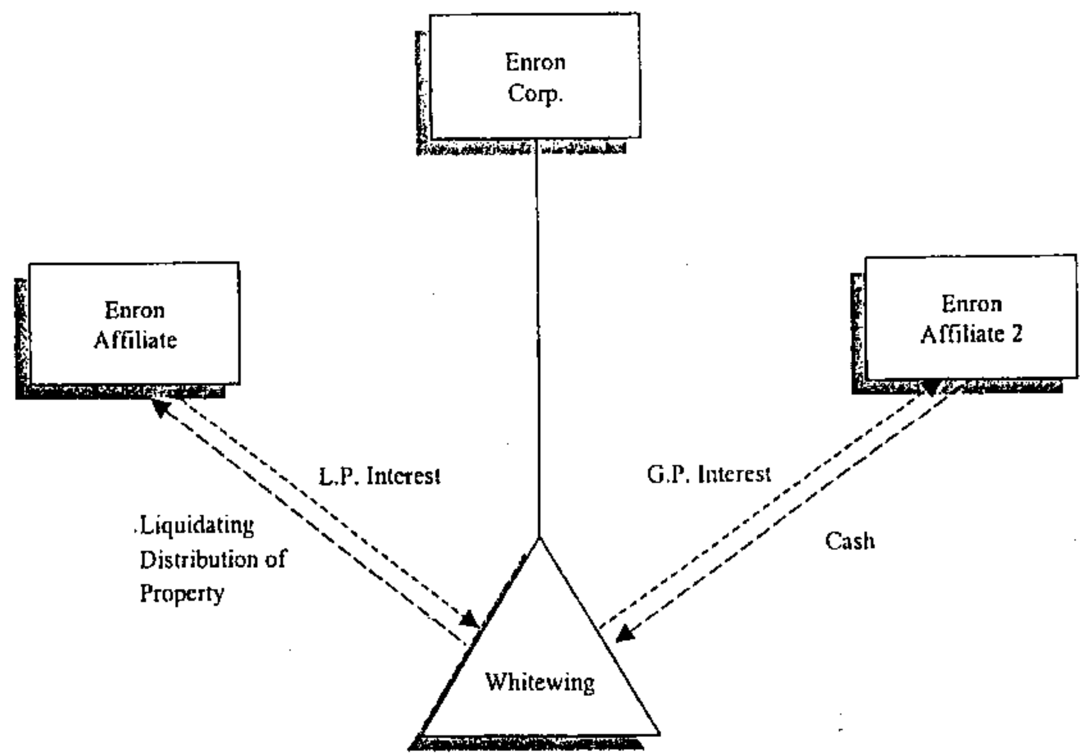
4. Purchase of Investor Interest



- 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.

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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III. Summary of Financial Impacts

Project Condor

Summary Projections of Cash Flow and Accounting Earnings

	Cash Position		Annual Accounting Earnings
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%.

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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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.

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