

XII. PROJECT RENEGADE

DISCUSSION MATERIAL FOR

Project Renegade

December 17, 1998

December 17, 1998

EC2 000037527

Table of Contents

	<u>Section</u>
EXECUTIVE SUMMARY.....	I
TRANSACTION STRUCTURE.....	II
CLOSING CASH FLOWS.....	III

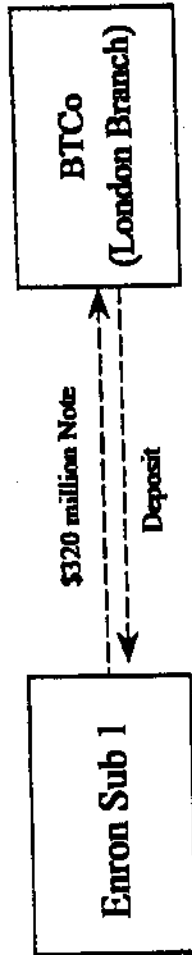
Bankers Trust makes no representation as to the legal, tax, or accounting consequences of this discussion material. All parties should rely on their own counsel, accountants, and other similar advisors for legal, tax, accounting and other similar advice.

I. Executive Summary

The transaction (the "Transaction") involves the use of a special purpose vehicle owned by Enron Corp. ("Enron") and Bankers Trust Company ("BTC") for the purpose of raising capital for Enron.

II. Transaction Structure

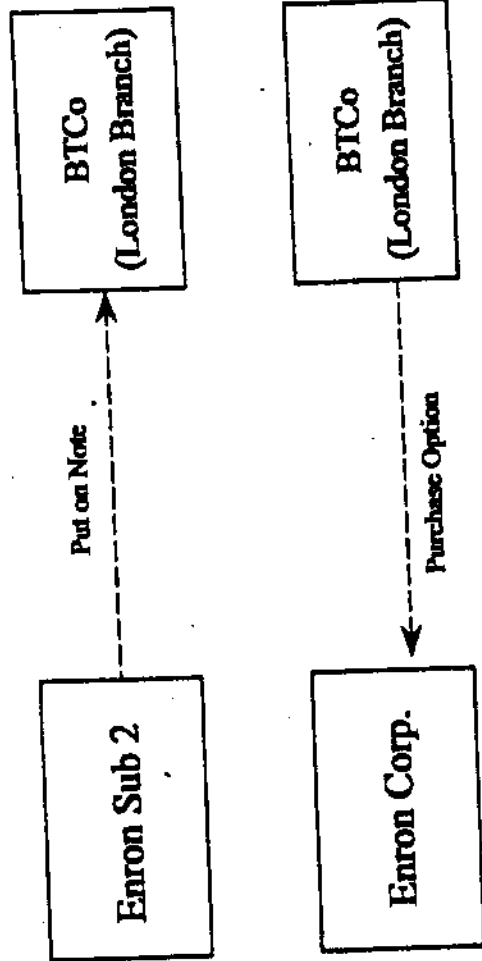
Dec. 23, 1998 - Step 1: Creation of Note



- BTCo (London Branch) loans \$320 million to a wholly-owned subsidiary of Enron ("Enron Sub 1") in exchange for a note of Enron Sub 1 (the "Note"). The Note will be a 25 year \$320 million bullet payment note that is entitled to cash flows which provide a [7.1907%] yield payable semi-annually. Payments under the Note will be guaranteed by Enron. The Note will be specifically assignable to a special purpose limited liability company which elects to be treated as a financial asset securitization investment trust (the "FASIT") subject to the written consent of Enron Sub 1.
- Enron Sub 1 puts the \$320 million Note proceeds on deposit with BTCo (London Branch). The deposit matures at close of business on December 31, 1998 and is not subject to withdrawal prior to the maturity date except for a transfer of funds to another Deposit Account for the benefit of another wholly-owned subsidiary of Enron ("Enron Sub 2"). Enron Sub 1 delivers instructions to BTCo (London Branch) instructing it to transfer approximately \$320,000,000 to a Deposit Account in the name of Enron Sub 2 on December 30, 1998.

II. Transaction Structure

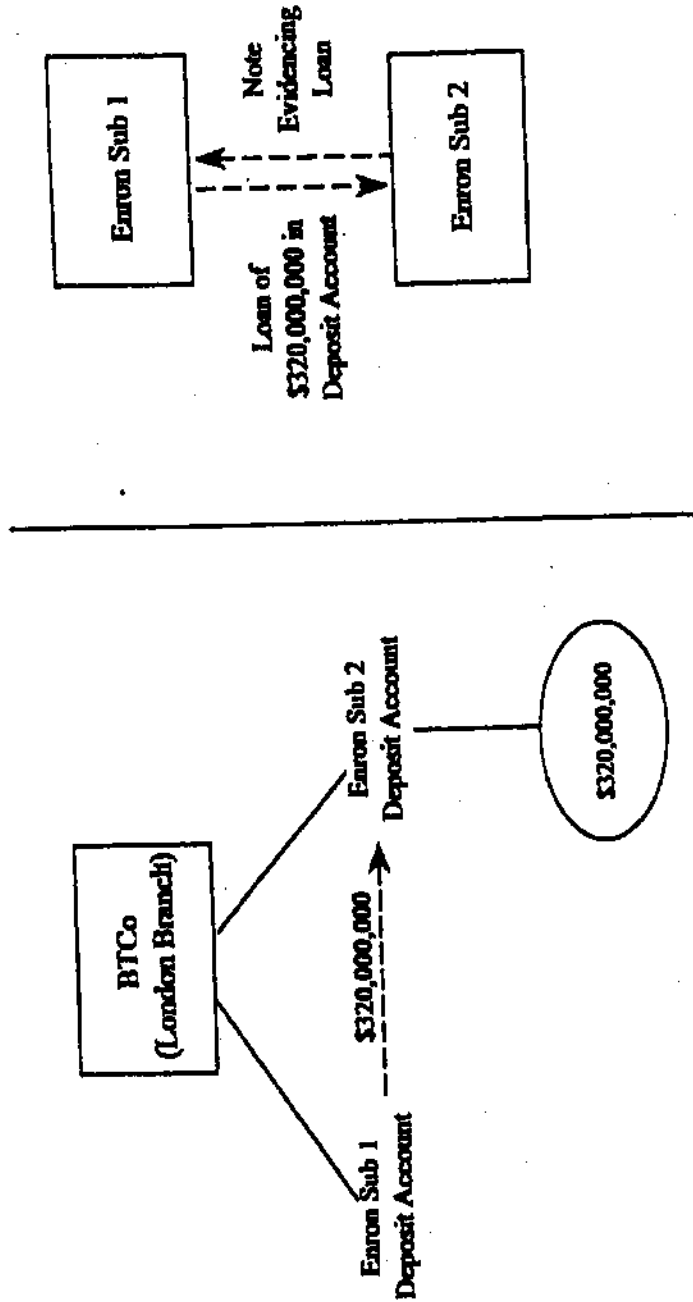
Dec. 23, 1998 - Step 2: Issuance of Put and Purchase Option



- Enron Sub 2 issues a put right (the "Put") to BTCo (London Branch) to put the Note to Enron Sub 2 on December 31, 1998 for cash equal to its principal amount plus accrued interest if such Note has not been assigned to the FASIT as of close of business on December 30, 1998.
- BTCo (London Branch) issues an option to purchase the Note (the "Purchase Option") to Enron Corp. which would require BTCo (London Branch) to sell the Note to Enron Corp. on December 31, 1998 for principal plus accrued interest if the Note has not been assigned to the FASIT as of close of business on December 30, 1998.

II. Transaction Structure

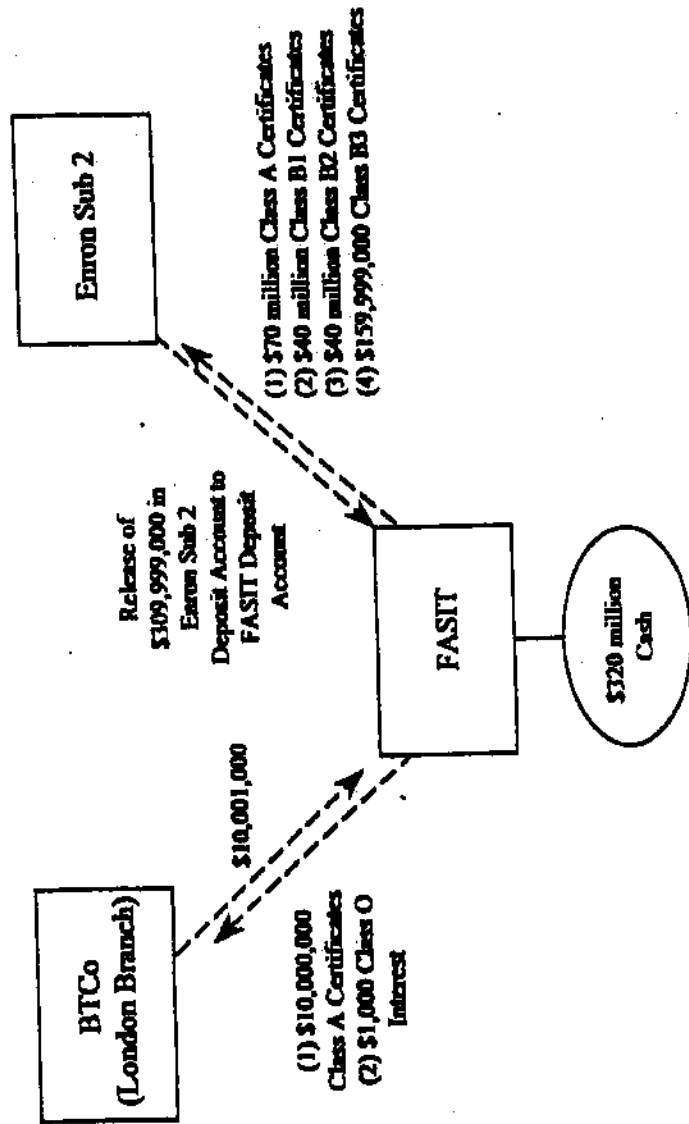
Dec. 30, 1998 - Step 1: Transfer of Funds between Enron Deposit Accounts



- BTCo (London Branch), pursuant to certain instructions delivered on Dec. 23, 1998, transfers \$320,000,000 from the Enron Sub 1 Deposit Account to the Enron Sub 2 Deposit Account. Enron Sub 1 and Enron Sub 2 enter into a loan arrangement with respect to this transfer of funds between deposit accounts.

II. Transaction Structure

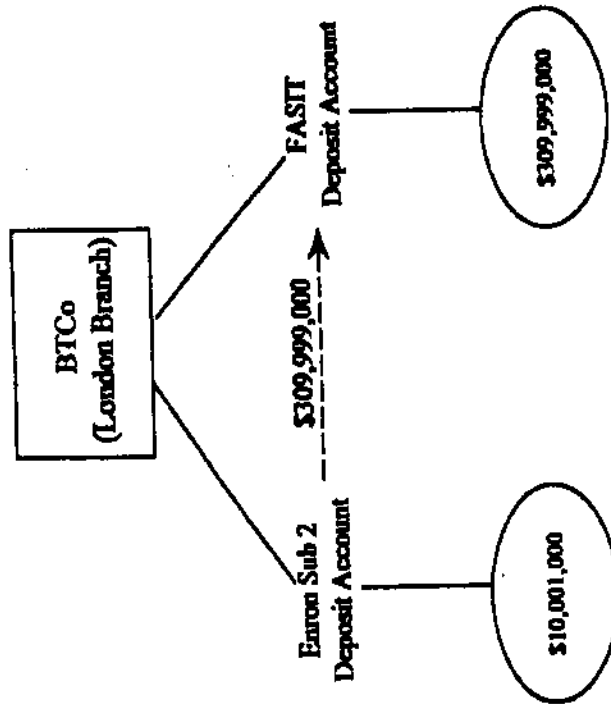
Dec. 30, 1998 - Step 2(a): Acquisition of FASIT Interests



- BTCo (London Branch) transfers \$10,001,000 cash to the FASIT in exchange for (1) \$10 million of Class A Certificates and a (2) \$1,000 Class O Ownership Interest. Enron Sub 2 instructs BTCo (London Branch) to transfer \$109,999,000 out of its Deposit Account to a Deposit Account of the FASIT in exchange for the transfer to Enron Sub 2 of (1) \$70 million of Class A Certificates, (2) \$40 million of Class B1 Certificates, (3) \$40 million of Class B2 Certificates and (4) \$159,999,000 of Class B3 Certificates.
- Enron Sub 2 also instructs BTCo (London Branch) to pay the remaining \$10,001,000 cash in its Deposit Account back to Enron Sub 2 on December 31, 1998 (See page [11] below).

II. Transaction Structure

Dec. 30, 1998 - Step 2(a) Continued: Acquisition of FASIT Interests



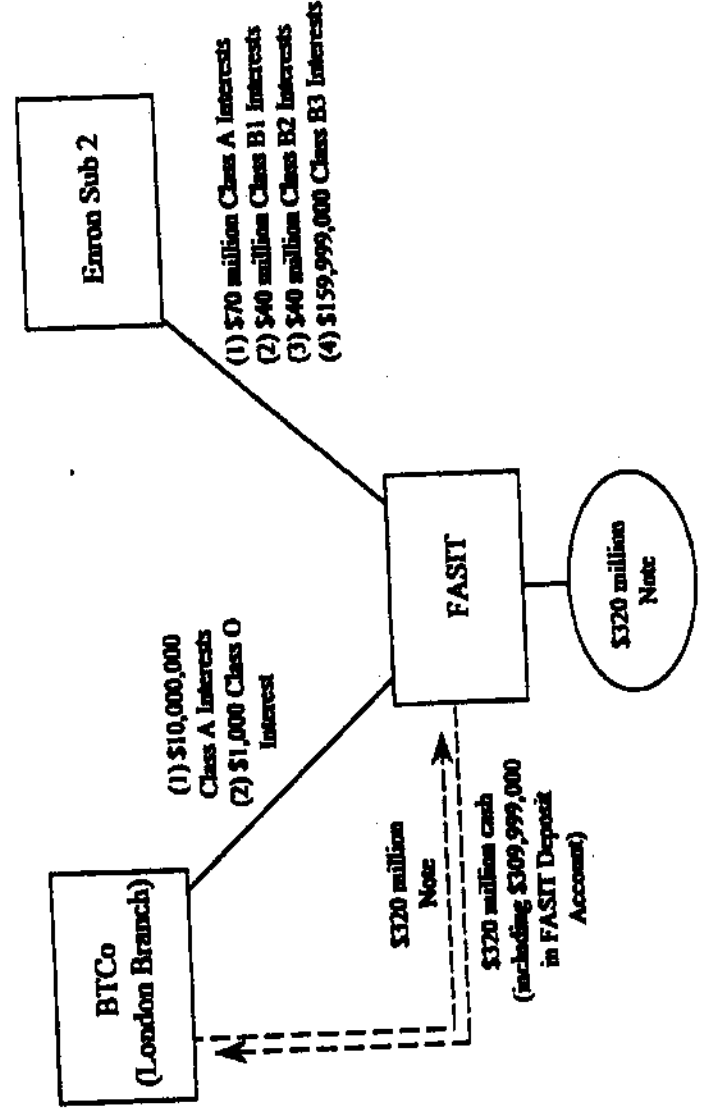
II. Transaction Structure

Dec. 30, 1998 - Step 2(a) Continued: Acquisition of FASIT Interests

- The Class A Certificates are entitled to cash flows which provide a ___% yield based upon an \$80 million fair market value (the "Class A Interest"). The Class A Interest is a "fast pay," self amortizing instrument;
- The Class B1 Certificates are entitled to cash flows which provide a ___% yield based upon a \$40 million fair market value (the "Class B1 Interest");
- The Class B2 Certificates are entitled to cash flows which provide a ___% yield based upon a \$40 million fair market value (the "Class B2 Interest");
- The Class B3 Certificates are entitled to cash flows which provide a ___% yield based upon a \$159,999,000 fair market value (the "Class B3 Interest"); [Note: During the period the Class A Interest is outstanding, there will be no interest or principal payments made on any other Certificate Interests. After all the Class A Interests are fully amortized, the Class B1, B2 and B3 Interests will be current coupon interests and have priority as described on page [15] below]; and
- The Class O Certificate with a fair market value of \$1,000 is entitled to the residual cash flows of the LLC (the "Class O Interest").
- The Class B3 Interest holds the entire voting rights of the LLC.
- The FASIT may only hold assets and can only engage in activities which are "bank eligible" for purposes of bank regulatory requirements.

II. Transaction Structure

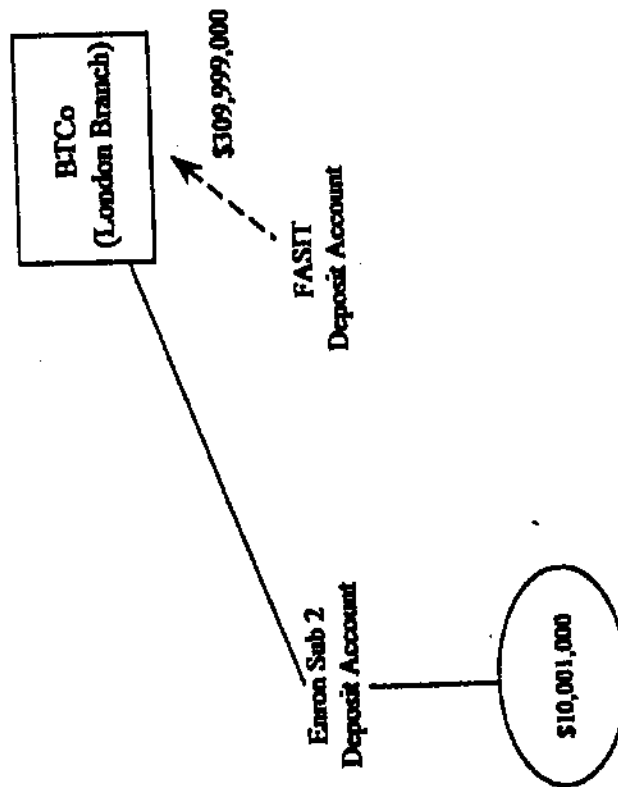
Dec. 30, 1998 - Step 2(b): Transfer of Note to FASIT



• BTCo (London Branch) transfers the \$320 million Note to the FASIT in exchange for \$320 million cash.

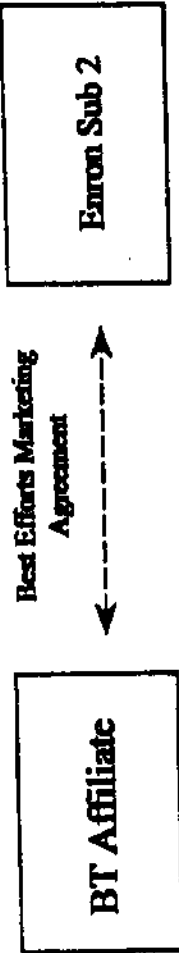
II. Transaction Structure

Dec. 30, 1998 - Step 2(b) (Continued): Transfer of Note to FASIT



II. Transaction Structure

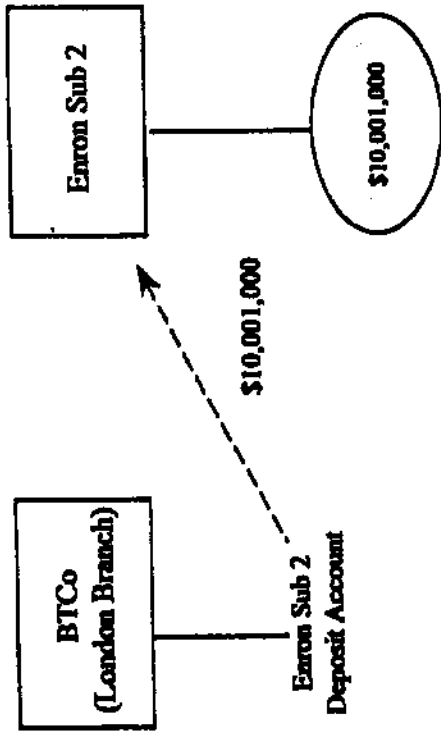
Dec. 30, 1998 - Step 3: Best Efforts Agreement



- An affiliate of BTCo (London Branch) will enter into a best efforts marketing agreement with Enron Sub 2 to attempt to sell the Class A Certificates in the market on behalf of Enron Sub 2. Such an agreement will have a 3 month effective period.

II. Transaction Structure

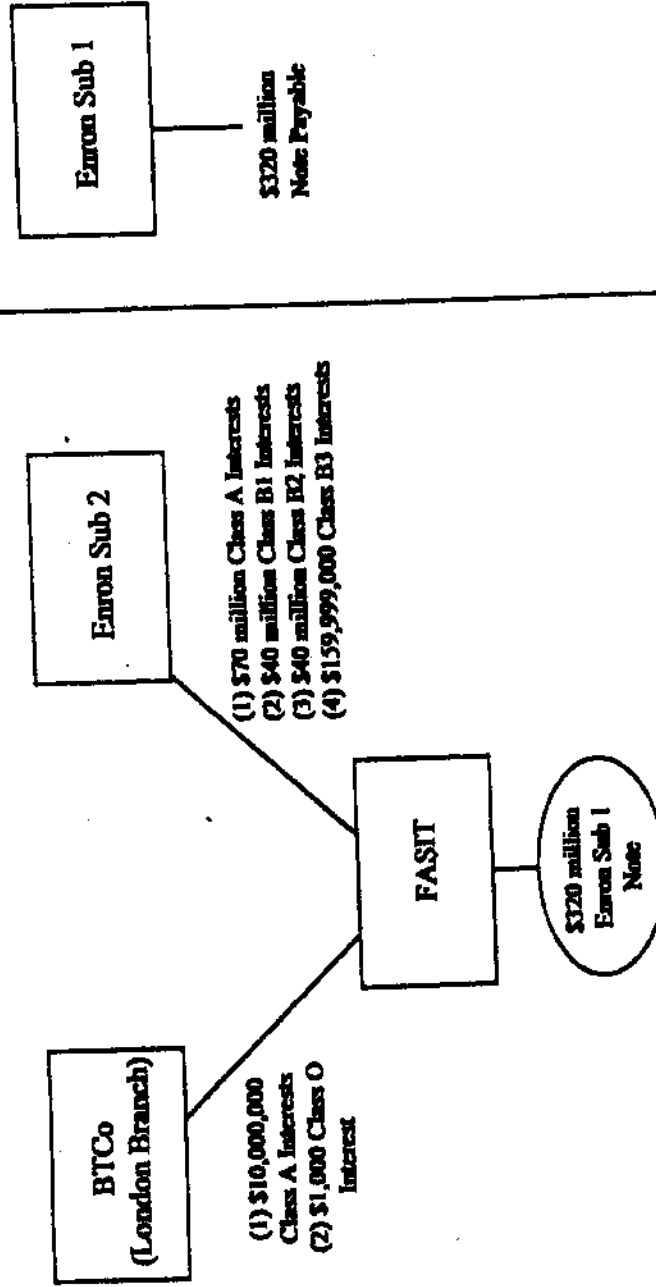
Dec. 31, 1998: Transfer of Enron Sub 2 Deposit Account



•BTCo (London Branch) transfers the remaining balance of approximately \$10,001,000 in the Enron Sub 2 Deposit Account out to Enron Sub 2.

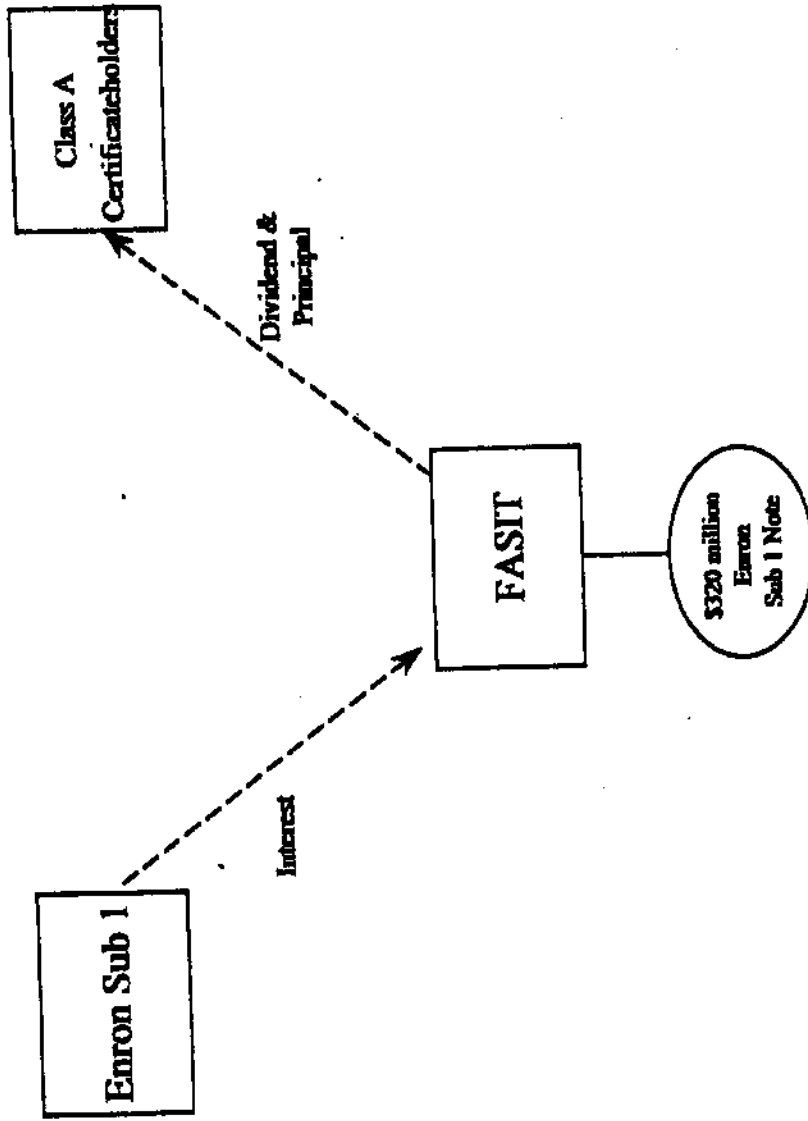
II. Transaction Structure

Dec. 31, 1998 - Resulting Structure



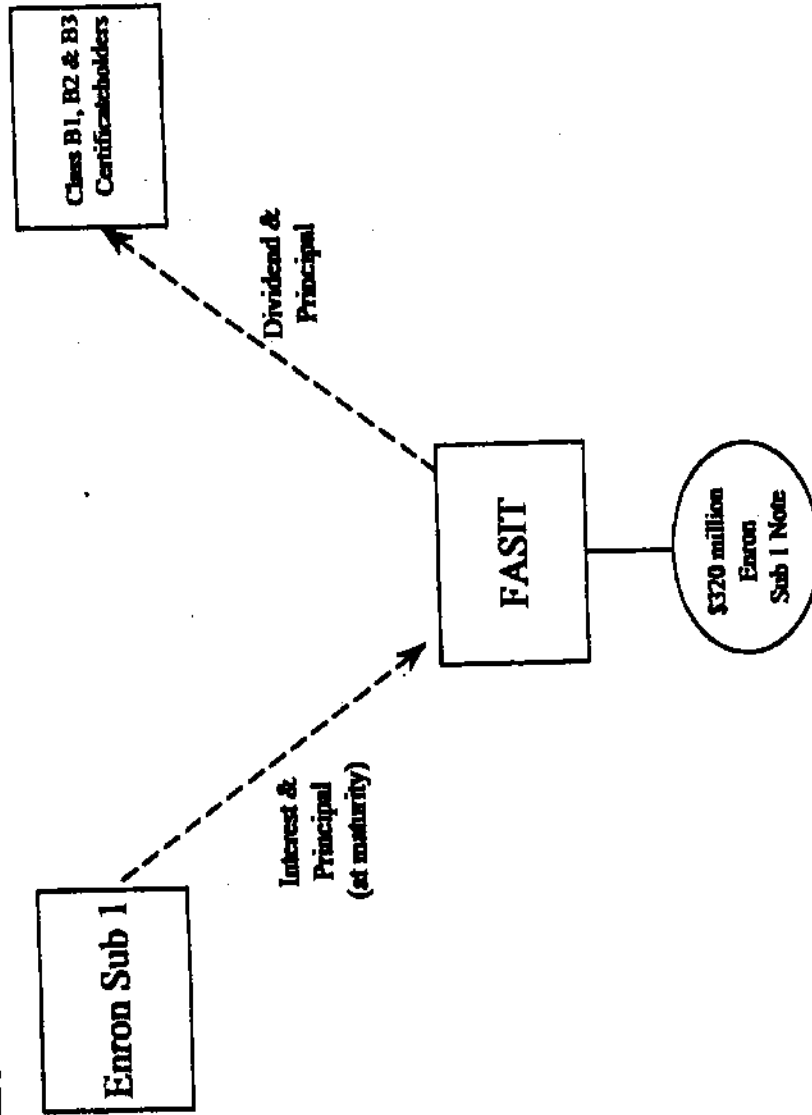
II. Transaction Structure

Operation of FASIT - During Existence of Class A Certificateholders



II. Transaction Structure

Operation of FASIT (Continued) - After all Class A Certificateholders are Fully Amortized



II. Transaction Structure

Operation of FASIT (continued)

- The cash flow generated by the FASIT from the interest on the Note during a semi-annual period and principal received at maturity will be used by the FASIT to fund the Certificate Interest Distribution Account of the Class A, B1, B2, B3 and O Interests in the following order:

- 1) the Current Yield on the Class A Interests;
- 2) the Principal Balance on the Class A Interests;
- 3) the Current Yield on the Class B1 Interests;
- 4) the Current Yield on the Class B2 Interests;
- 5) the Current Yield on the Class B3 Interests;
- 6) the Principal Balance on the Class B1 Interests;
- 7) the Principal Balance on the Class B2 Interests;
- 8) the Principal Balance on the Class B3 Interests; and
- 9) the Class O Interest

- The Current Yield for a semi-annual period is the Principal Balance multiplied by []%. In determining the Principal Balance for a semi-annual period for a particular class of Certificate Interests, the original principal amount is increased by the aggregate Yield in prior periods and decreased by any payments on such Certificate Interests in prior periods.

- The holder of the Class O Interest may not dispose of its interest if it has a material adverse affect on the then outstanding Class A and B Certificate holders without unanimous written consent of each Certificate holder who is materially affected. The Class B3 Certificate holder has a right of first refusal on any dispositions of the Class O Interest.

III. Closing Cash Flows

	BTCo (L/R)	FAST (Combined) FAST (Direct) Deposit Account	Enron Sub 1 (Combined) Enron Sub 1 (Direct) Deposit Account	Enron Sub 2 (Combined) Enron Sub 2 (Direct) Deposit Account	Total
12/31 - Step 1 Transfer into Enron Sub Deposit Account	(120,000,000)		120,000,000		0
12/30 - Step 1 Transfer between Enron Sub 1 to Enron Sub 2 Deposit Accounts			(320,000,000)	320,000,000	0
12/30 - Step 2(a) Transfer into FAST Deposit Account from Enron Sub 2 Account and Purchase of Class A and Class O Instruments by BTCo (L/R)	(10,001,000)	10,001,000 309,999,000		(309,999,000)	0
12/30 - Step 2(b) Transfer of Enron Sub 1 Note to FAST by BTCo (L/R)	320,000,000	(10,001,000) (309,999,000)		10,001,000 (10,001,000)	0
12/31 Transfer from Enron Sub 2 Deposit Account to Enron Sub 2					0
Total	(10,001,000)	0 0 0	0 0	10,001,000 0	0

TAX INDEMNITY AGREEMENT

THIS TAX INDEMNITY AGREEMENT, dated December 29, 1998 (this "*Indemnity Agreement*"), is between Bankers Trust Corporation, a New York corporation (together with its successors and assigns, "*BT Corp.*"), and Enron Finance Holdings Corp., a Delaware corporation (together with its successors and assigns, "*Enron*") BT Corp. and Enron are hereinafter collectively referred to as the "*Parties.*"

WITNESSETH:

WHEREAS, contemporaneously with the execution and delivery of this Agreement, Bankers Trust Company, acting through its branch office in London, England (the "*London Branch*"), and Enron are entering into the Limited Liability Company Agreement (the "*LLC Agreement*") of Wiltshire Financial Assets Company, LLC (the "*Company*"), dated December 29, 1998, by and among the London Branch, Enron and Bankers Trust International, P.L.C.;

WHEREAS, the Company has acquired a promissory note (the "*Underlying Security*") in the original principal amount of \$320,000,000 dated December 23, 1998, issued by ECT Equity Corp. ("*Enron Issuer*") as its principal asset; and

WHEREAS, the Parties think that it is appropriate to apportion the risk of certain uncertainties in the tax law regarding the tax treatment under provisions of the Internal Revenue Code (the "*Code*") that have not been subject to substantial interpretation.

NOW, THEREFORE, as a further inducement to the Parties to enter into the transactions contemplated by or described in the Transaction Documents (as defined in the LLC Agreement) and in consideration thereof and of the mutual covenants and agreements contained herein and therein, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I.

DEFINITIONS

SECTION 1st Definitions. Any term not otherwise defined herein shall have the meaning assigned to such term in the LLC Agreement. For purposes of this Indemnity Agreement, the following terms shall have the following meanings:

- (a) "*Assumptions*" shall have the meaning set forth in Section 2 hereof.
- (b) "*Charter Documents*" means (i) in the case of a corporation, its articles or certificate of incorporation and its bylaws; (ii) in the case of a partnership, its partnership certificate and its partnership agreement; and (iii) in the case of any other person, its organizational and governing documents; in each case, as such documents have been amended or supplemented from time to time.

(c) "**Governmental Authority**" means any Federal, state, county, municipal, regional, local, territorial and other governmental department, regulatory body, commission, board, bureau, agency, taxing authority or instrumentality, domestic, foreign or international.

(d) "**Knowledge**" of a party hereto shall be deemed to mean actual knowledge of the executive officer of such party who has active involvement in the negotiation of this Agreement or the transactions contemplated hereby, as of the date such representation or warranty is made or deemed to be made.

(e) "**Tax Jurisdiction**" shall mean all national, state, local, provincial, or municipal jurisdictions (or subdivisions or agencies thereof) that impose Taxes.

(f) "**Taxes**" shall mean any and all claims of any kind whatsoever that are in the nature of taxes or other governmental fees (including, without limitation, license and registration fees), assessments, levies, withholdings or charges of any nature (including, without limitation, income, gross receipts, franchise sales, rental, use, turnover, property (tangible and intangible), excise, and stamp taxes). "Taxes" shall not include any Taxes which are payable because of an action taken by Enron that increases the amount payable by BT Corp. under this Agreement, unless such action is taken in good faith and in pursuit of Enron's reasonable business needs.

ARTICLE II ASSUMPTIONS

SECTION 2.1 Assumptions. The Parties (and their Affiliates) have entered into the transactions contemplated by or described in the Transaction Documents based on the following assumptions (the "**Assumptions**"):

(a) Except to the extent that Enron Issuer takes any action with respect to the Underlying Security that causes interest accrued thereon to be capitalized or disallowed under relevant law in effect at the time of the action (not including any actions contemplated by the Transaction Documents), Enron Issuer (or any successor obligor) will be allowed an interest deduction from time-to-time equal to the periodic accruals of interest on the Underlying Security.

(b) With respect to the Class A Certificates and Class B Certificates held by Enron on the date hereof, Enron or any successor to such interests shall include in gross income during each Interest Accrual Period an amount of income, in the aggregate, no greater than the accruals of interest during such Interest Accrual Period on the respective Principal Balances of such Certificates pursuant to the terms of the LLC Agreement.

(c) The transfer of the Class O Certificate by the London Branch to any person will not result in income, gain or loss to Enron or to Enron Issuer, except, in the case of a transfer to Enron Issuer or a person related to Enron Issuer within the meaning of Section 108(e)(4) of the Code, to the extent of the excess of (i) the principal amount of the Underlying Security plus accrued but unpaid interest thereon for the Interest Accrual Period during which such transfer occurs over (ii) the aggregate of the Principal Balances of the Class A and Class B Certificates held by Enron plus accrued but unpaid interest thereon for the Interest Accrual Period during

which such transfer occurs plus any cash paid by the transferee to acquire the Class O Certificate.

(d) If a unanimous consent is given by the members of the Company to dissolve the Company for any reason, and in connection therewith (i) the Underlying Security is prepaid for an amount equal to its principal balance and accrued and unpaid interest thereon (not included in the principal balance), and (ii) the proceeds are distributed to the outstanding Certificate Holders in accordance with their rights under the LLC Agreement, then Enron Issuer will recognize no gain or loss as a result of such steps and Enron Purchaser would recognize income gain or loss only to the extent the cash proceeds received exceeded the sum of the principal balances and the accrued and unpaid interest (not included in the principal balances) of the Certificates held by it.

(e) No Taxes shall be imposed on the Company.

(f) None of Enron, Enron Issuer or any Affiliate thereof will realize or recognize income for U.S. federal income tax purposes upon the formation of the Company and the purchase by it of the Underlying Security.

(g) Enron's taxable gain (or loss), if any, on a sale or other disposition of the Class A or Class B Certificates held by Enron on the date hereof, will be no greater than (or less than) the taxable gain (or loss) that would be recognized if the Class A or Class B Certificates were not FASIT regular interests but instead were debt instruments with the same economic terms as the Class A or Class B Certificates.

(h) Prior to any purchase of the Class O Certificate by Enron or its Affiliates, none of Enron or its Affiliates shall be treated as the owner of an "ownership interest" within the meaning of the FASIT Provisions with respect to the Company.

(i) Except to the extent provided in the "except" clause in (c) above, the transfer of the Class O Certificate to an Affiliate of Enron will not result in income or gain to the transferee or Taxes being imposed on such transferee.

ARTICLE III.

REPRESENTATIONS OF THE PARTIES

SECTION 3.1 Representations of BT Corp.

(a) **Organization.** BT Corp. is a corporation validly existing and in good standing under the laws of the State of New York.

(b) **Due Authorization.** The execution, delivery, and performance by BT Corp. of this Indemnity Agreement:

- i. has been duly authorized by all necessary internal action of BT Corp. and does not require any approval or consent of or notice to any trustee or holders of any indebtedness or obligations of BT Corp., except for those that have been or, on or before the date this Indemnity Agreement has

been entered into, will have been, duly made, given or accomplished and those, which if not obtained or made, would not have a material adverse effect on BT Corp. or BT Corp.'s ability to consummate the transactions contemplated by this Indemnity Agreement;

- ii. does not conflict with or result in any violation of BT Corp.'s Charter Documents, any order or judgment applicable thereto or any law or regulation of the United States or the State of New York or conflict with, result in a violation of, or create a default under any agreement or instrument to which BT Corp. is a party or by which it or its properties or assets may be bound; and
- iii. does not require the authorization, consent or approval of, the giving of notice to, the registration with, or the taking of any other action by or in respect of any Governmental Authority, except for those that have been or, on or before the date this Indemnity Agreement has been entered into, will have been, duly made, given or accomplished and those, which if not obtained or made, would not have a material adverse effect on BT Corp. or BT Corp.'s ability to consummate the transactions contemplated by this Indemnity Agreement.

(c) **Due Execution.** This Indemnity Agreement has been duly executed and delivered by an officer of BT Corp.

(d) **Legal, Valid and Binding Obligations.** This Indemnity Agreement constitutes the legal, valid and binding obligation of BT Corp., enforceable against it in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, moratorium and other laws affecting the rights of creditors generally and by general principles of equity.

(e) **No Litigation.** There is no pending or, to the Knowledge of BT Corp. threatened, action or proceeding before any court, governmental agency or arbitrator by or against, or involving BT Corp. or its Affiliates which questions or challenges the validity or enforceability of this Indemnity Agreement or any action taken or to be taken by BT Corp. pursuant to this Indemnity Agreement or in connection with the transactions contemplated hereby.

SECTION 3.1 Representations of Enron.

(a) **Organization.** Enron is a corporation validly existing and in good standing under the laws of the State of Oregon.

(b) **Due Authorization.** The execution, delivery, and performance by Enron of this Indemnity Agreement:

- i. has been duly authorized by all necessary internal action of Enron and does not require any approval or consent of or notice to any trustee or holders of any indebtedness or obligations of Enron, except for those that have been or, on or before the date this Indemnity Agreement has been

entered into, will have been, duly made, given or accomplished and those, which if not obtained or made, would not have a material adverse effect on Enron or Enron's ability to consummate the transactions contemplated by this Indemnity Agreement;

- ii. does not conflict with or result in any violation of Enron's Charter Documents, any order or judgment applicable thereto or any law or regulation of the United States or the State of New York or conflict with, result in a violation of, or create a default under any agreement or instrument to which BT Corp. is a party or by which it or its properties or assets may be bound; and
- iii. does not require the authorization, consent or approval of, the giving of notice to, the registration with, or the taking of any other action by or in respect of any Governmental Authority, except for those that have been or, on or before the date this Indemnity Agreement has been entered into, will have been, duly made, given or accomplished and those, which if not obtained or made, would not have a material adverse effect on BT Corp. or BT Corp.'s ability to consummate the transactions contemplated by this Indemnity Agreement.

(c) **Due Execution.** This Indemnity Agreement has been duly executed and delivered by an officer of Enron.

(d) **Legal, Valid and Binding Obligations.** This Indemnity Agreement constitutes the legal, valid and binding obligation of Enron, enforceable against it in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, moratorium and other laws affecting the rights of creditors generally and by general principles of equity.

(e) **No Litigation.** There is no pending or, to the Knowledge of Enron threatened, action or proceeding before any court, governmental agency or arbitrator by or against, or involving Enron or its Affiliates which questions or challenges the validity or enforceability of this Indemnity Agreement or any action taken or to be taken by Enron pursuant to this Indemnity Agreement or in connection with the transactions contemplated hereby.

(f) **Certain Tax Matters.**

- (i) The balance sheet and income statement of Enron Issuer dated November 30, 1998, are true, correct and complete in all material respects;
- (ii) Enron Issuer will treat the Underlying Security as debt of Enron Issuer for all tax, regulatory and accounting purposes;
- (iii) Enron Purchaser will treat the Class A and Class B Certificates as debt for all federal income tax purposes; and

- (iv) While London Branch or any other Affiliate of BT Corp. holds the Class O Certificate, Enron will not hold itself out as owning the Class O Certificate issued by the Company.

ARTICLE IV.

TAXES INDEMNIFIED

SECTION 4.1 Assumption Indemnity. (a) BT Corp. will pay to Enron (and its Affiliates, including without limitation Enron Corp., an Oregon Corporation) (each an "*Indemnified Party*") the amount of Taxes deemed imposed by a Tax Jurisdiction on such Indemnified Party as a result of its participation in the transactions implemented pursuant to or the Transaction Documents or contemplated thereby, ("*Indemnified Tax*") including, without limitation, (i) the issuance, existence, transfer, and retirement of the Underlying Securities; (ii) the issuance, existence, transfer, and retirement of the Certificates; and (iii) the formation, existence, and dissolution of the Company, and its election to be treated as a FASIT and termination of such status, to the extent such Taxes are imposed on a basis that is inconsistent with the Assumptions. The amount of Taxes deemed imposed by a Tax Jurisdiction on a basis that is inconsistent with the Assumptions for any taxable year shall be determined (x) as if the relevant Indemnified Party (and any combined or consolidated group of which it is a member) were taxed at the highest marginal rate applicable to corporations in such jurisdiction (a "*Consolidated Basis*"), and (y) taking into account favorable variations from the Assumptions that would decrease the Taxes deemed imposed as a result of unfavorable variations from the Assumptions.

(b) BT Corp. will pay to the Company (also an Indemnified Party) the amount of Taxes actually imposed by a Tax Jurisdiction on such Indemnified Party.

SECTION 4.2 Penalties and Interest. (a) If penalties, additions to tax, and interest are actually imposed on an Indemnified Party (other than the Company), and the imposition of the penalties, additions to tax, or interest is attributable to a Tax that is imposed on a basis that is inconsistent with the Assumptions, BT Corp. will pay the Indemnified Party for the amount of penalties, additions to tax, and interest ("*Other Indemnified Amounts*") deemed to be imposed with respect to an Indemnified Tax under clause (x) above. The amount of penalties, additions to tax, and interest deemed to be imposed upon an Indemnified Party shall be determined on a Consolidated Basis. Other Indemnified Amounts shall not include any penalties, additions to tax, or interest due to Enron's failure to file any tax return required by law to be filed by Enron at the time such return is required to be filed.

(b) BT Corp. will pay the Company for the amount of penalties, additions to Tax and interest actually imposed on the Company (also "*Other Indemnified Amounts*").

SECTION 4.3 Amount of Payment, etc. BT Corp. will pay an Indemnified Party, with respect to the payment of Indemnified Taxes or Other Indemnified Amounts under this Indemnity Agreement, any amount necessary to hold the Indemnified Party harmless on an after-tax basis, after taking into account in the taxable year of payment any Taxes deemed payable by the Indemnified Party in respect of the receipt or accrual of such indemnification payment, and

any tax benefits deemed realized by the Indemnified Party from all deemed Taxes required to be paid by the Indemnified Party with respect to such payment or indemnity under the laws of any Tax Jurisdiction. The amount of any deemed tax consequences, Indemnified Tax, and tax benefits shall be determined on a Consolidated Basis.

SECTION 4.4 Procedures. Any amounts payable to an Indemnified Party pursuant to this Agreement shall be paid after the related Tax has been paid by an Indemnified Party, (A) within 30 days of the receipt by BT Corp. of a written demand by an Indemnified Party, for the Indemnified Tax, that contains a reasonably detailed description of the calculation of the Indemnified Tax, the computation of the amount so payable and the date on which the Indemnified Party paid the Indemnified Tax or (B) in the case of indemnity amounts which are being contested by the Indemnified Party pursuant to this Indemnity Agreement, within 30 days after the time such contest is finally resolved. Within 15 days following the receipt by BT Corp. of the computation of the amount of the indemnity under either (A) or (B) in the preceding sentence, BT Corp. may request that one of the five largest national accounting firms (which may not be the accounting firm that regularly prepares BT Corp.'s certified financial statements) determine whether such computations of the Indemnified Party are mathematically accurate and based on reasonable assumptions and in conformity with the provisions of this Agreement. Such accounting firm shall be requested to make its determination within 30 days. If such accounting firm shall determine that such computations are inaccurate, then such firm shall determine what it believes to be the appropriate computations. If the Indemnified Party does not agree with such firm's determination, then another national accounting firm, to be selected jointly by the Indemnified Party and BT Corp., or if they cannot agree, by the American Arbitration Association, from among the five largest national accounting firms, shall determine the appropriate computation. Such accounting firm shall be requested to make its determination within 30 days. All fees and expenses payable under this Section 4.4 shall be borne by BT Corp. Notwithstanding anything herein to the contrary, an Indemnified Party may make more than one request for payment under this Agreement with respect to any Tax imposed by a Tax Jurisdiction to the extent the amount of such Indemnified Tax is adjusted or redetermined from time to time.

SECTION 4.5 Contests. (a) If a claim by a Tax Jurisdiction ("Claim") is made against an Indemnified Party that could affect the amount of deemed Indemnifiable Taxes with respect to which BT Corp. could be liable for payment of indemnity hereunder, or if, an Indemnified Party makes a determination ("Determination") that an Indemnifiable Tax is due for which BT Corp. could have an indemnity obligation hereunder, the Indemnified Party shall, within 30 days of the notice of the Claim or the Determination, give BT Corp. notice in writing of the estimated amount of Indemnifiable Tax that would be due under this Indemnity Agreement if the Claim or Determination were upheld by a court, the basis for the Claim or Determination, and the notice, if any, of the Claim.

(b) In the case of a written Determination notice, BT Corp. may require that the Indemnified Party provide an opinion (at BT Corp.'s expense) of its own nationally recognized tax counsel which supports the Determination that an Indemnified Tax "should" be due. BT Corp. shall then be entitled to seek the opinion of its own nationally recognized tax counsel (at BT Corp.'s expense) with respect to the Determination. If, such counsel is unable to render an opinion that the Indemnified Tax "should" be due, then the parties shall agree on a third nationally recognized tax counsel. If such counsel concludes that an Indemnified Tax "should"

be due, then such conclusion shall be binding on BT Corp. If such counsel cannot conclude that an Indemnified Tax "should" be due, BT Corp. shall not be required to pay an amount under this agreement with respect to the Determination. The expenses of such tax counsel shall be paid by BT Corp. However, the total expenses of tax counsel attributable to the aggregate of expenses of the Indemnified Party's counsel or such third nationally recognized tax counsel with respect to rendering such opinions for which BT Corp. is liable shall not exceed \$100,000. Such expenses in excess of that amount shall be borne equally by the parties.

(c) In the case of a written Claim notice, the Indemnified Party shall control the contest. The Indemnified Party shall pursue the Contest in good faith, shall consult with BT Corp. regarding the contest, will consider in good faith any suggestions made by BT Corp. with respect to the means and methods of pursuing the contest, and shall use its best efforts to permit BT Corp. to participate in any administrative or judicial proceedings relating to such contest (but only with respect to issues that could affect the amount of Indemnified Taxes or Other Indemnified Amounts). The Indemnified Party shall have the right to settle any Contest on any terms it deems appropriate; provided, however, that no Indemnified Taxes and Other Indemnified Amounts payment shall be due with respect to issues so settled under this Agreement pursuant to this section unless the procedures and conditions described in (d), below, are met.

(d) In the event the Indemnified Party desires to settle any Contest, it shall notify BT Corp. in writing of its intent to effect such settlement ("Settlement Notice"). Upon receipt of a Settlement Notice BT Corp. shall be entitled to seek the opinion of its own nationally recognized tax counsel (at BT Corp.'s expense) with respect to the Indemnified Taxes described in the Settlement Notice. If, in such counsel's opinion, the Indemnified Party "should" be able to prevail on the issue that is the subject of the Settlement Notice ("Issue") then the Indemnified Party shall continue to contest the assessment or imposition of any relevant Taxes, at BT Corp.'s expense, as described in the three last sentences of this section (and if it does not do so it shall not be entitled to payment of Indemnified Taxes or Other Indemnified Amounts with respect to such Issue), unless the Indemnified Party provides (at BT Corp.'s expense) an opinion of its own nationally recognized tax counsel that it cannot conclude that the Indemnified Party "should" prevail on the Issue. If the Indemnified Party provides such an opinion, then the parties shall agree on a third nationally recognized tax counsel. If such counsel cannot conclude that the Indemnified Party "should" prevail on the Issue, then the Indemnified Party shall have the right to settle the Issue. If such counsel concludes that the Indemnified Party "should" prevail on the Issue, then (i) the Indemnified Party shall, in good faith and at the request of BT Corp., continue to contest the assessment or imposition of any relevant Taxes, at BT Corp.'s expense, through all administrative and judicial levels until a final determination is made or (ii) if the Indemnified Party settles the Issue, it shall not be entitled to payment of Indemnified Taxes or Other Indemnification Amounts arising from such Issue. The expenses of the Indemnified Party's tax counsel and the third tax counsel in rendering such opinions shall be paid by BT Corp. However, the total expenses of such two counsel paid by BT Corp. with respect to rendering such opinions shall not exceed \$100,000. Such expenses in excess of that amount shall be borne equally by the parties.

ARTICLE V.

MISCELLANEOUS PROVISIONS

SECTION 5.1 Amendment and Modification. This Agreement may be amended, modified, or supplemented only by written agreement of both of the Parties hereto.

SECTION 5.2 Waiver of Compliance; Consents. Any failure of a party to comply with any obligation, covenant, agreement, or condition herein may be waived by the other party; provided, however, that any such waiver may be made only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement, or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Indemnity Agreement requires or permits consent by or on behalf of any party hereto, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section 5.2, with appropriate notice in accordance with Section 5.7 of this Agreement.

SECTION 5.3 Assignment. This Indemnity Agreement and all of the provisions hereof shall be binding upon the Parties hereto and their respective successors and permitted assigns. Nothing in this Indemnity Agreement, expressed or implied, is intended or shall be construed to confer upon any person other than the Parties hereto, and their respective successors and assigns any right, remedy, or claim under or by reason of this Indemnity Agreement or any provision herein contained. Enron has the right to assign (and each successive assignee may further assign) its rights under this Indemnity Agreement to any person or entity, which such person or entity by acceptance of such assignment shall be deemed to assume all liabilities, indebtedness and obligations included in the rights assigned.

SECTION 5.4 Limitation of Liability. Except as expressly provided to the contrary herein, BT Corp. shall not be liable for the payment of Indemnified Taxes or Other Indemnified Amounts accruing after the date on which the London Branch (or any of its Affiliates) no longer holds the Class O Certificate. However, the preceding sentence shall not diminish or terminate the liability of BT Corp. hereunder to pay Indemnified Taxes, Other Indemnified Amounts or gross-up payments under Section 4.3 (a) as a result of an inconsistency with the Assumptions listed as Sections 2.1(d) or 3.1(i) hereof arising within the first sixty (60) days after the London Branch (or any Affiliate of BT Corp.) has ceased to own the Class O Certificate and (b) as a result of an inconsistency with any Assumption occurring within sixty (60) days after the date upon which the Class A Certificates are no longer held by anyone other than Enron (or any Affiliate of Enron).

SECTION 5.5 Governing Law. This Indemnity Agreement shall be governed by and construed in accordance with the laws of the State of New York (without regard to its conflicts of law doctrines).

SECTION 5.6 Counterparts. This Indemnity Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall

constitute one and the same instrument and shall become a binding agreement when one or more of the counterparts have been signed by each of the Parties and delivered to the other party.

SECTION 5.7 Notices. All notices, requests, demands and other communications required or permitted to be given or made hereunder by any party hereto shall be in writing and shall be deemed to have been duly given on the date delivered if personally delivered or on the third day following transmission if transmitted by a nationally recognized air courier or on the date transmitted by facsimile if the sender receives electronic confirmation of receipt of such facsimile, to the party to whom it is to be given at the address or facsimile number of such party set forth below or to such other address or facsimile number for notice as such party shall provide in writing pursuant to this Section 5.7:

If to BT Corp.:

Bankers Trust Corporation
One Bankers Trust Plaza
130 Liberty Street, 34th Floor
New York, NY 10006
Attention: Mr. Brian J. McGuire
Tel: (212) 250-1011
Fax: (212) 669-1793

with a copy to (such copy not to constitute notice):

Brown & Wood LLP
One World Trade Center
New York, New York 10048-9057
Attention: Gail G. Watson, Esq.

If to Enron:

Enron Finance Holdings Corp.
c/o Enron Corp.
1400 Smith Street
Houston, Texas 77002
Attention: General Counsel

with a copy to (such copy not to constitute notice):

Akin, Gump, Strauss, Hauer & Feld, L.L.P.
1333 New Hampshire Avenue, N.W., Suite 400
Washington, D.C. 20036
Attention: Michael S. Mandel, Esq.
Tel: (202) 887-4196
Fax: (202) 887-4288

SECTION 5.8 Headings. The article and section headings contained in this Indemnity Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Indemnity Agreement.

SECTION 5.9 Entire Agreement. This Indemnity Agreement embodies the entire agreement and understanding of the Parties hereto in respect of the subject matter contained herein. This Indemnity Agreement supersedes all prior agreements and understandings between the Parties with respect to such subject matter.

SECTION 5.10 Severability. If any one or more provisions contained in this Indemnity Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or, unenforceability shall not affect any other provision of this Indemnity Agreement, but this Indemnity Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

SECTION 5.11 Further Assurances. Each party to this Indemnity Agreement agrees to execute such documents or instruments, and to take such action, as the other party may reasonably request after the date hereof in order to effectuate and perfect the indemnification contemplated hereby.

SECTION 5.12 Third Party Beneficiary. The Company and the Affiliates of Enron are intended beneficiaries of this Indemnity Agreement.

SECTION 5.13 Controlling Agreement. To the extent there is any conflict between this Indemnity Agreement and the LLC Agreement, this Indemnity Agreement controls.

SECTION 5.14 No Duplicate Indemnity. To the extent an Indemnified Tax payable to the Company is otherwise actually indemnified by payment to the Company from the Common Member pursuant to the LLC Agreement, no duplicate payment shall be required hereunder of such amount received by the Company.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

BANKERS TRUST CORPORATION

By: John T. Wassworth
Name: JOHN T. WASSWORTH
Title: SENIOR VICE PRESIDENT

ENRON FINANCE HOLDINGS CORP.

By: _____
R. Davis Maxey
Vice President

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IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

BANKERS TRUST CORPORATION

By: _____
Name
Title

ENRON FINANCE HOLDINGS CORP.

By: R. D. Maxey
R. Davis Maxey
Vice President