I. BACKGROUND AND RATIONALE

Estimated Project Fees Paid To Date
6/4/2001

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

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

CONFIDENTIAL

ENRON CORP.
PRESENTATION TO THE JOINT COMMITTEE ON TAXATION

WASHINGTON, DC
June 7, 2002

TABLE OF CONTENTS

I. INTRODUCTION AND OVERVIEW

I. INTRODUCTION AND OVERVIEW

A. Scope

1. Broad overview of Enron's tax history.
2. Framework that may assist the Senate Finance Committee (SFC) and Joint Committee on Taxation (JCT) in their review.
   - (a) This presentation covers a substantial amount of information relating to Enron's tax history; however, it does not cover all activities, transactions, and issues that may be of interest to SFC and JCT.
   - (b) In addition, this presentation does not cover all issues raised by the Internal Revenue Service (IRS) during its previous and current examinations of the Company.
3. Enron Corp. Tax Department representatives have varying degrees of knowledge regarding the particular topics to be discussed.

B. <u>Decentralized Business Structure</u>

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

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

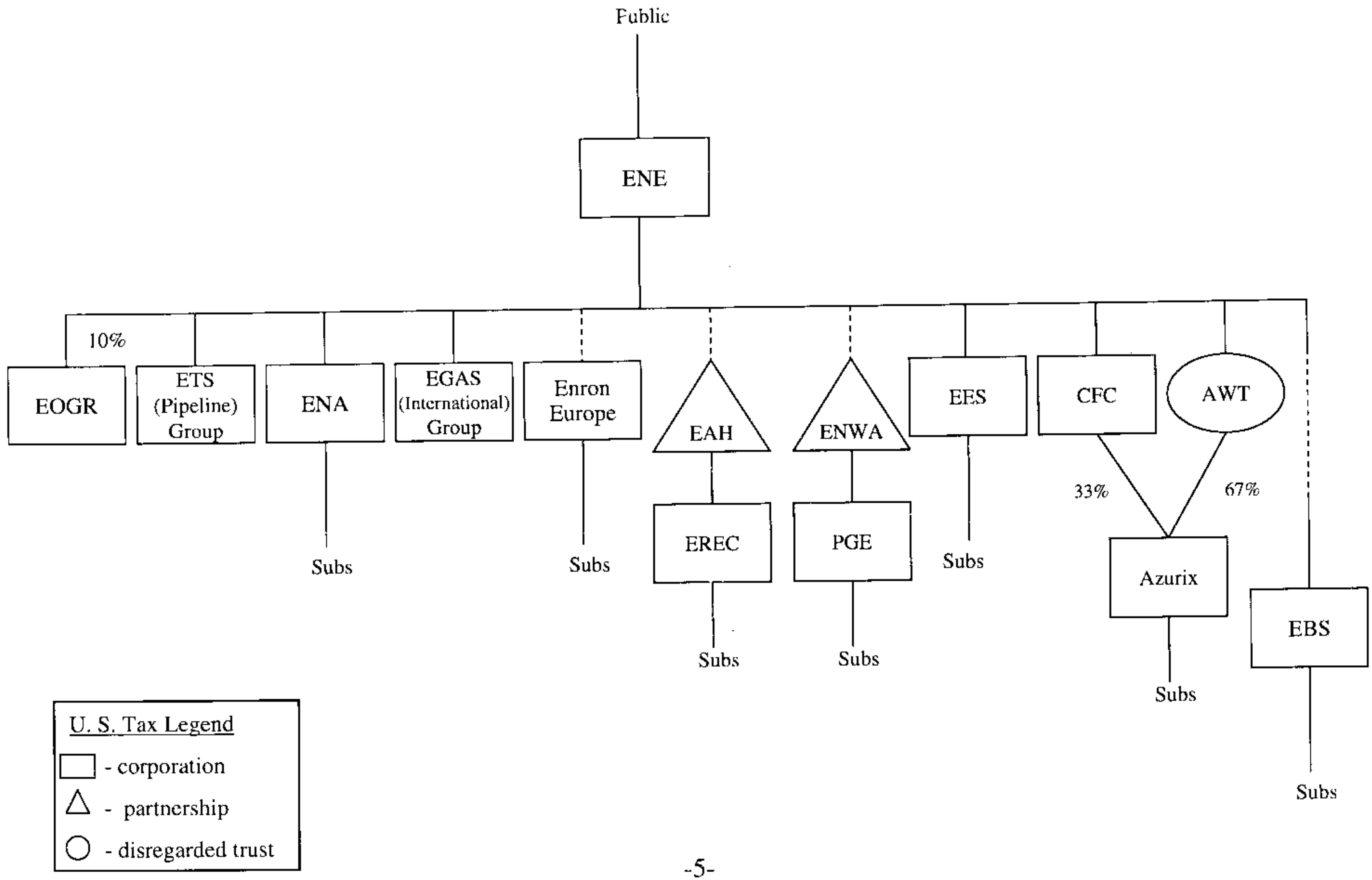
8. **Enron Renewable Energy (EREC or Wind, fka Zond) – acquired early 1997; wind farm developments; turbine manufacturing; substantially all of its assets recently sold to General Electric.**

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

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

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

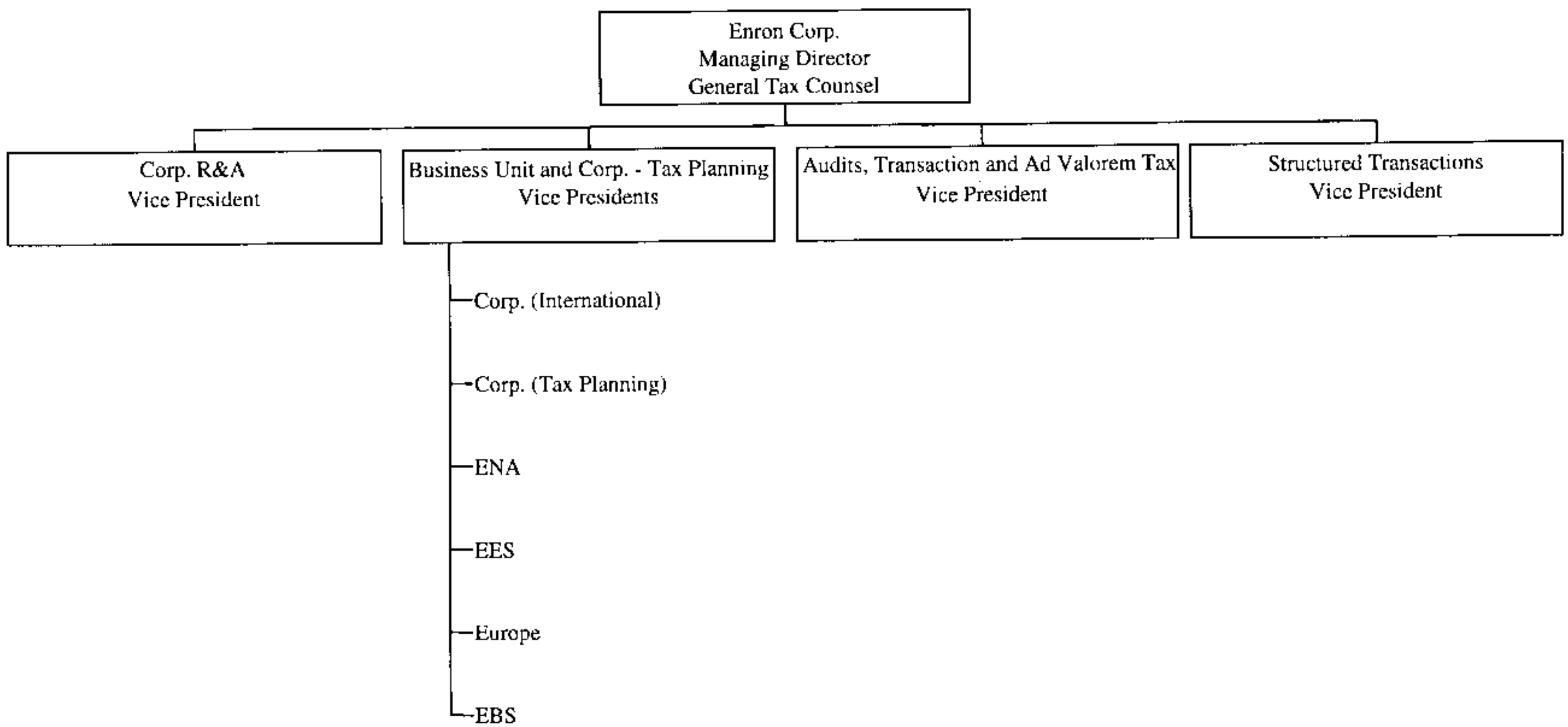
Simplified Structure – November 2001



C. Tax Department Organization

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

TAX DEPARTMENT ORGANIZATION
As of January 1, 2001



Enron Corp. Tax Department
Summary Headcount Analysis

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

*U. S. TAX RETURN STATISTICS **

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

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

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

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

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

<u>Notes</u>:

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

II. TAX SUMMARY

A. Significant Pre-1996 Tax Items

1. Take-or-Pay on Gas Purchase Contracts

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

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

2. Section 29 Credits

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

3. Mark-to-Market (MTM) Accounting

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

   (b) Tax reported on an accrual basis.

4. Teesside

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

   (b) Began operating in 1993.

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

5. MIPS – <u>See</u> Section IV. F. 1.

6. Enron Management, Inc. (Project Tanya)

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

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

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

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

B. Post-1995 Tax Position

1.

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

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

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

2. Chiricahua Partnerships (Project NOLy)

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

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

(c) NOLy structure unwound in December 2001.

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

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

3.

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

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

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

4. Anticipated §6405 Refund Claims

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

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

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

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

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

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

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

A. Overview

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

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

3. Similar book-tax differences existed for 2001.

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

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

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

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

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

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

C. Constructive Sale – 1996-2001 Adjustment net zero

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

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

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

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

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

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

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

E. <u>Depreciation</u> – 1996-2000 Adjustment $466 million decrease

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

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

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

F. <u>Interest Expense</u> – 1996-2000 Adjustment $190 million decrease

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

G. **<u>Corporate-Owned Life Insurance</u> – 1996-2000 Adjustment $125 million decrease**

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

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

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

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

H. **<u>Tax-Free Transactions</u>**

1. **PGE**

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

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

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

2. EOG

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

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

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

I. <u>Securitizations</u> – 1996-2000 Adjustment $1.2 billion decrease

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

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

J. <u>Partnerships</u>

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

K. <u>Foreign Income</u>

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

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

L. <u>Liability Management Transactions</u>

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

2. ECT Strategic Value Corp. (Project Valor)

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

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

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

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

M. <u>Carryover Tax Basis Transactions</u> – 1996-2001 Adjustment $110 million decrease

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

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

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

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

2. Maliseet Properties, Inc. (Project Cochise)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

O. Structured Financings – 1996-2001 Adjustment $180 million decrease

1. Cherokee Finance VOF (Project Apache)

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

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

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

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

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

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

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

3. Enron Valkyrie, LLC (Project Valhalla)

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

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

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

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

   (b) No book-tax differences.

IV. FINANCINGS

IV. FINANCINGS

A. Public Debt

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

B. Revolver

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

C. <u>Prepays</u>

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

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

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

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

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

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

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

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

D. Securitizations

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

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

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

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

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

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

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

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

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

E. Off-Balance Sheet Debt

1. Book consolidation generally required if Enron held more than 50% of vote or 80% of value of an entity.

2. Tax characterization of the structures determined using general tax principles.

3. Domestic off-balance sheet projects:

(a) Typically structured as a partnership for tax; and

(b) Partnership interest expense flows through to partners based on sharing ratios.

(c) The more significant domestic off-balance sheet structures are discussed in items 4 – 7 below.

4. JEDI I: Limited partnership between Enron-affiliate and third party investor, ChewCo. Primary assets held were 12 million shares of Enron Corp. stock and equity interests in Mariner Energy, Inc., Hanover Compressor, and CGAS, Inc.

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

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

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

(a) Not consolidated for financial statement purposes.

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

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

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

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

(c) Whitewing not consolidated for financial statement purposes.

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

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

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

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

8. **Foreign off-balance sheet projects – <u>See</u> Section VI. D. 1.**

F. <u>Minority Interest Financings</u>

1. **MIPS**

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

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

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

(d) Rating agencies give some equity credit.

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

2. TOPrS

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

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

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

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

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

(b) Book accounting as "Minority Interest".

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

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

V. LJM TRANSACTIONS

V. LJM TRANSACTIONS

A. Overview

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

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

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

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

B. Rhythms Stock Hedge

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

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

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

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

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

C. Raptors

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

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

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

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

VI. INTERNATIONAL OPERATIONS

VI. INTERNATIONAL OPERATIONS

A. Overview

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

B. Infrastructure Projects

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

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

(a) **Flow-through**

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

(b) **High-tax**

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

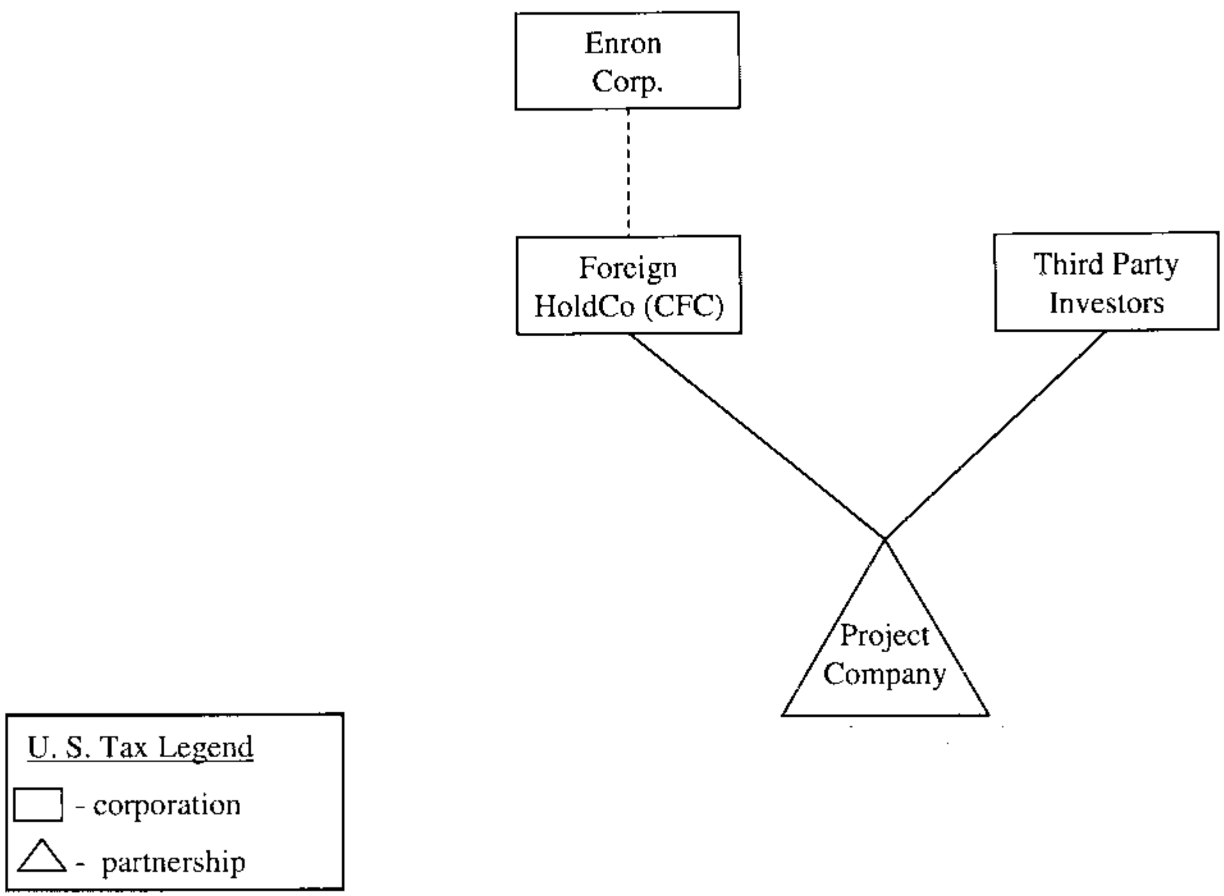
(c) **Same country**

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

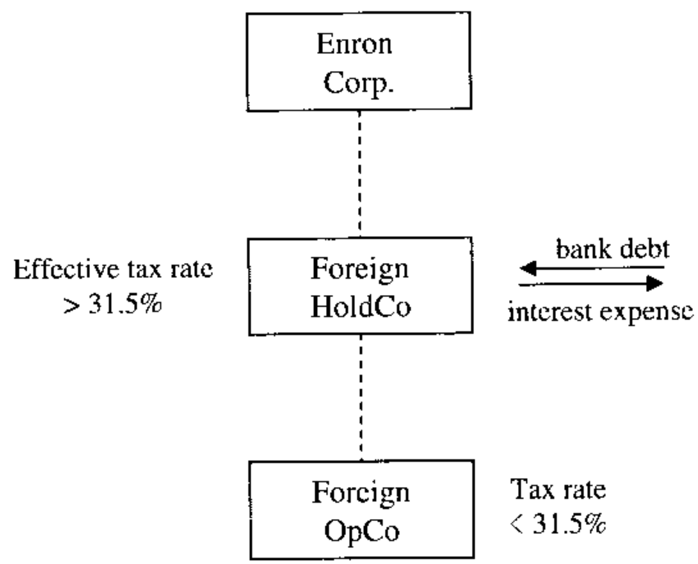
(d) Non-deferral

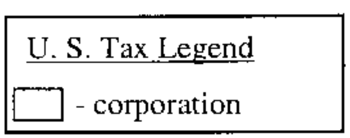
- **Foreign OpCo's E&P tax rate <31.5%.**
- **Foreign OpCo and Foreign HoldCo not incorporated in same country.**
- **Foreign OpCo is not a CFC.**
- **Dividend from Foreign OpCo to Foreign HoldCo is Subpart F FPHCI.**

Typical Flow-Through Structure

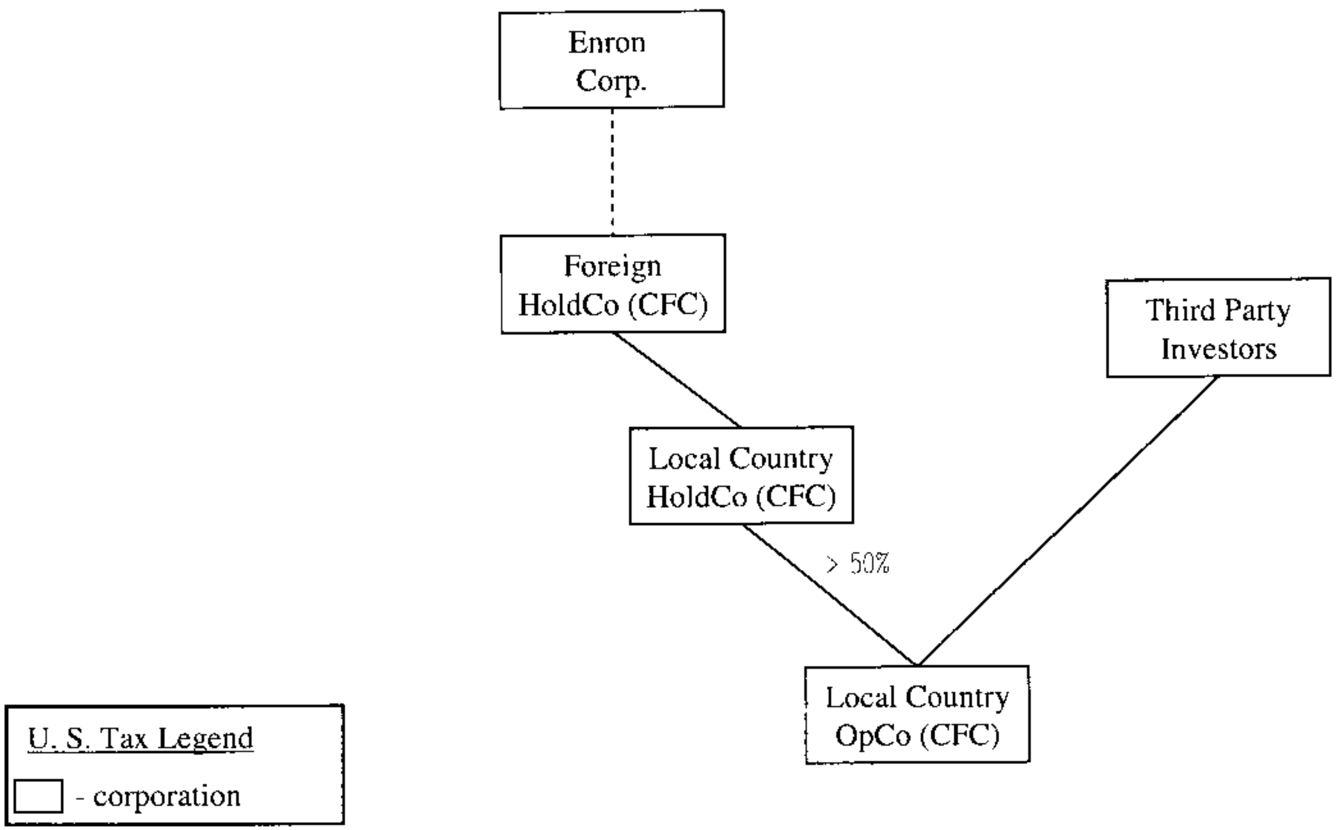


Typical High-Tax Structure

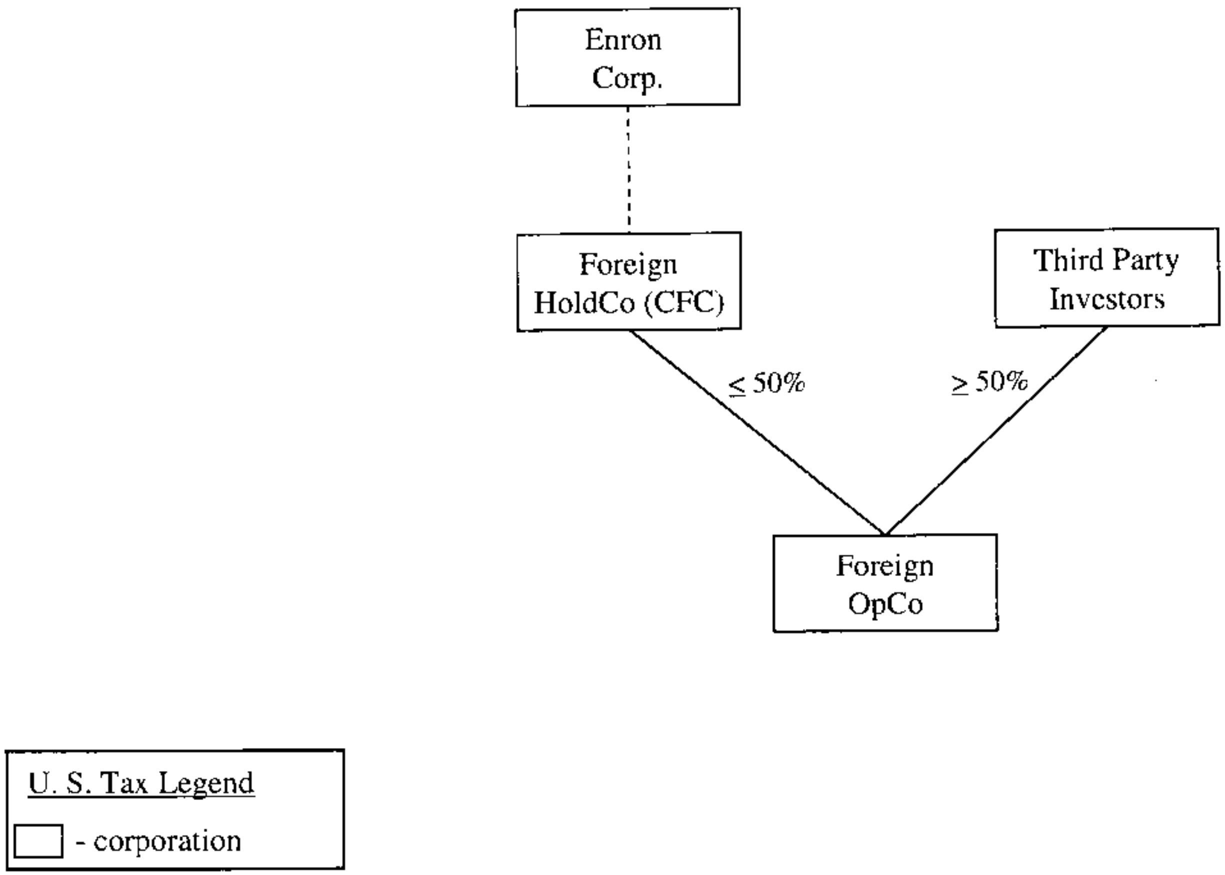




Typical Same Country Structure



Typical Non-Deferral Structure



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

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

Enron International Infrastructure Assets

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

C. Commodity Trading

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

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

   (a) **natural gas;**

   (b) **electricity;**

   (c) **coal;**

   (d) **oil;**

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

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

3. **Potential Subpart F Application:**

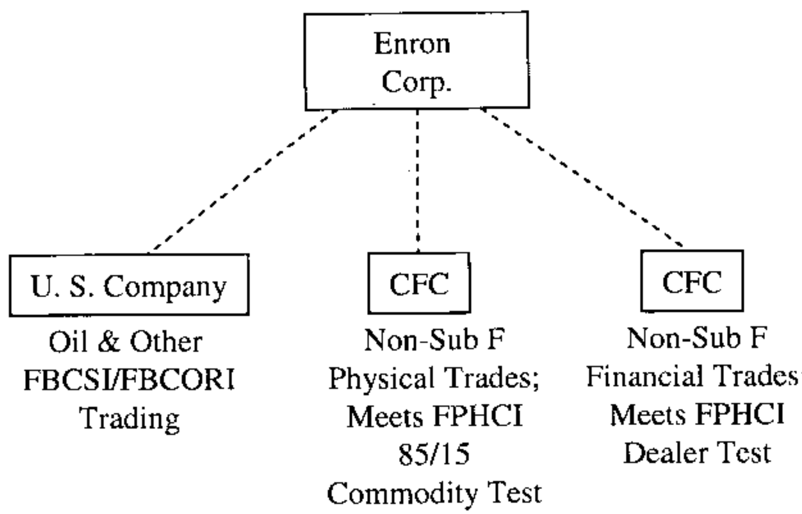
   (a) **Foreign Personal Holding Company Income (FPHCI);**

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

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

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

Commodity Trading – Simplified Structure



U. S. Tax Legend

☐ - corporation

D. <u>Financings</u>

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

E. Other

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

VII. REGISTERED TAX SHELTERS AND LISTED TRANSACTIONS

VII. REGISTERED TAX SHELTERS AND LISTED TRANSACTIONS

A. § 6111(c) Tax Shelters

1. Renewable Energy Partnerships

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

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

2. Master Limited Partnerships (MLP)

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

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

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

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

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

1. **No § 6111(d) tax shelters.**
2. **The only Enron transactions described as "listed transactions" in Notice 2001-51 are two transactions undertaken in 1995 and 1996 (i.e., Projects Tanya and Valor).**

XIII. EFFECTIVE TAX RATE

XIII. EFFECTIVE TAX RATE

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

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

<u>See</u> footnote 5 to Enron's 2000 Annual Report.

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

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

D. Impact of "structured transactions" on the ETR

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

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

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

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

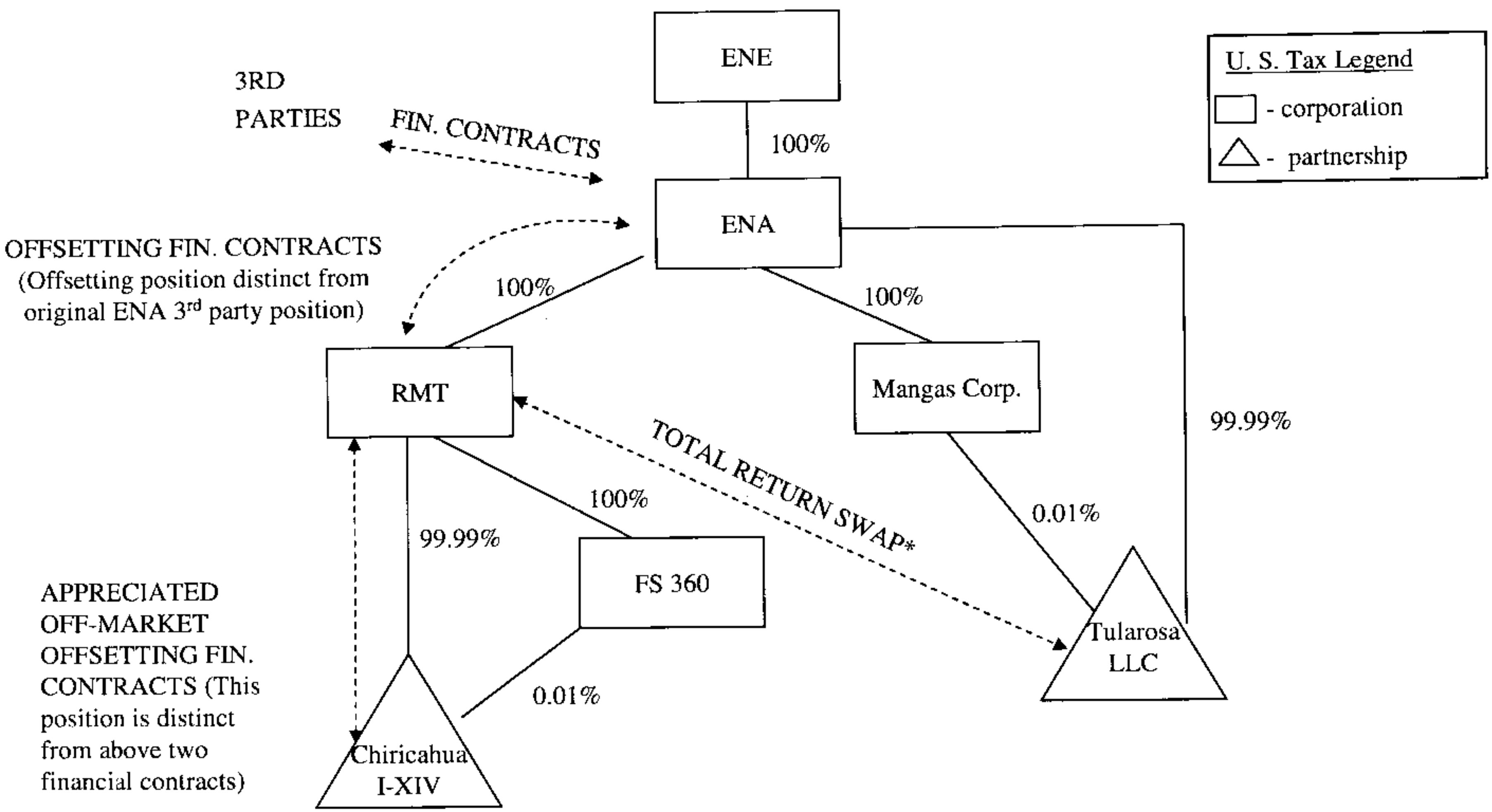
(c) 4 transactions – No tax return impact.

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

APPENDIX

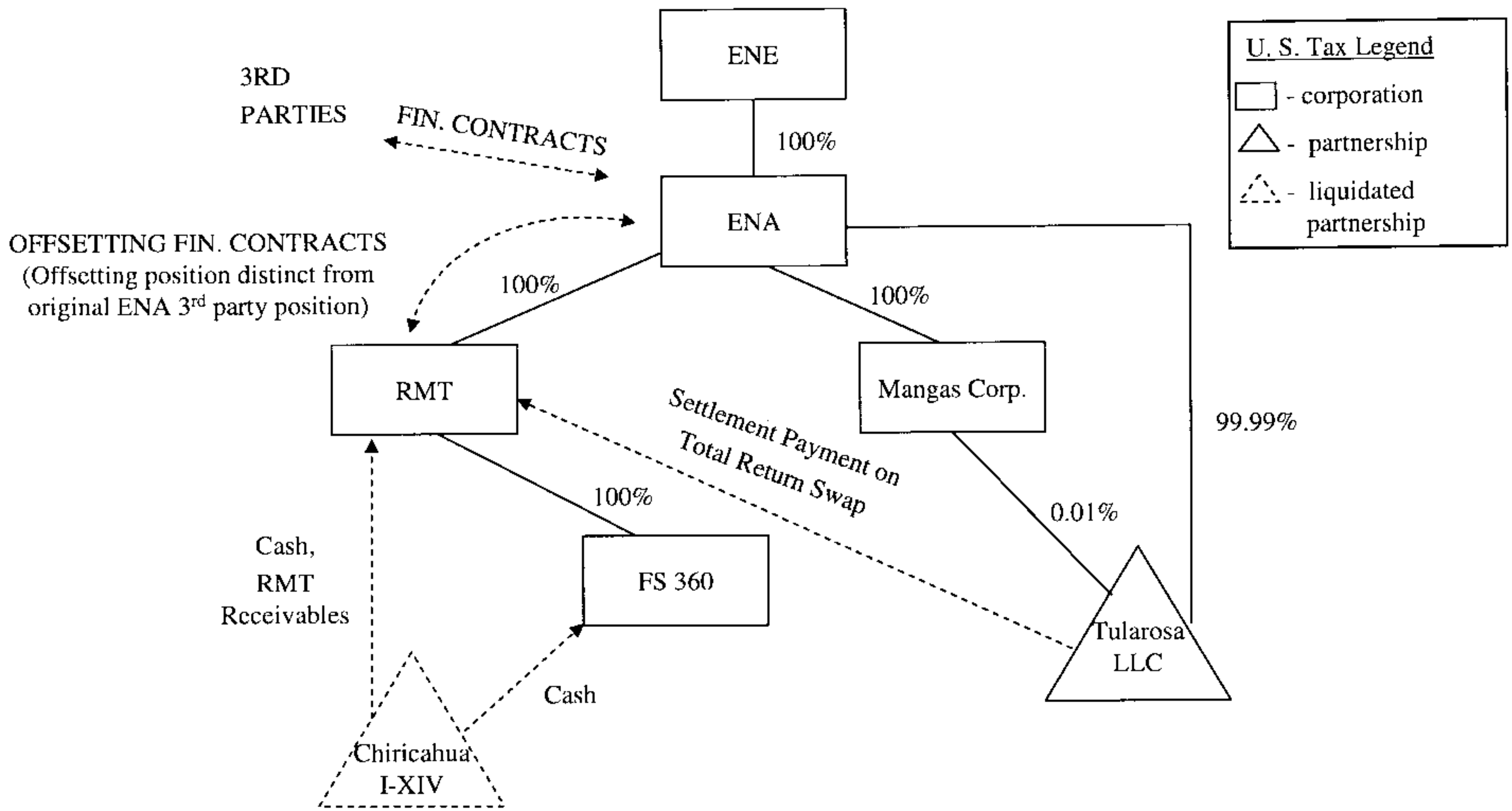
Confidential

Project NOLy – December 2000



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

Project NOLy Unwind – December 2001



A- 2

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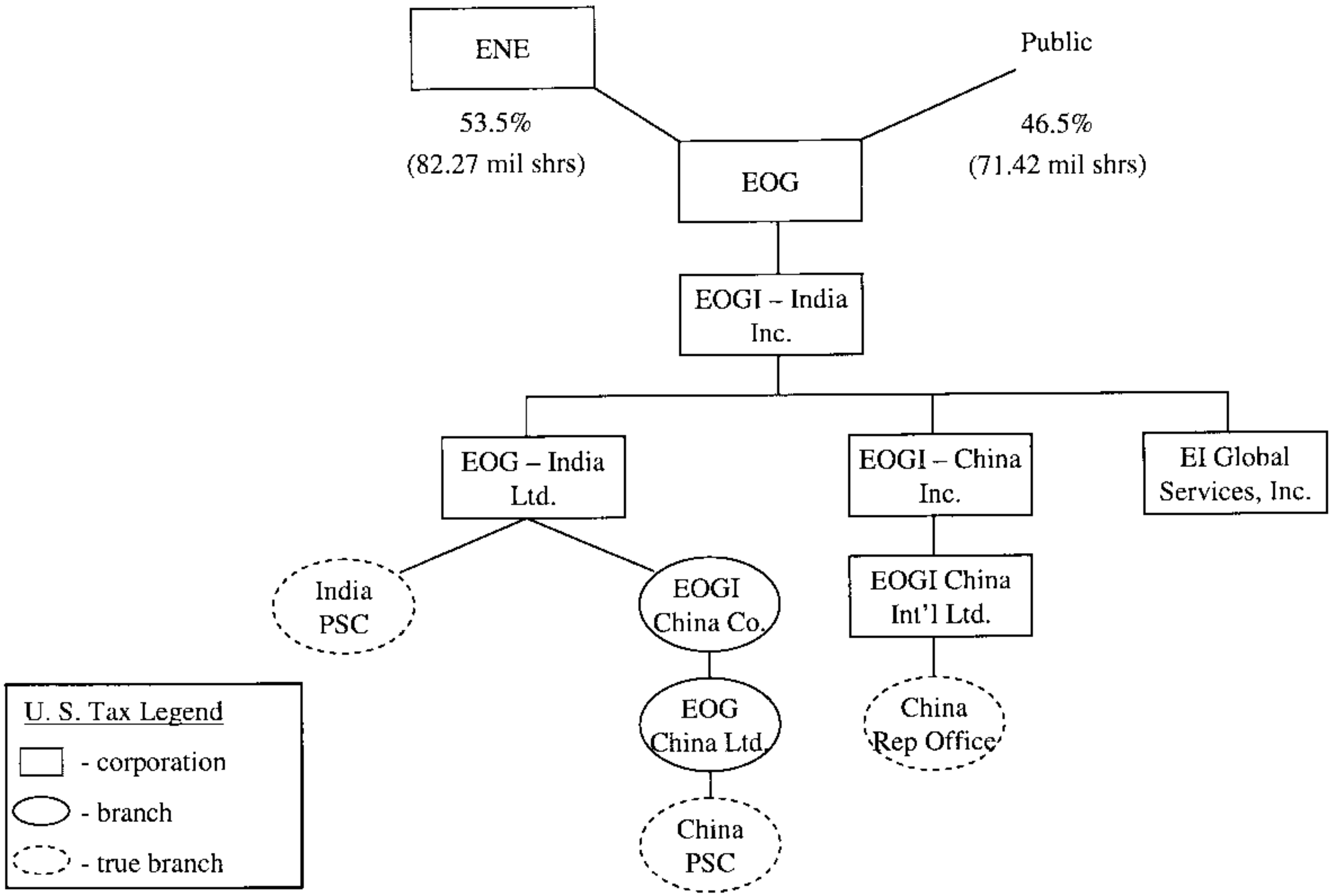
EOG Split-off
U. S. Tax Structure Immediately before the Share Exchange Closing



A- 3

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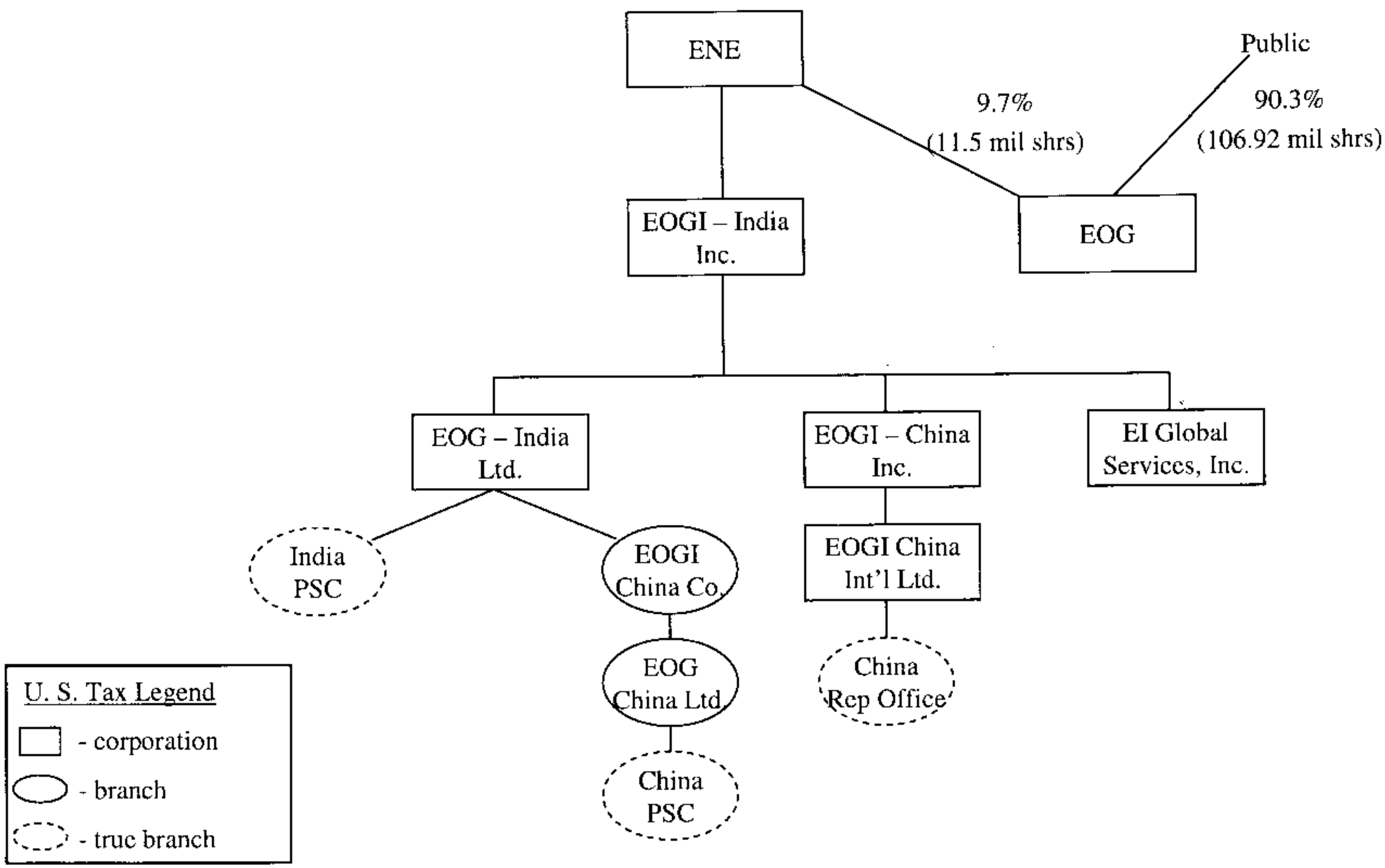
EOG Split-off
U. S. Tax Structure after the Share Exchange and EOG Stock Offering



A- 4

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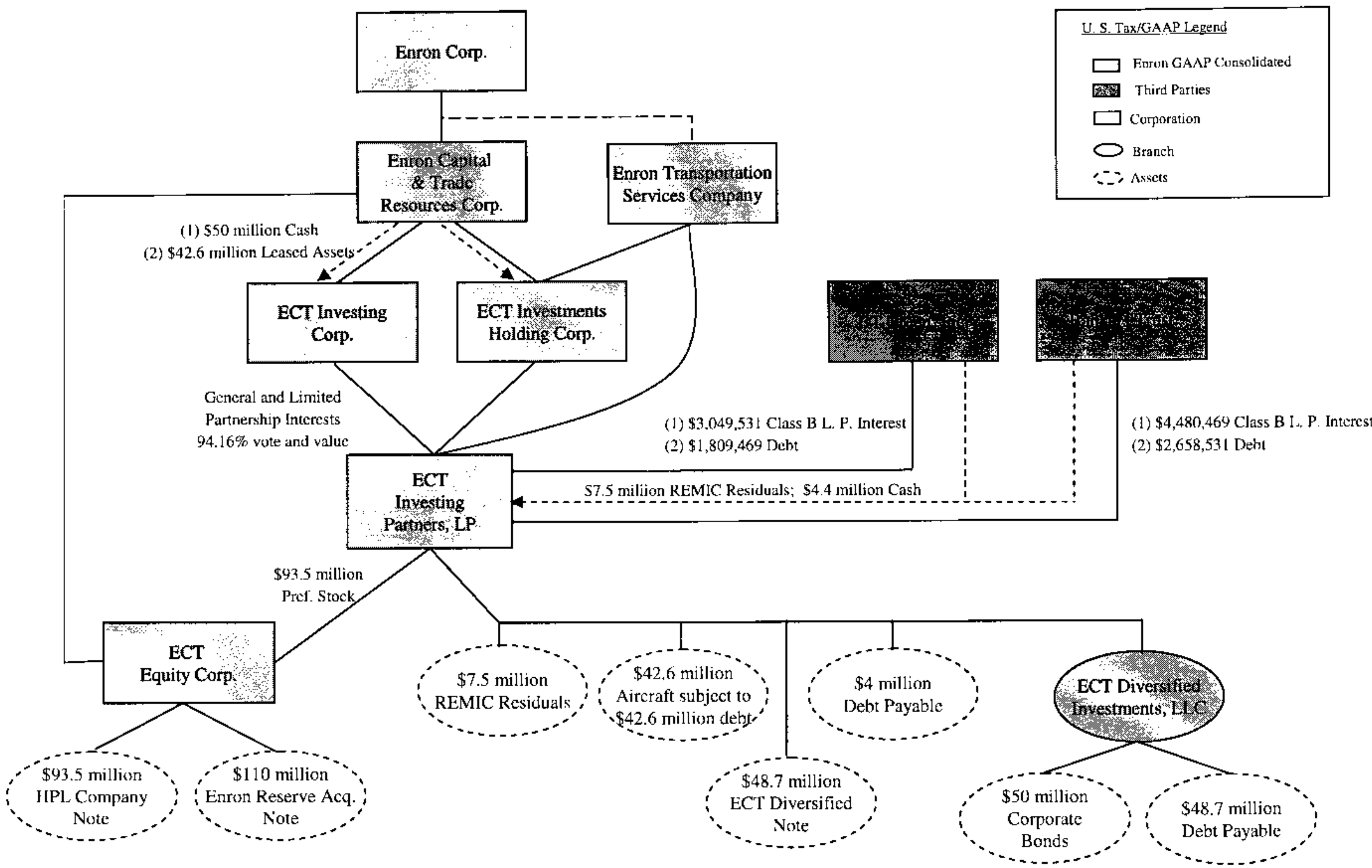
Project Steele
Structure as of October 31, 1997



A- 5

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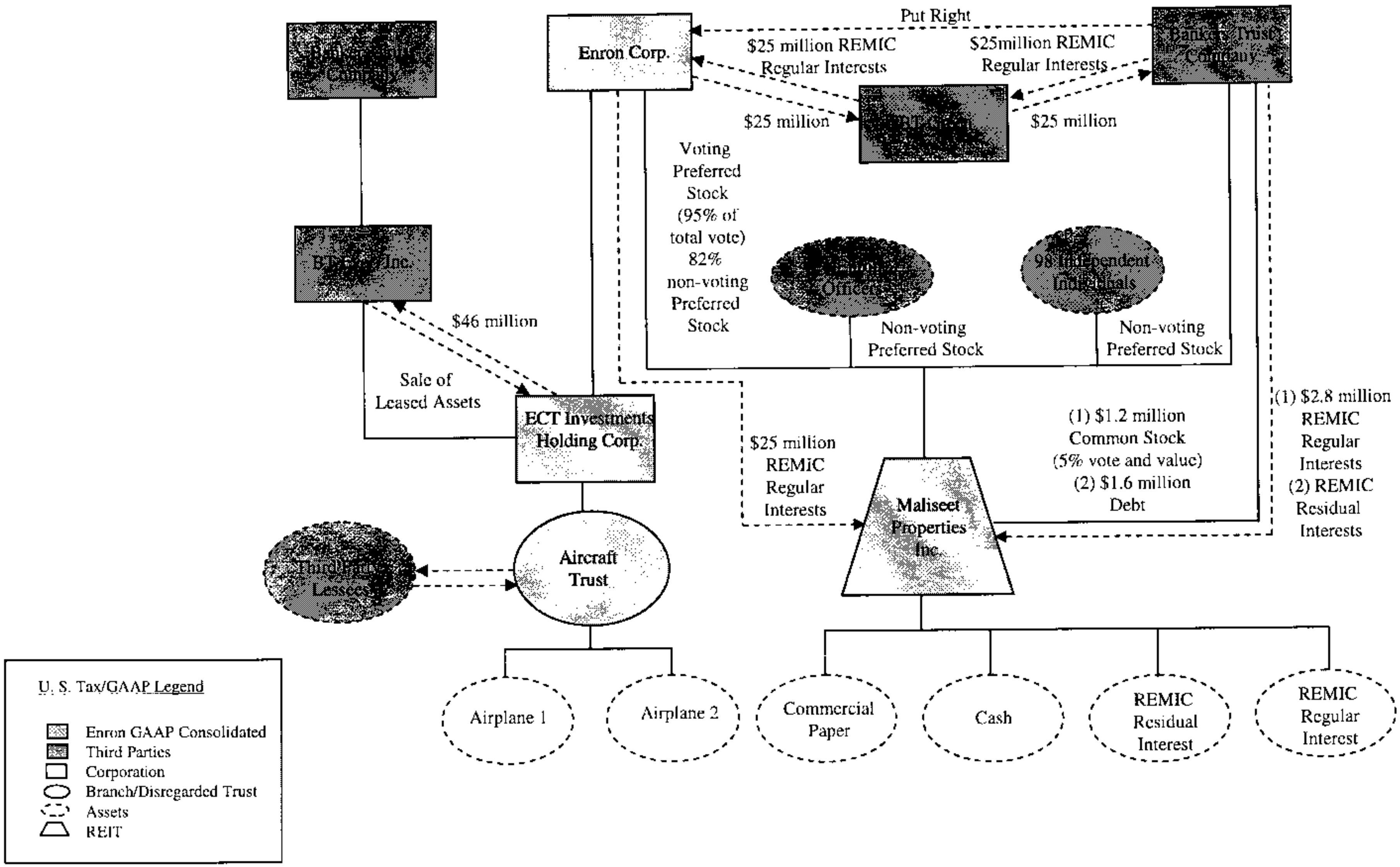
Project Cochise
Structure as of January 1999



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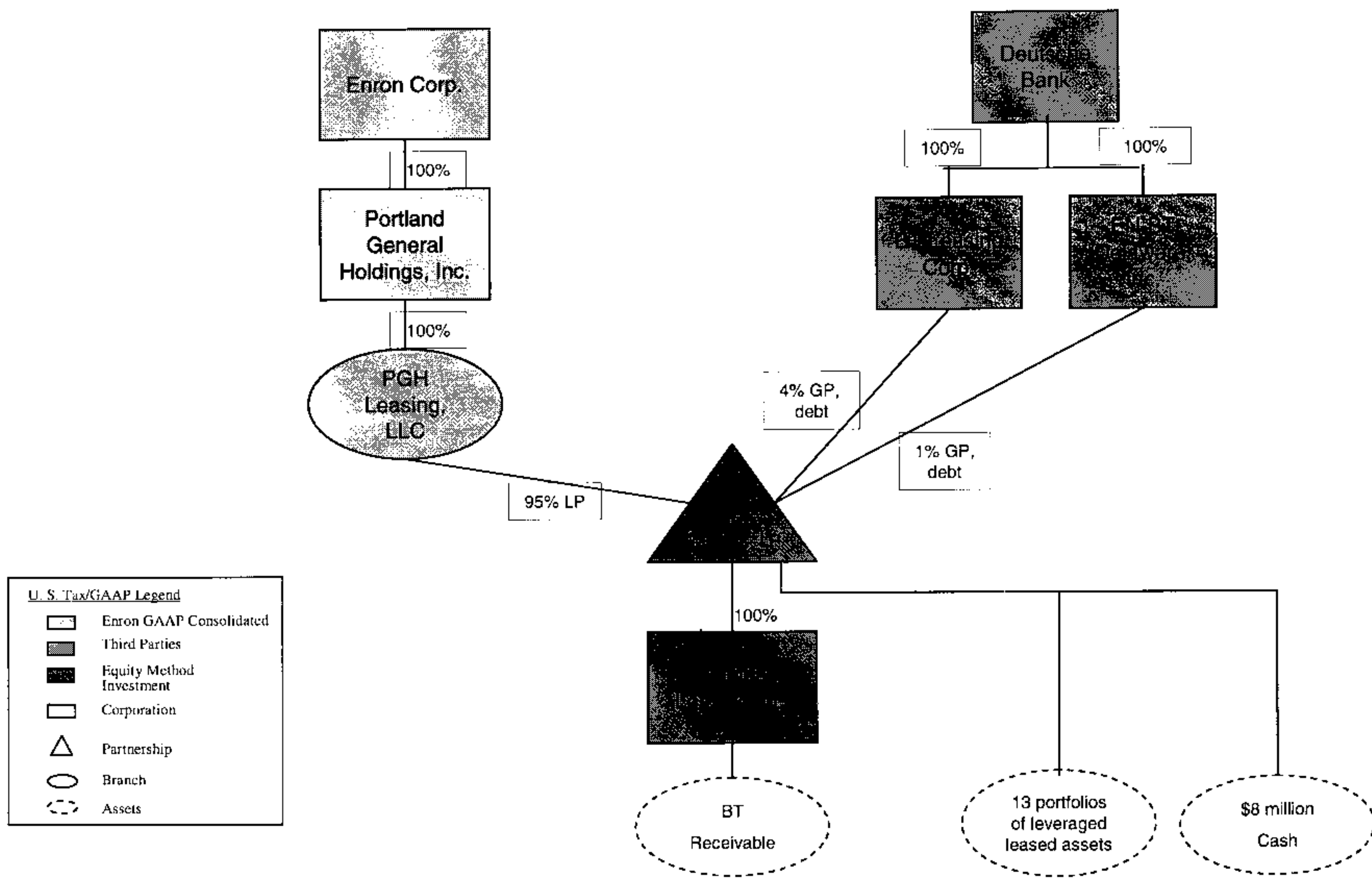
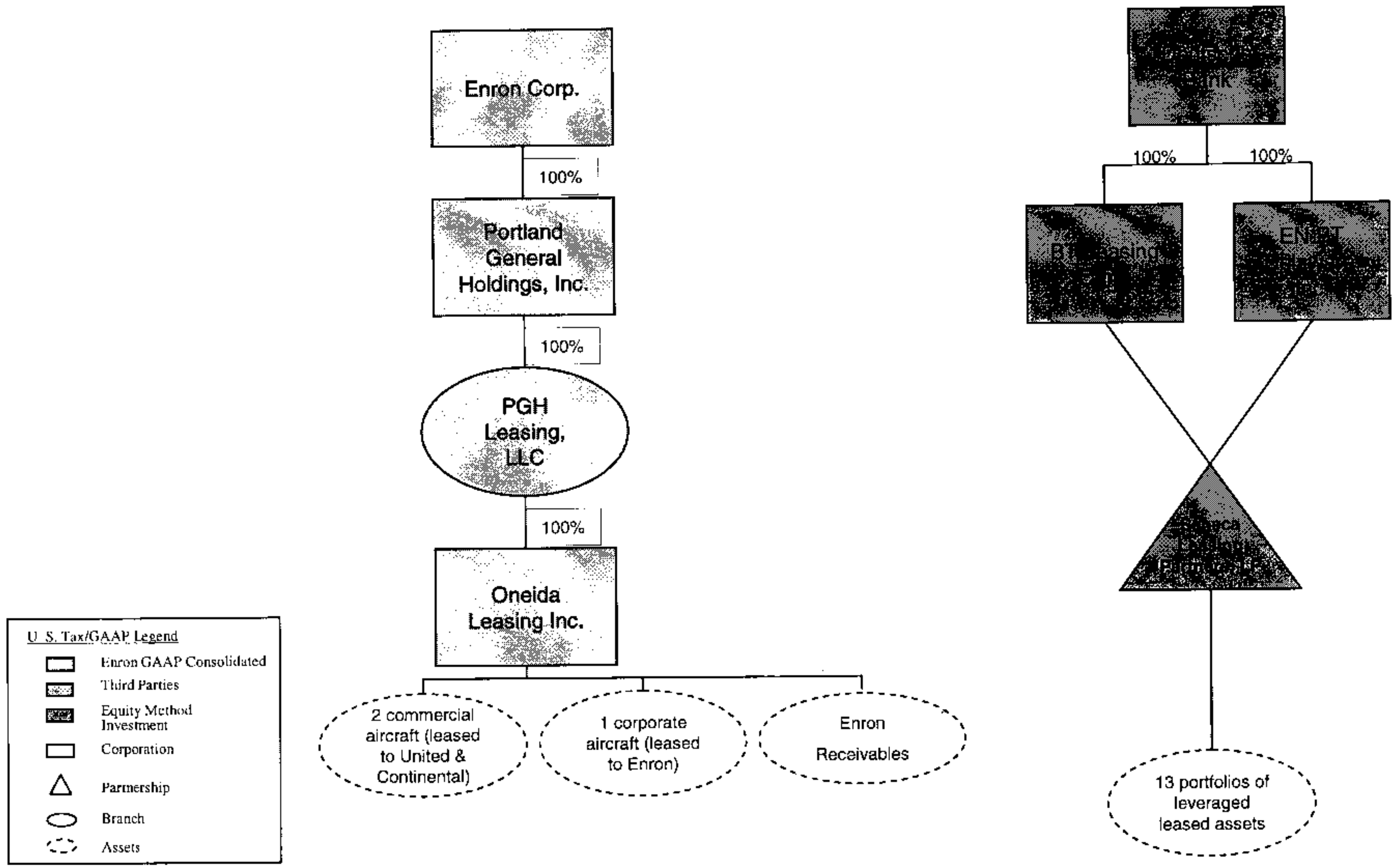
Project Tomas
Structure as of September 30, 1998



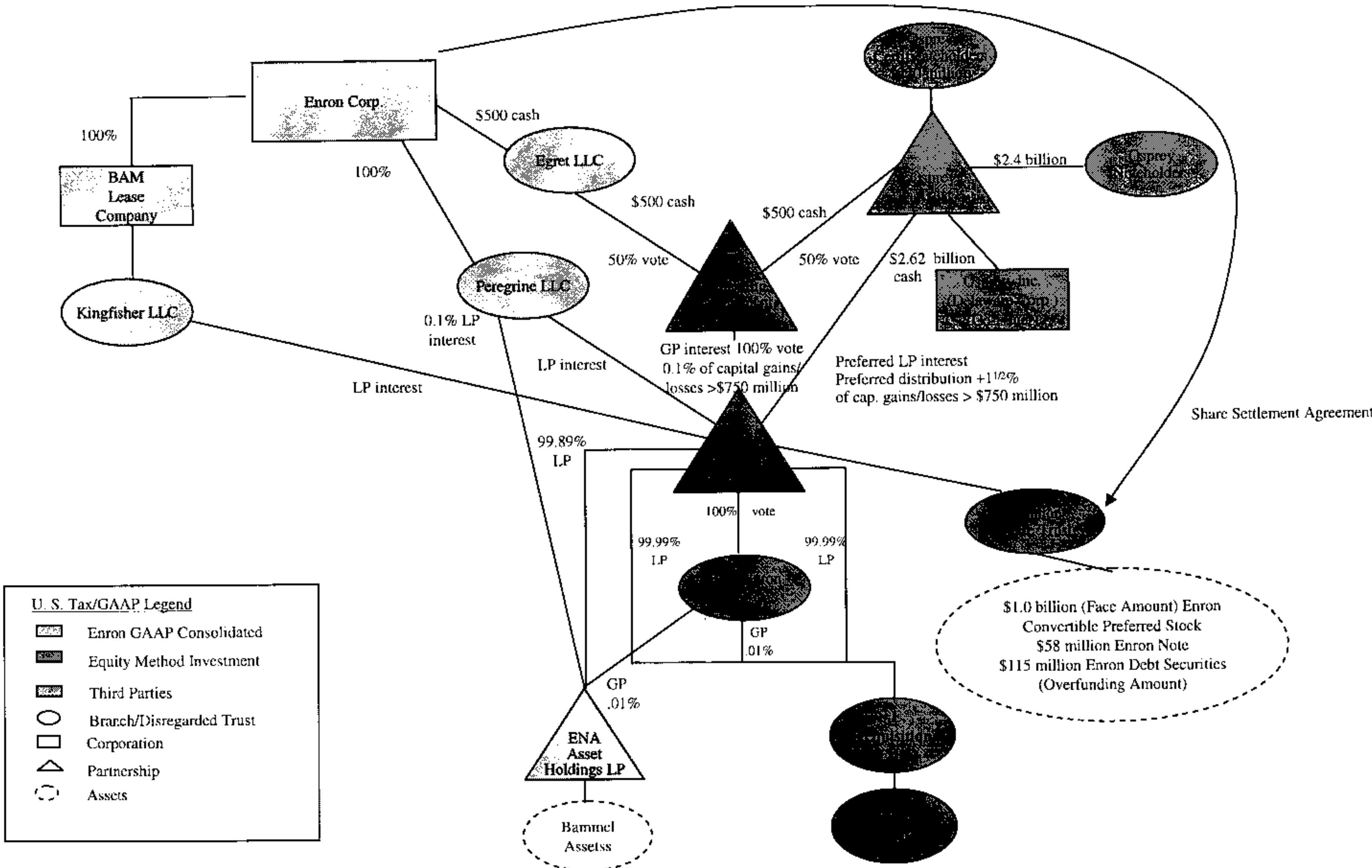
A-7

Project Tomas
Structure as of December 31, 2001



Confidential

Project Condor
Structure as of December 31, 2001



A- 9

Project Teresa
Structure as of December 2001

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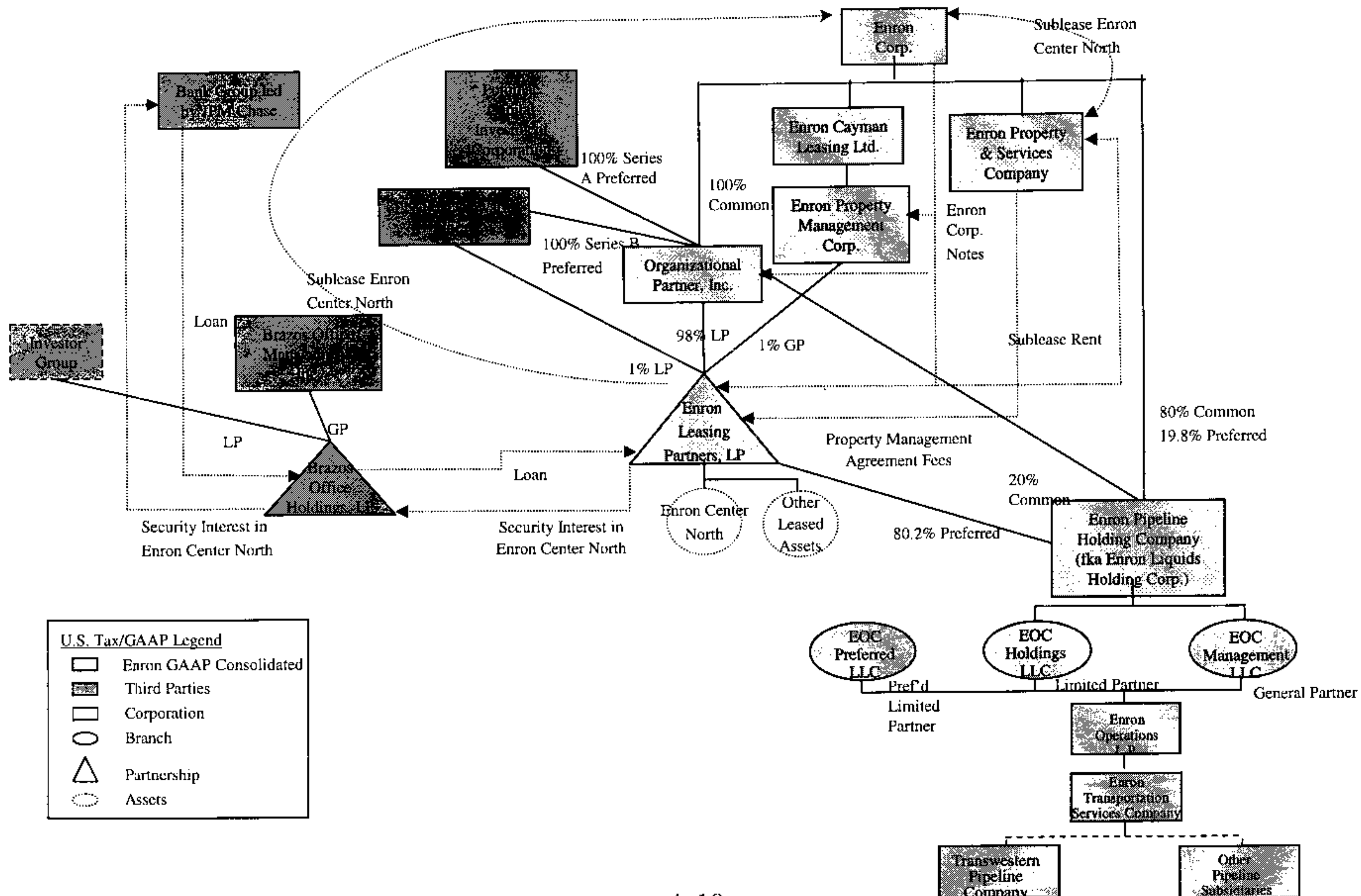

A-10

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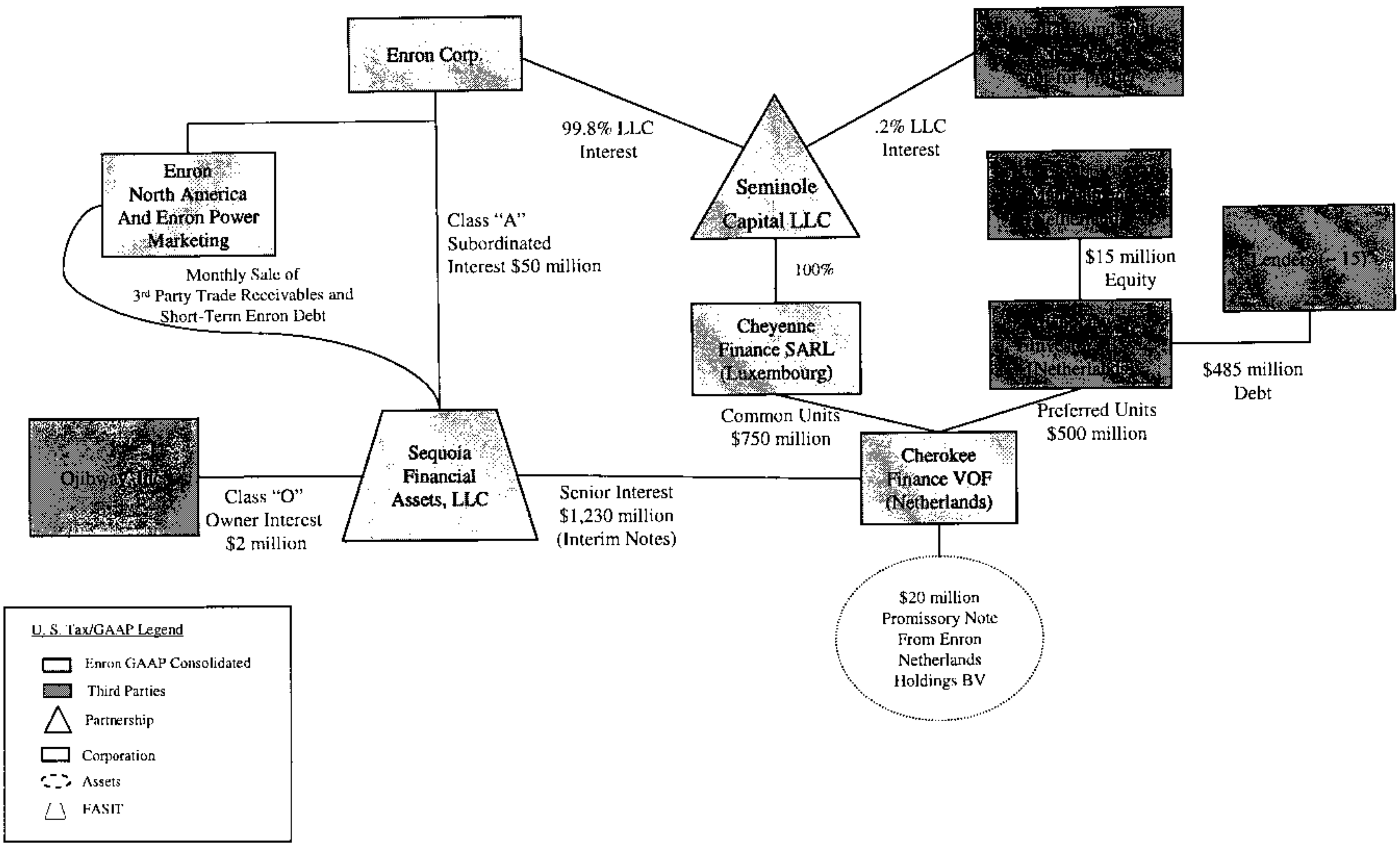
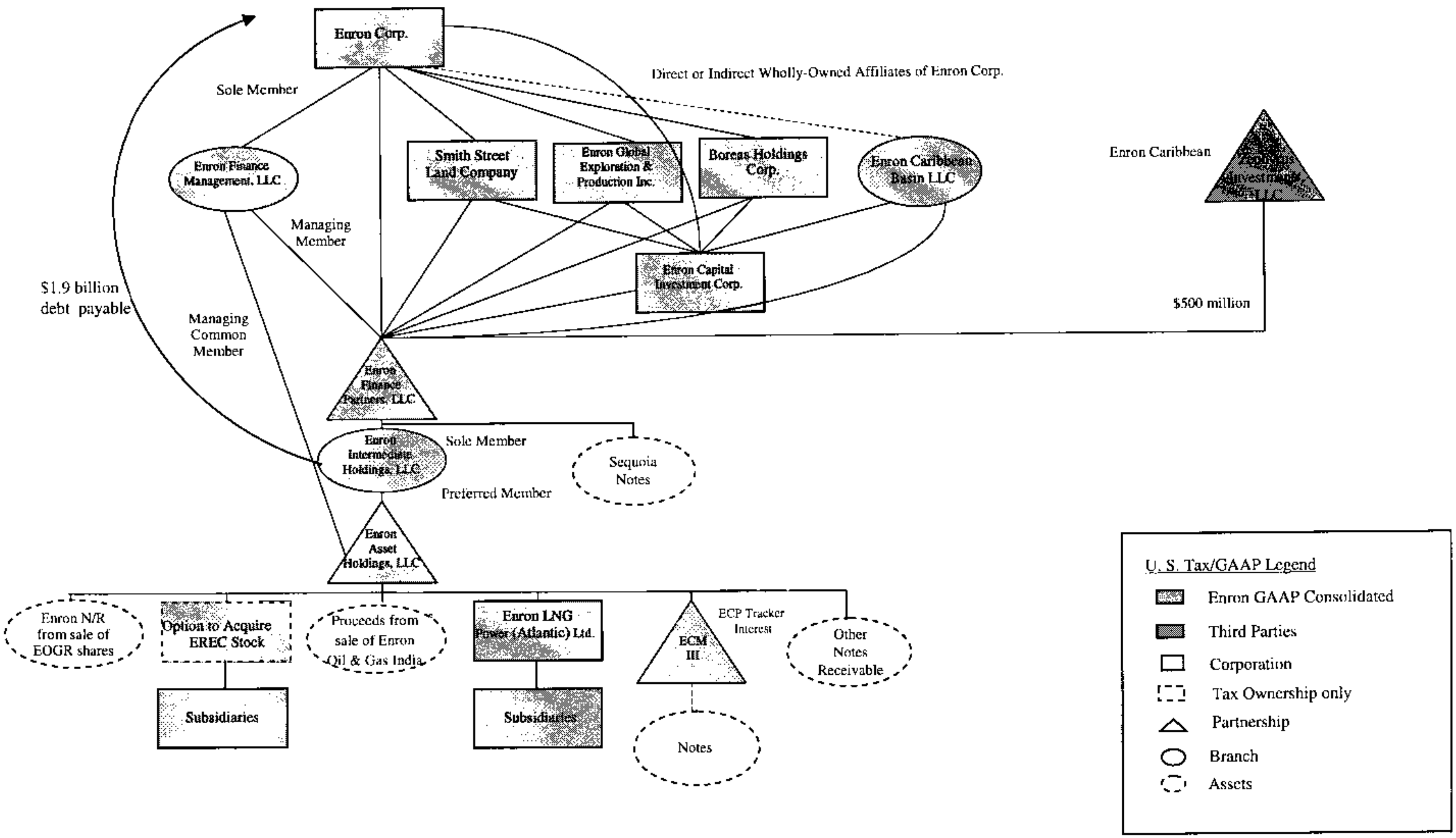
Project Apache
Structure as of May 28, 1999

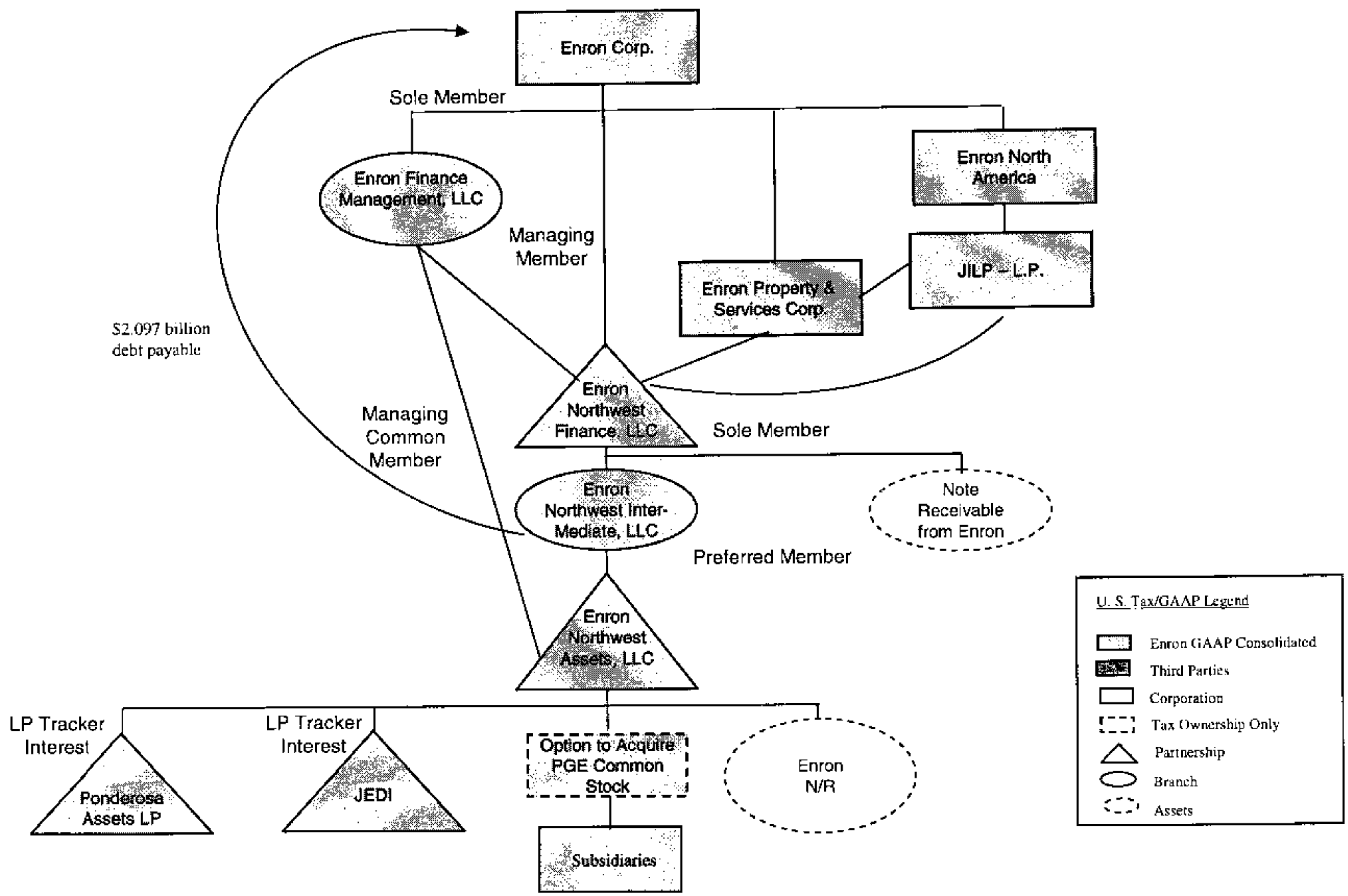


A-11

Project Tammy I
Structure as of December 2001



Project Tammy II
Structure as of December 2001



A-13

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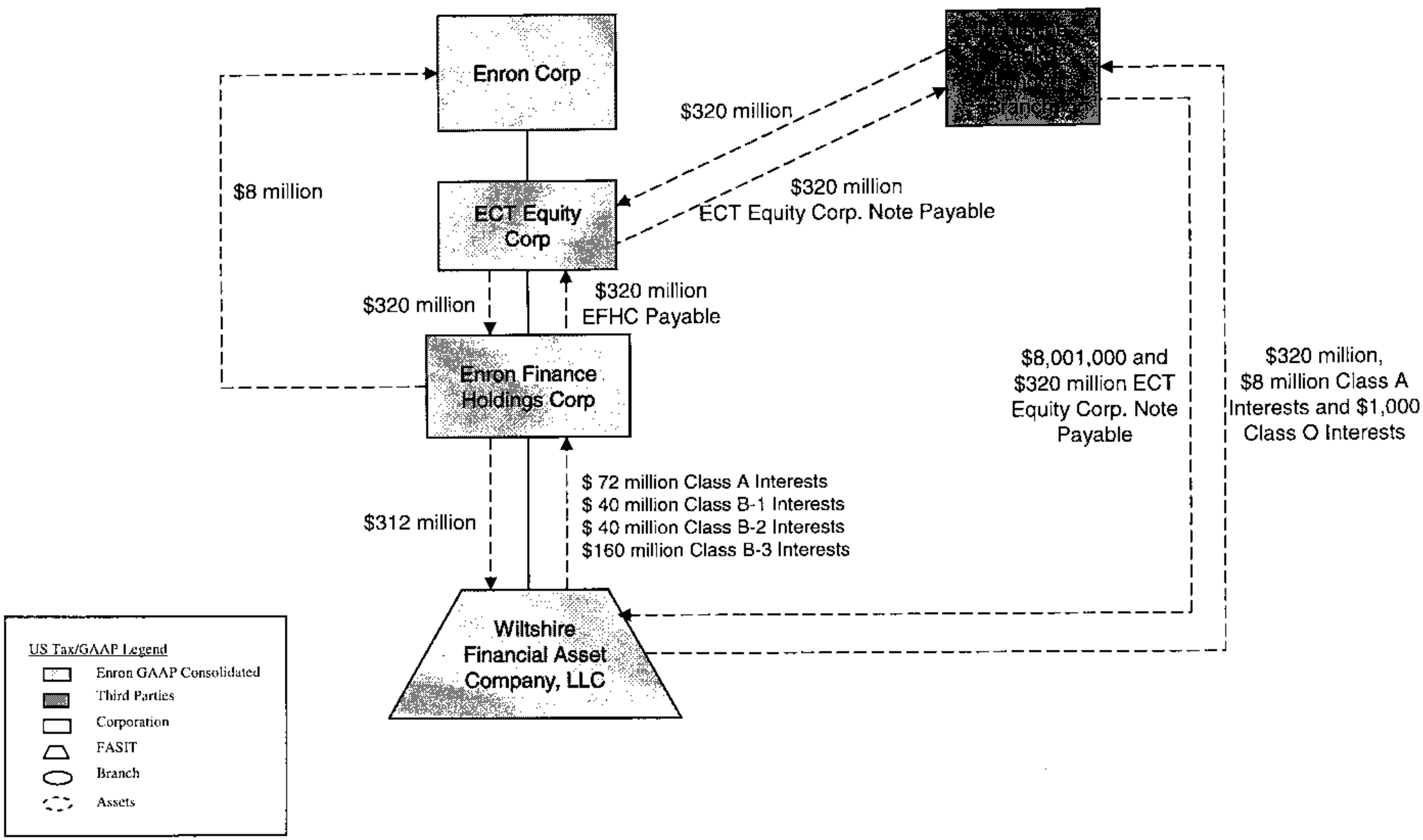
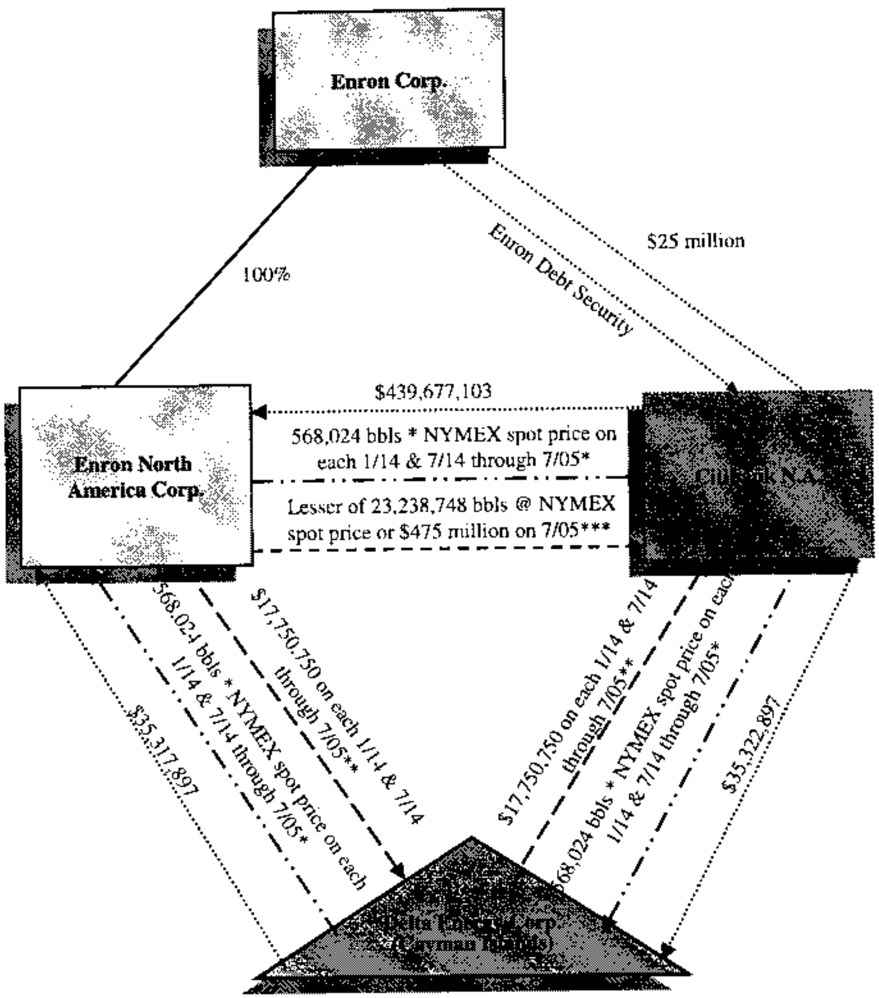
Project Renegade
Structure as of December 29, 1998



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

U.S. GAAP/Tax Legend
- Enron GAAP Consolidated
- Third Parties
- Corporation
- Partnership



Prepay Legend

Initial Payments	....
Periodic Floating Payments	— · · — ·
Periodic Fixed Payments	— — —
Final Payment	- - - - -

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

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

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

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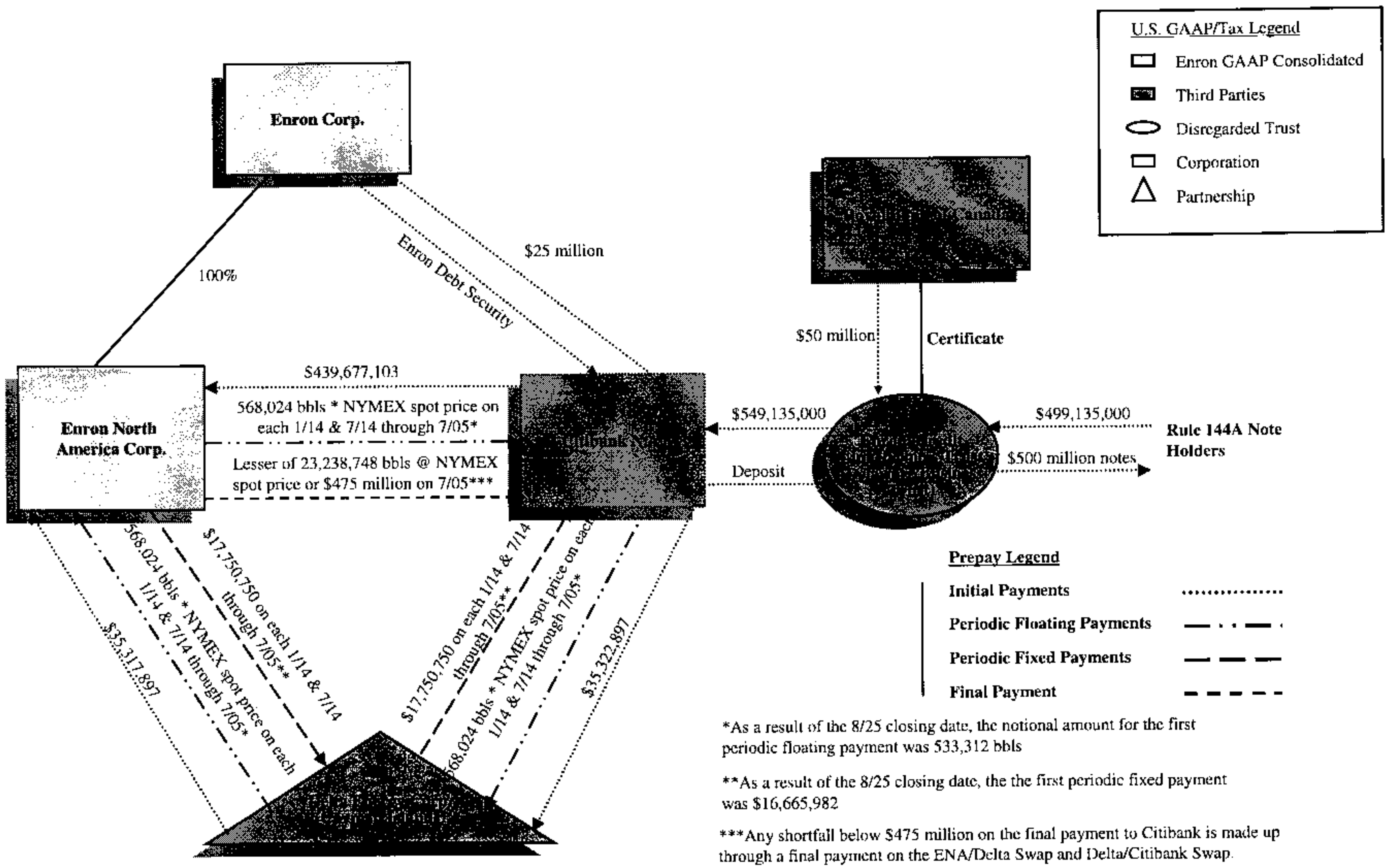
ENA $475 Million Prepay Transaction
August 25, 2000



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

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

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

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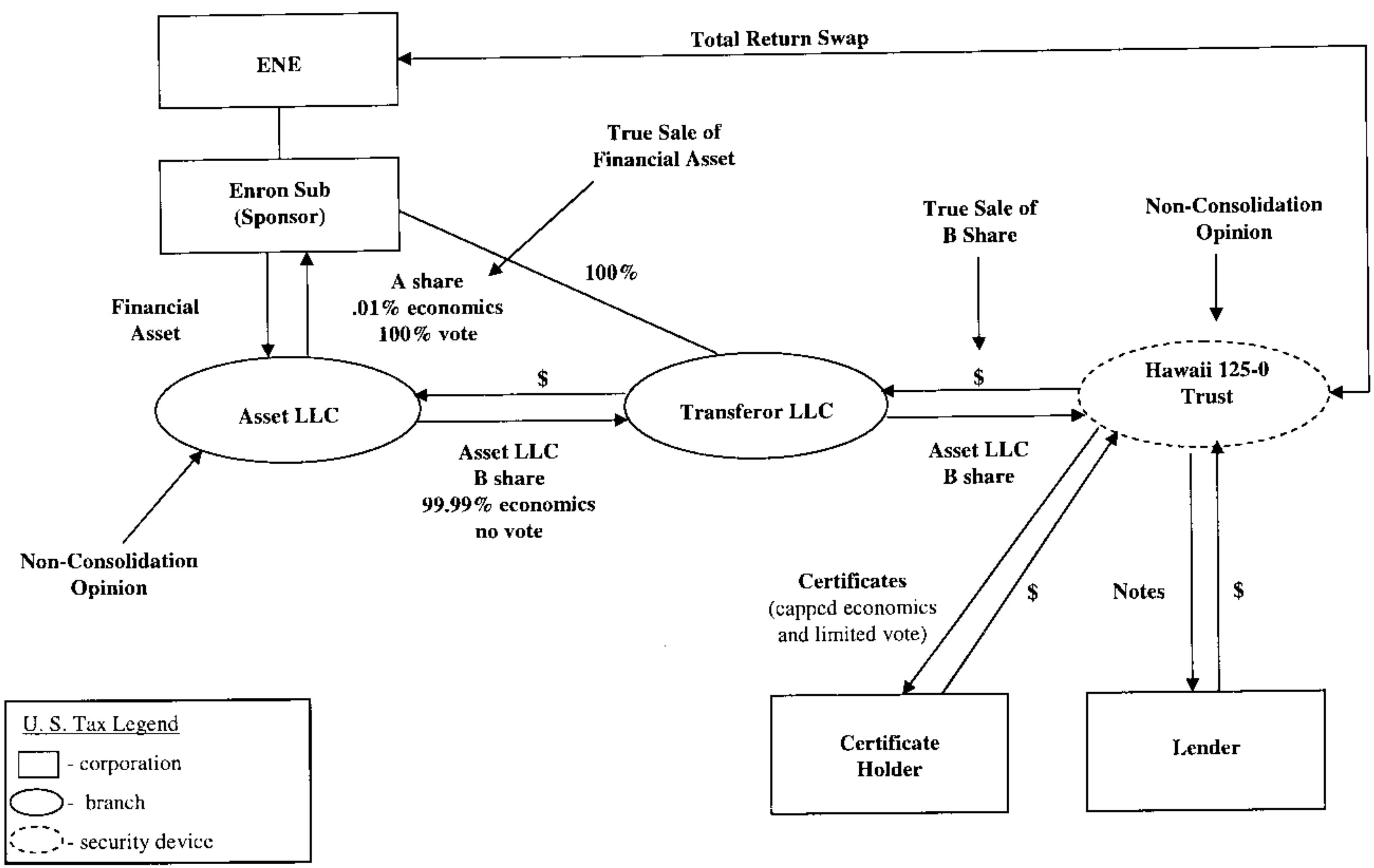
Hawaii 125-0 Structure Diagram



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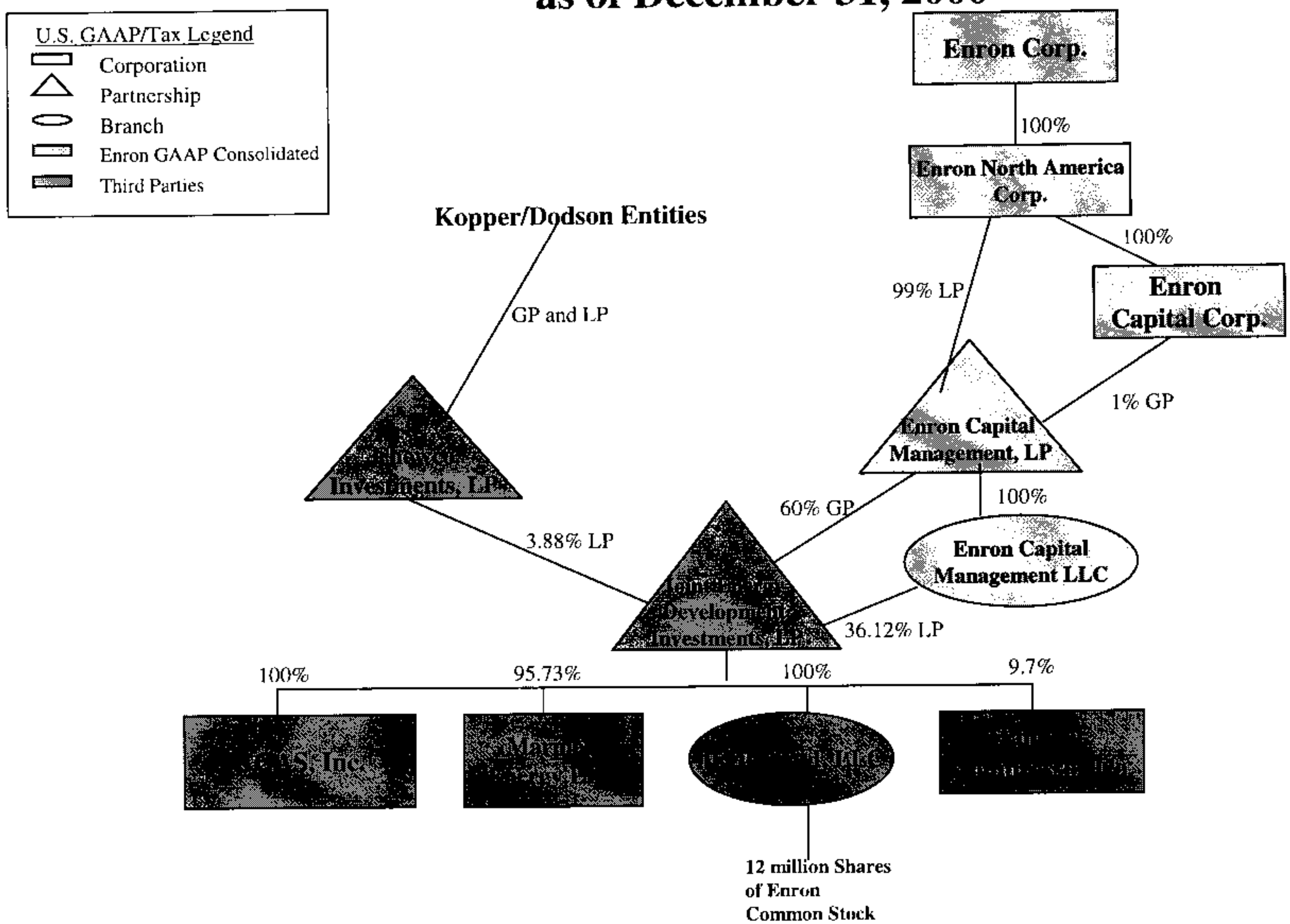
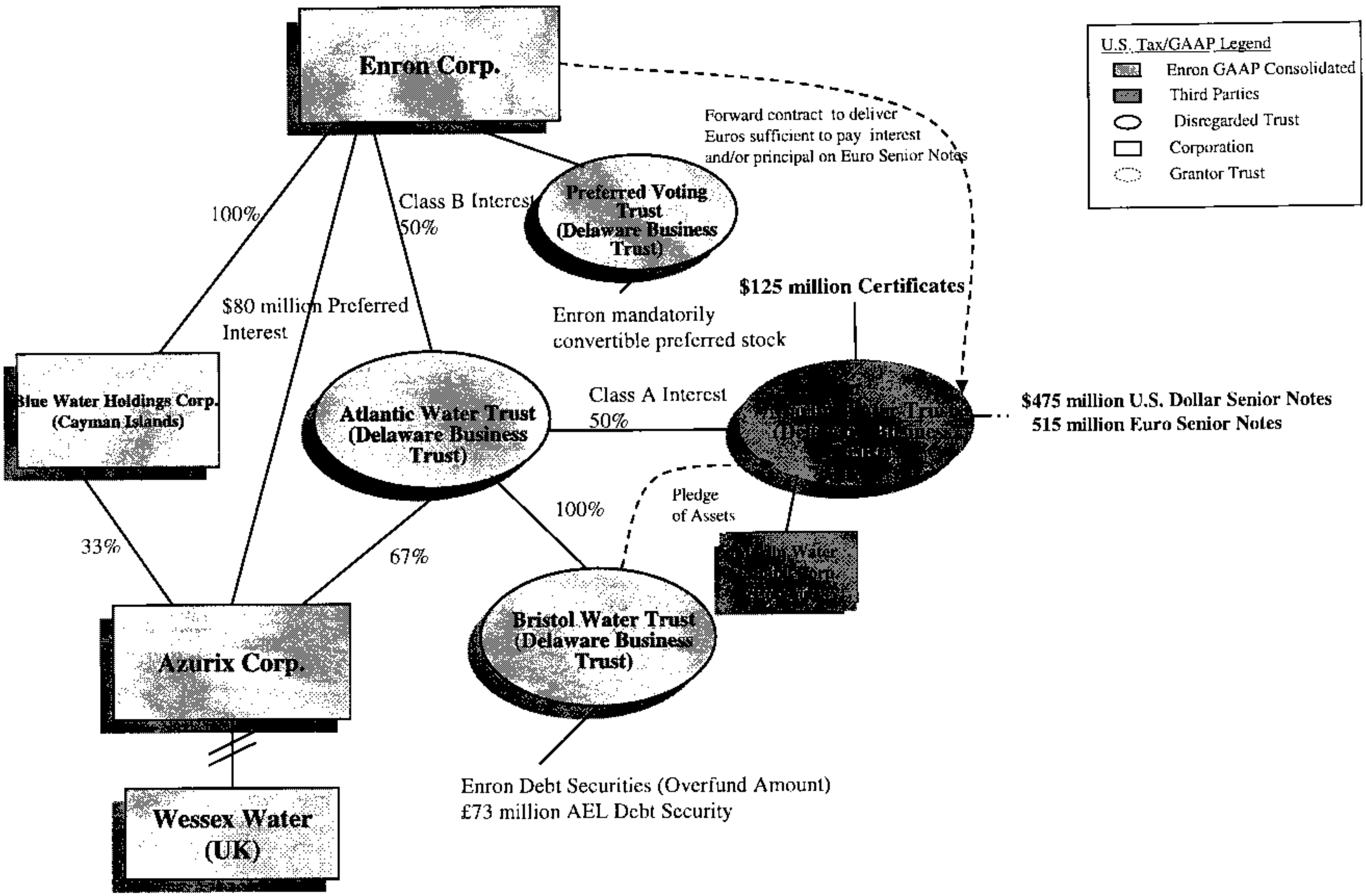
JEDI I Ownership Structure as of December 31, 2000



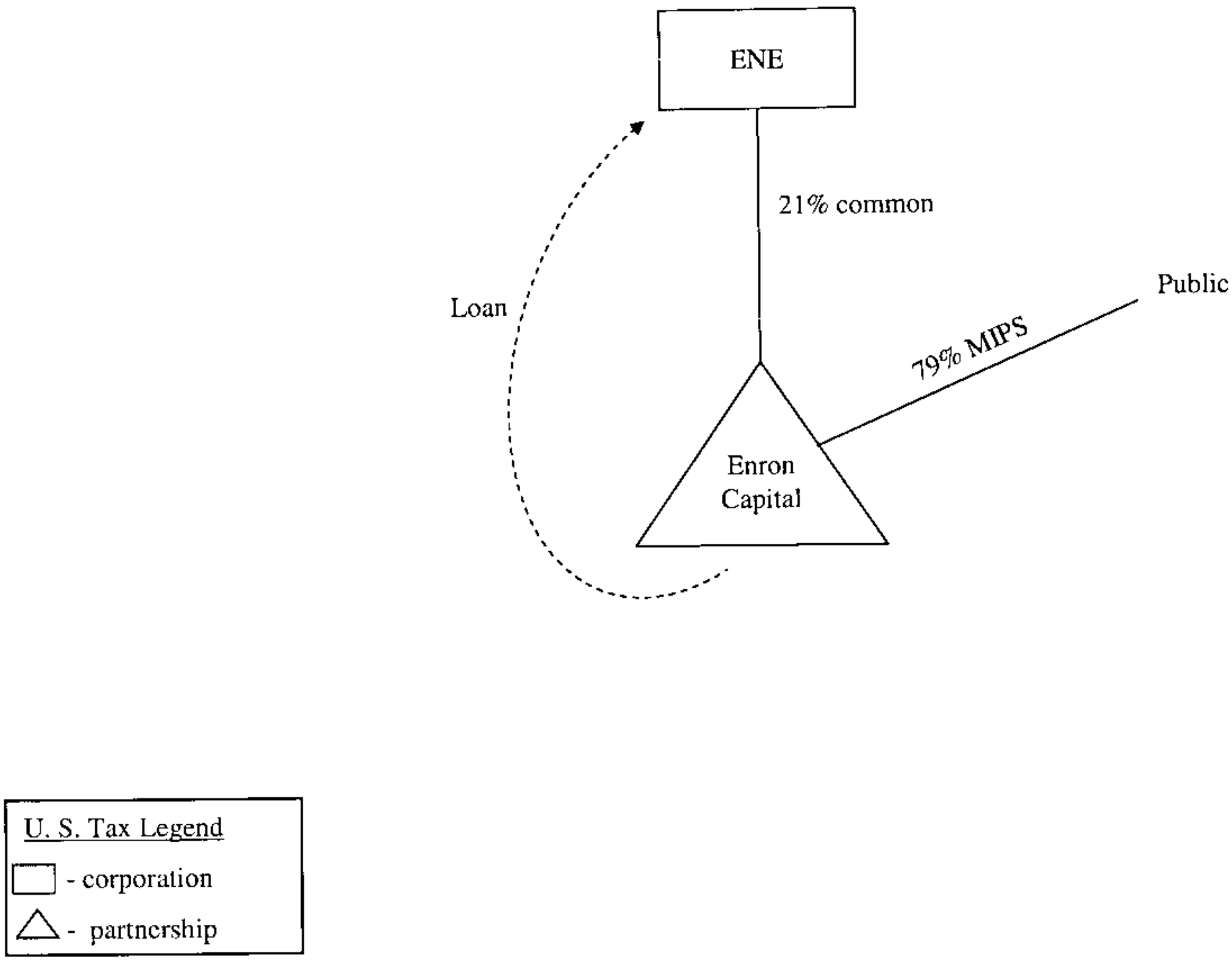
Project Marlin
Structure as of December 31, 2001

Confidential



A-19

MIPS Financing



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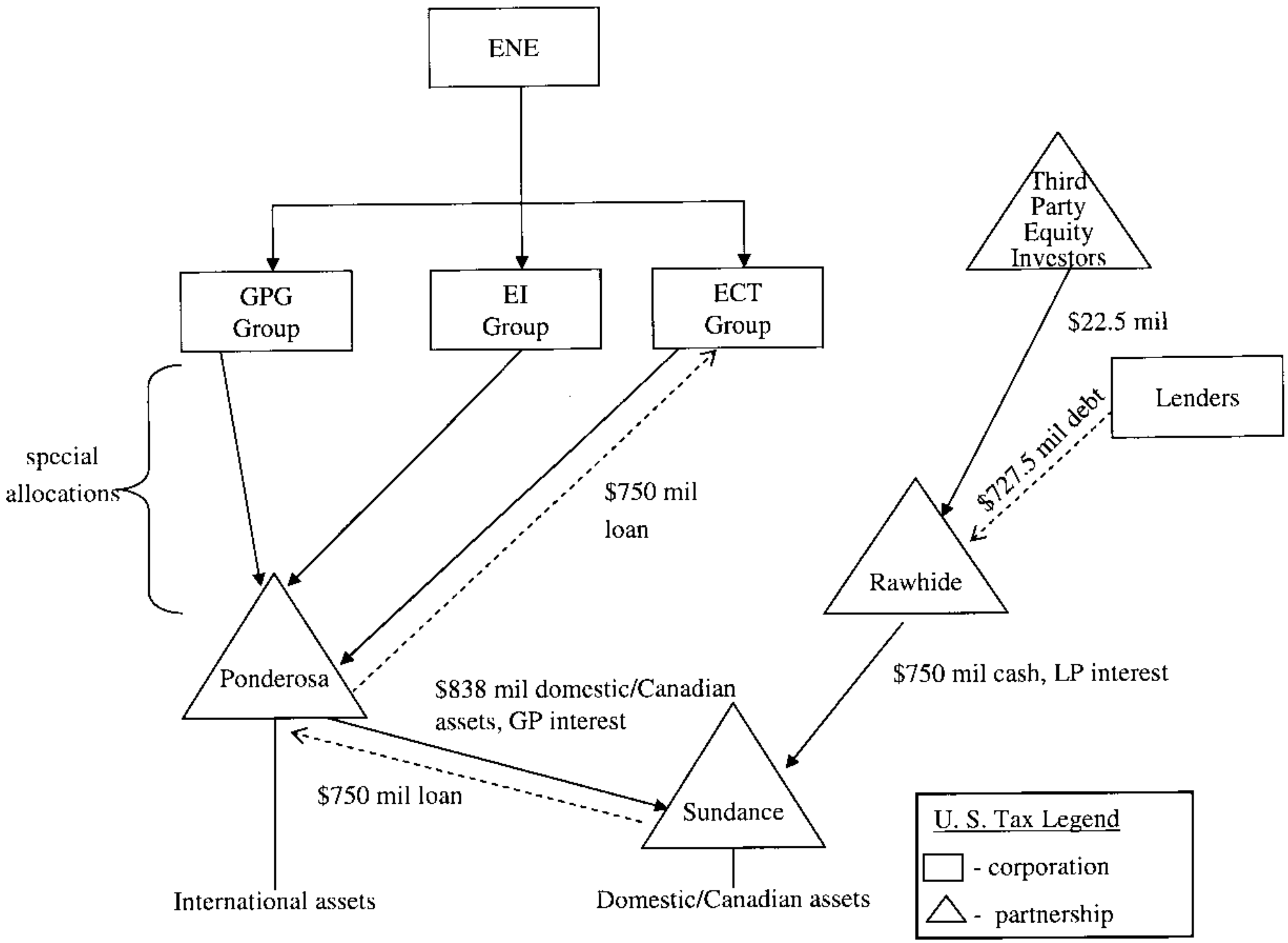
Project Rawhide Financing – December 1998



A-21

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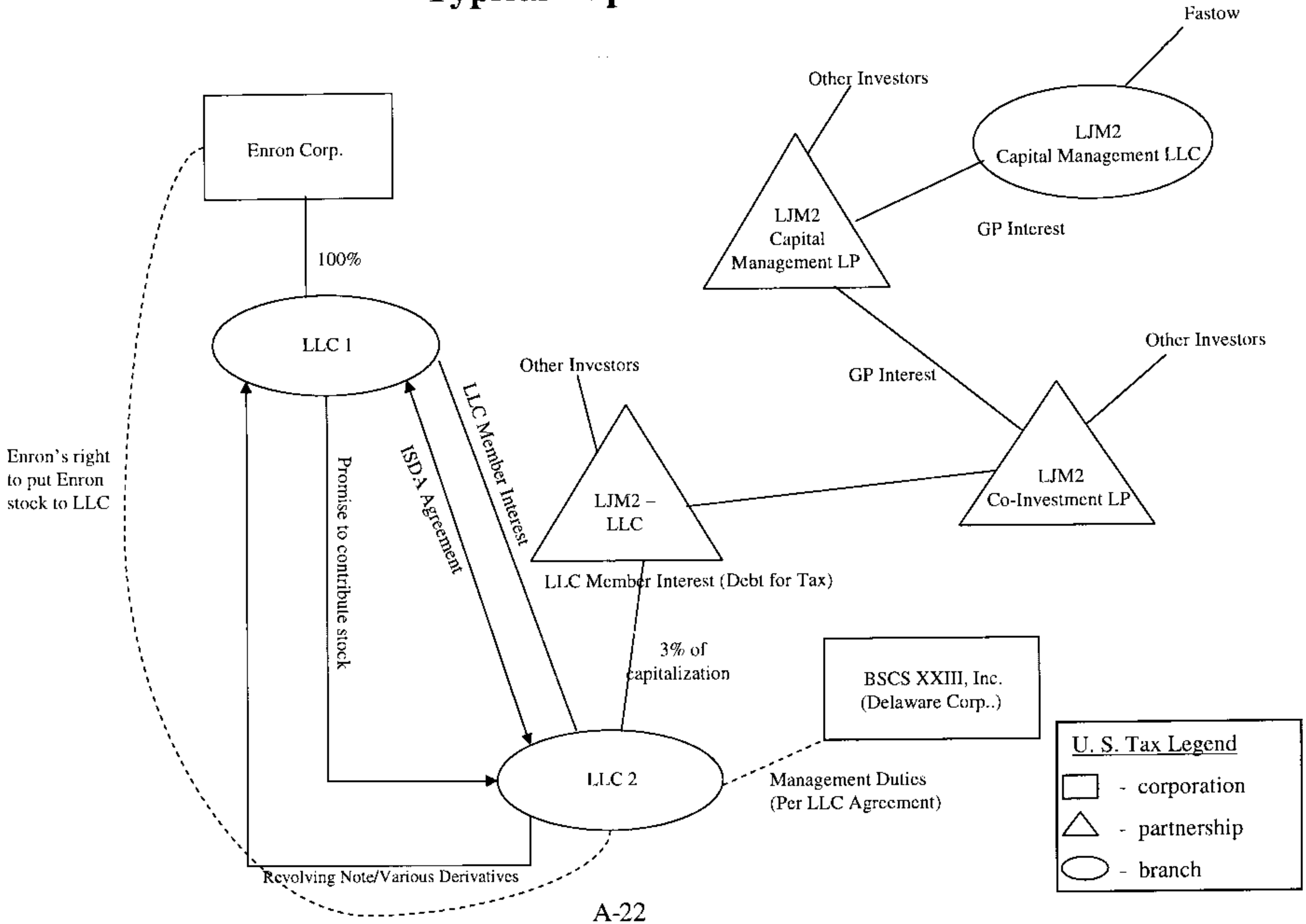
Typical Raptor Structure



A-22

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

ENRON

Structured Transactions Group

Summaries of
Project Earnings &
Cash Flows

November 2001

Confidential

Estimated Net Income by Project and Year Recognized (Thousands)

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

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

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

Structured Transactions Group
Business Review

October 2001

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Structured Transactions Group
Overview

Introduction

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

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

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

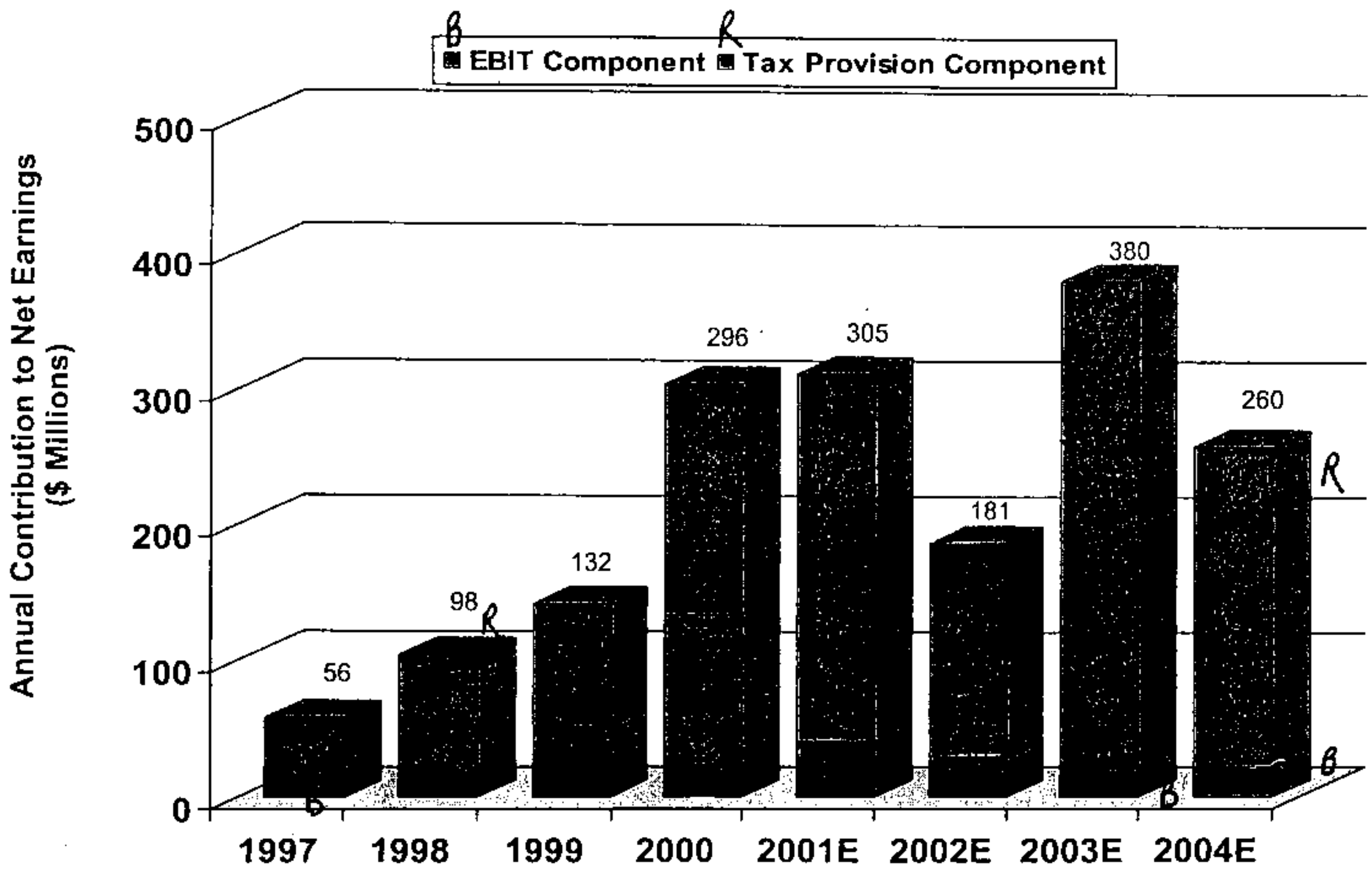
- Risk Management. The group manages risk through diligence and care in:

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

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

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

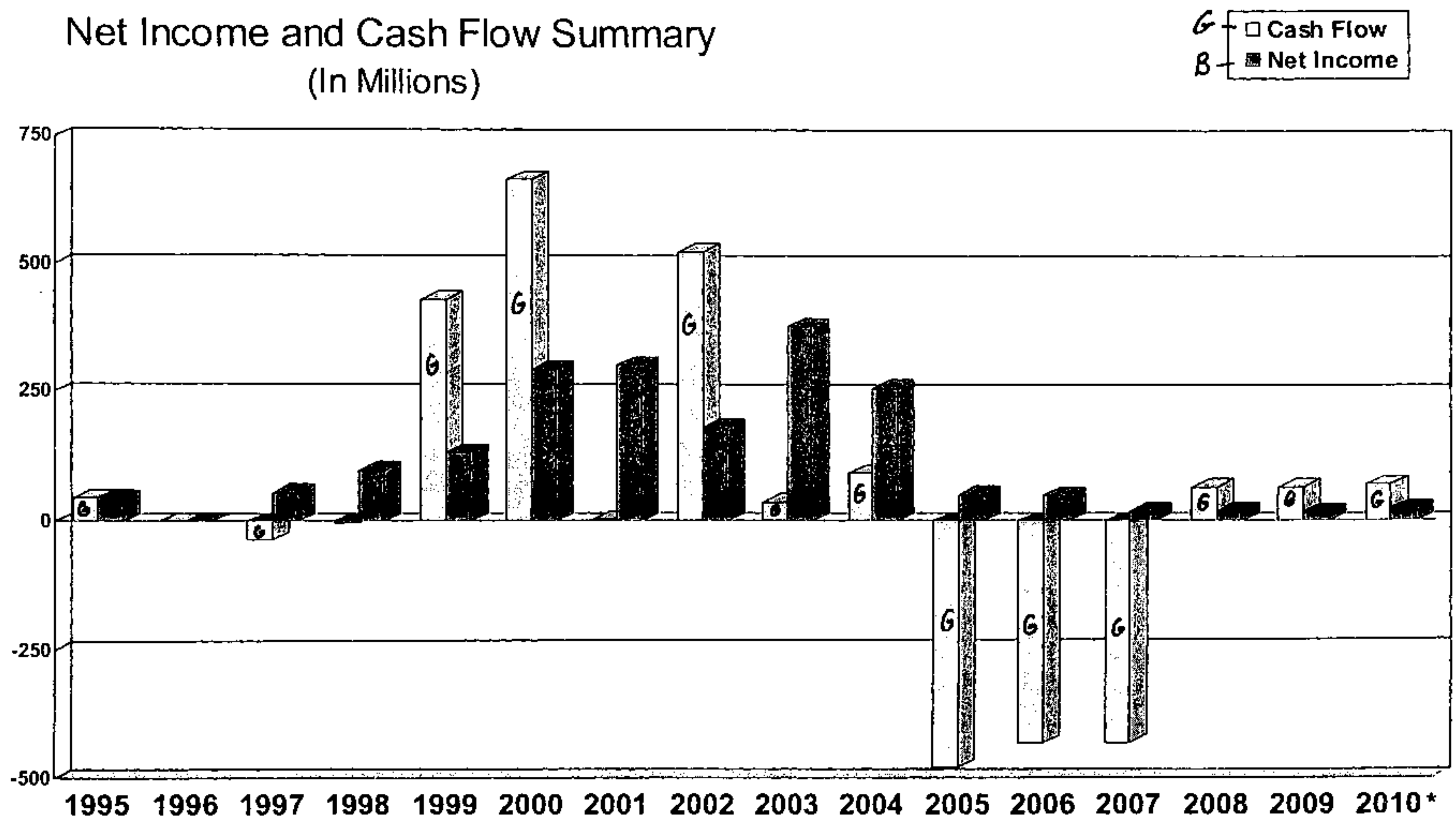
Contribution to Enron's Annual Net Income (millions)



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

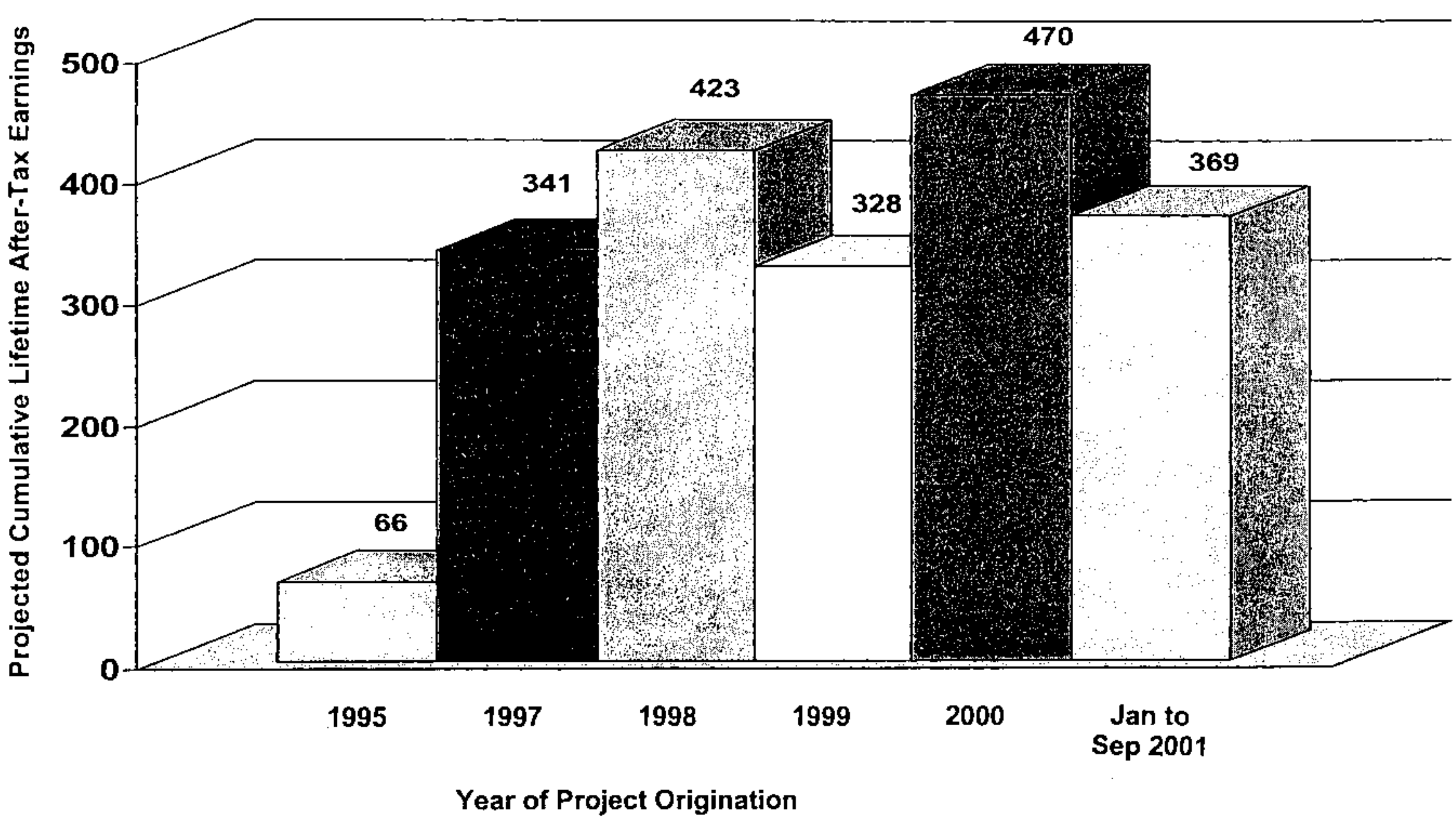
Structure Overview - Aggregate

Net Income and Cash Flow Summary
(In Millions)

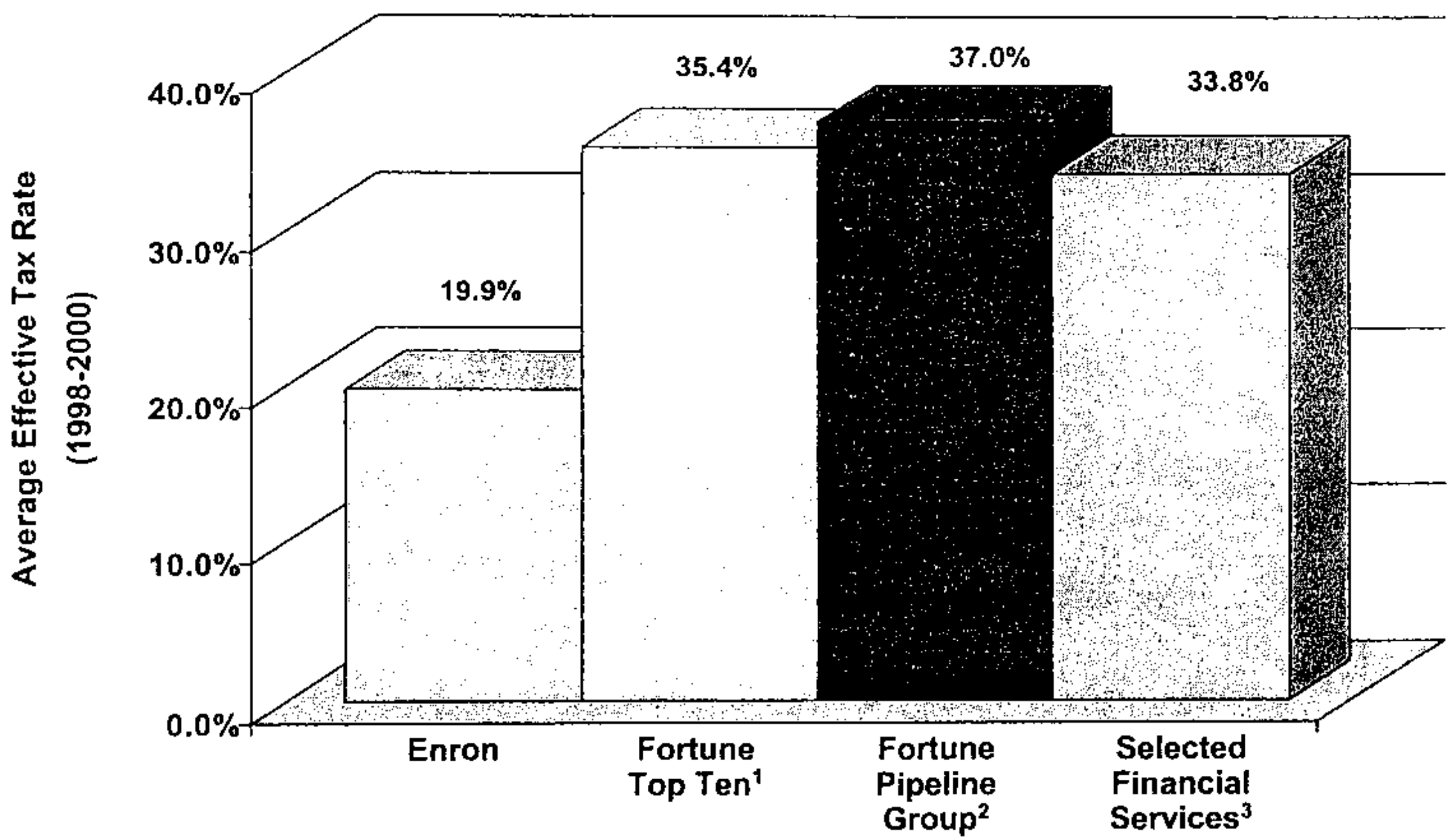


*There is additional net income of $62.85 million and positive cash flow of $1,381.71 million from 2011 through the year 2046 resulting from the various projects.

Projected Cumulative Earnings by Year Originated (millions)



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



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

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

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

Key Project Metrics

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

* These projects contribute to EBIT.

Enron Balance Sheet Perspective

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

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

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

Action Plan for 2001

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

Appendices

Net Income Detail by Project and Year Recognized (Thousands)

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

Cash Flow Detail by Project and Year Incurred (Thousands)

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

ENRON

Project Tanya

Business Review

Structure Overview

Assets/Risk Management

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

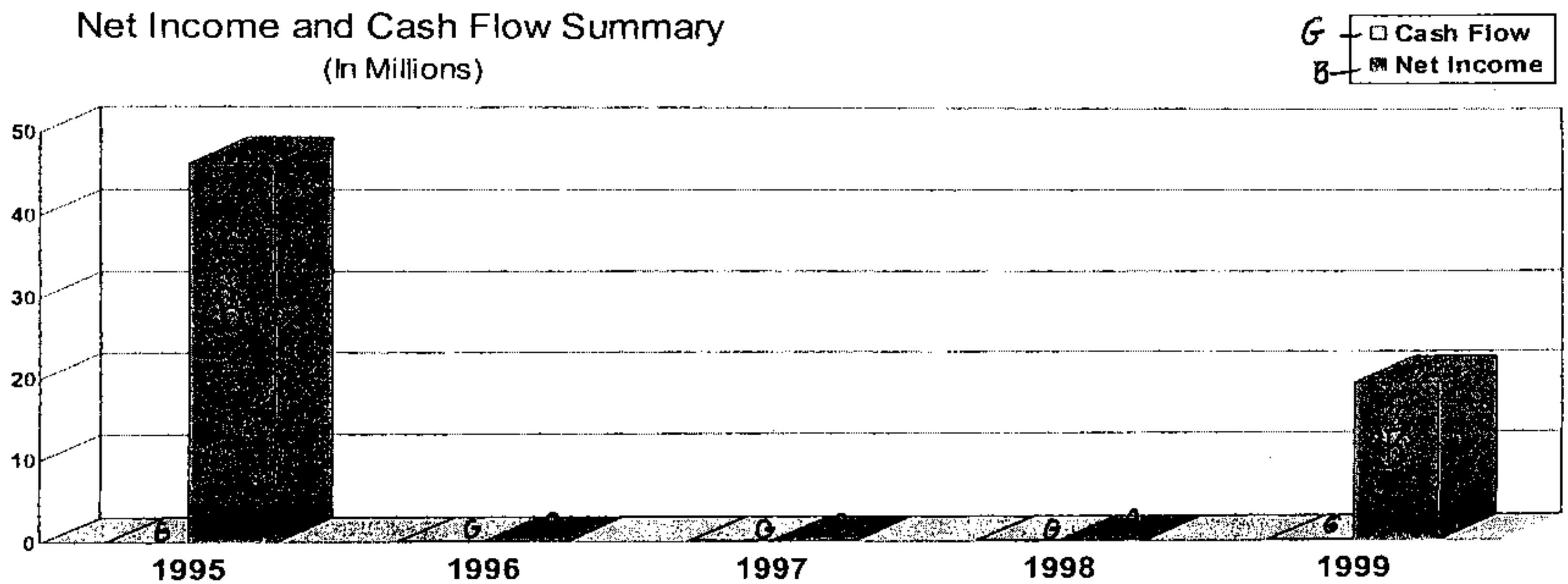
Transaction Description

The transaction involves the creation of an entity (Enron Management, Inc. "EMI") to assume and manage Enron's deferred compensation and post-retirement benefit obligations ("SFAS 106 liabilities").

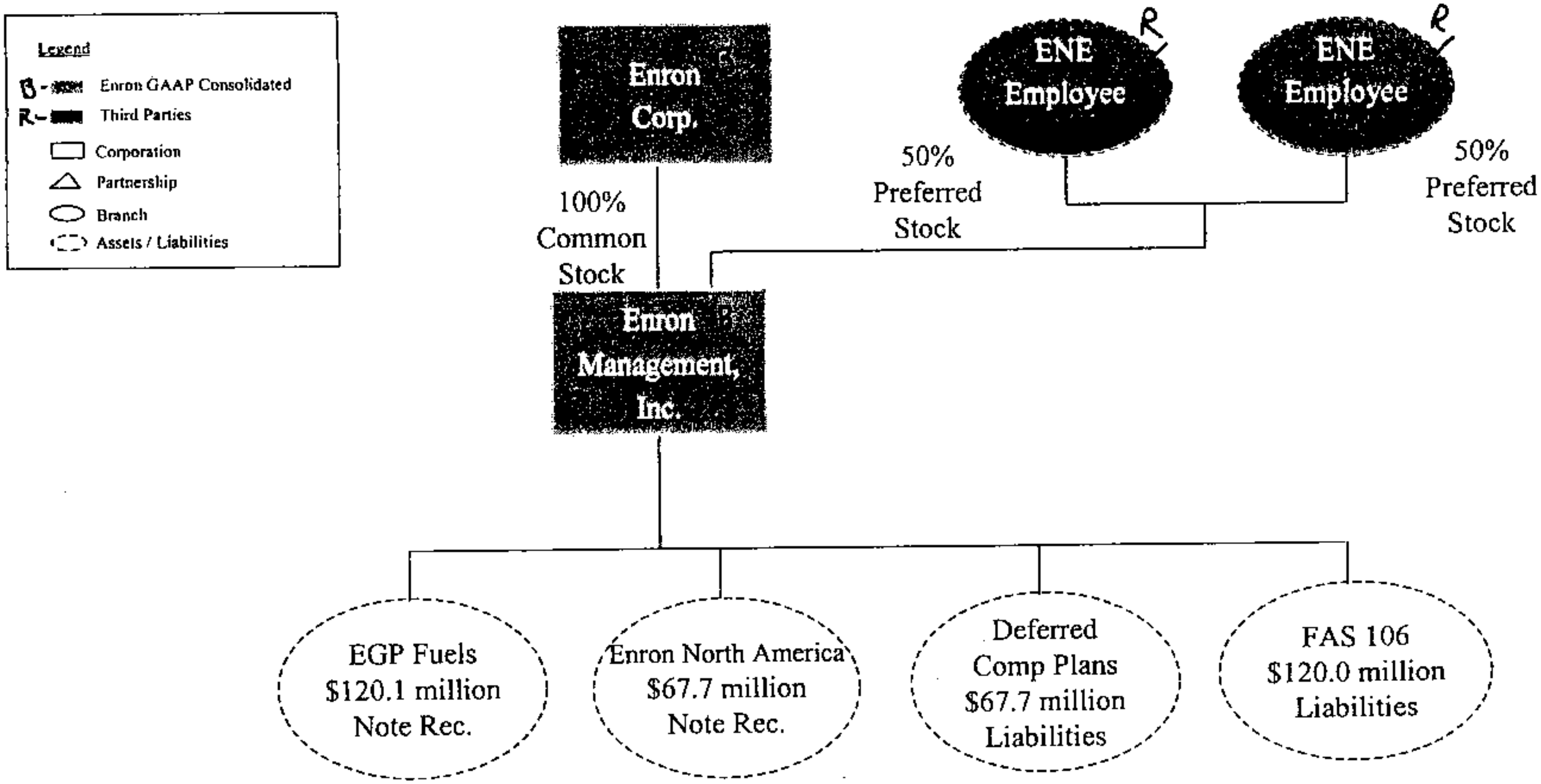
- In 1995, the sale of preferred stock received by Enron during the formation of the structure generated a capital loss of $185.5 million which was used to offset capital gains from a secondary offering of EGO common stock.
- As a result of the audit group's successful defense of the structure, the IRS declined to challenge Enron's 1995 return position.

Net Income and Cash Flow Summary

(In Millions)



Transaction Structure



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

Summary and Progress Report

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

ENRON

Project Teresa

Business Review

Structure Overview

Asset/Risk Management

Assets Held:

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

Other Issues:

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

Transaction Description

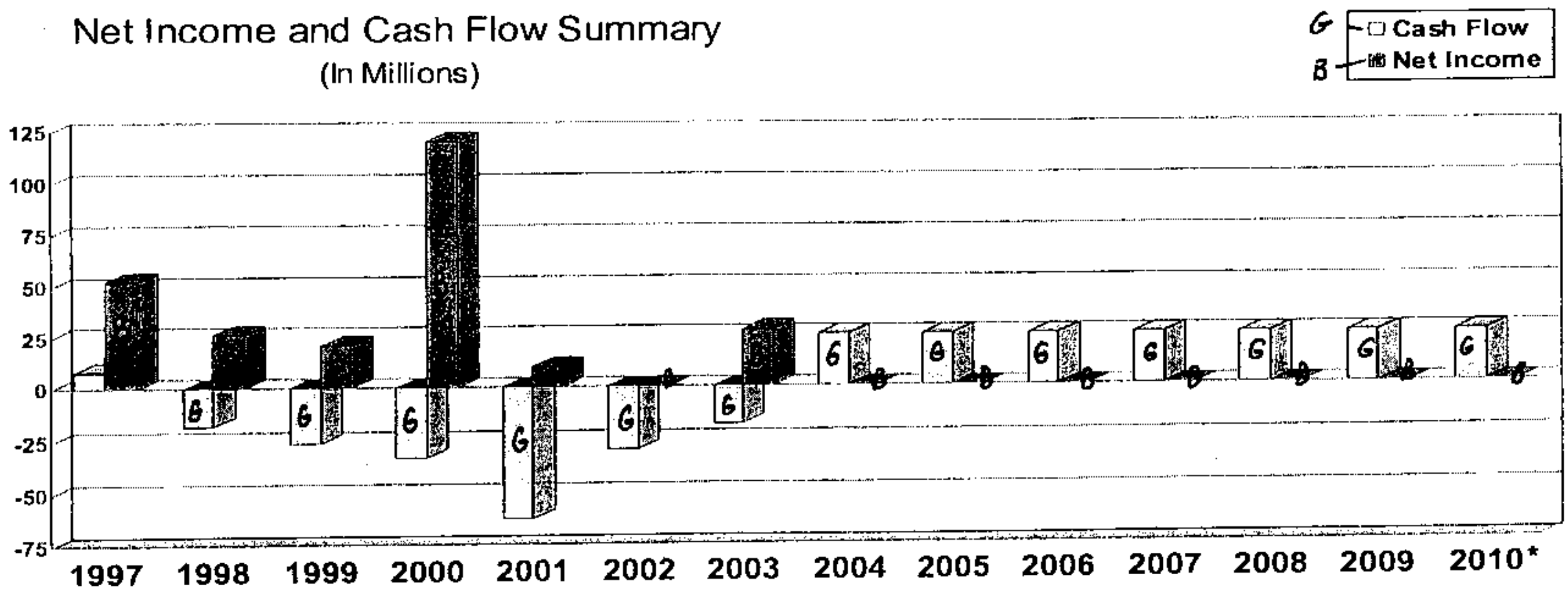
This transaction creates tax deductions in the form of enhanced depreciation deductions on the Enron Center North.

The tax basis of the building is effectively written up through a series of stock transactions that flow through a partnership with minority interest equity.

The stock transactions are economically supported by earnings and profits generated in the ordinary course of business by the pipeline companies.

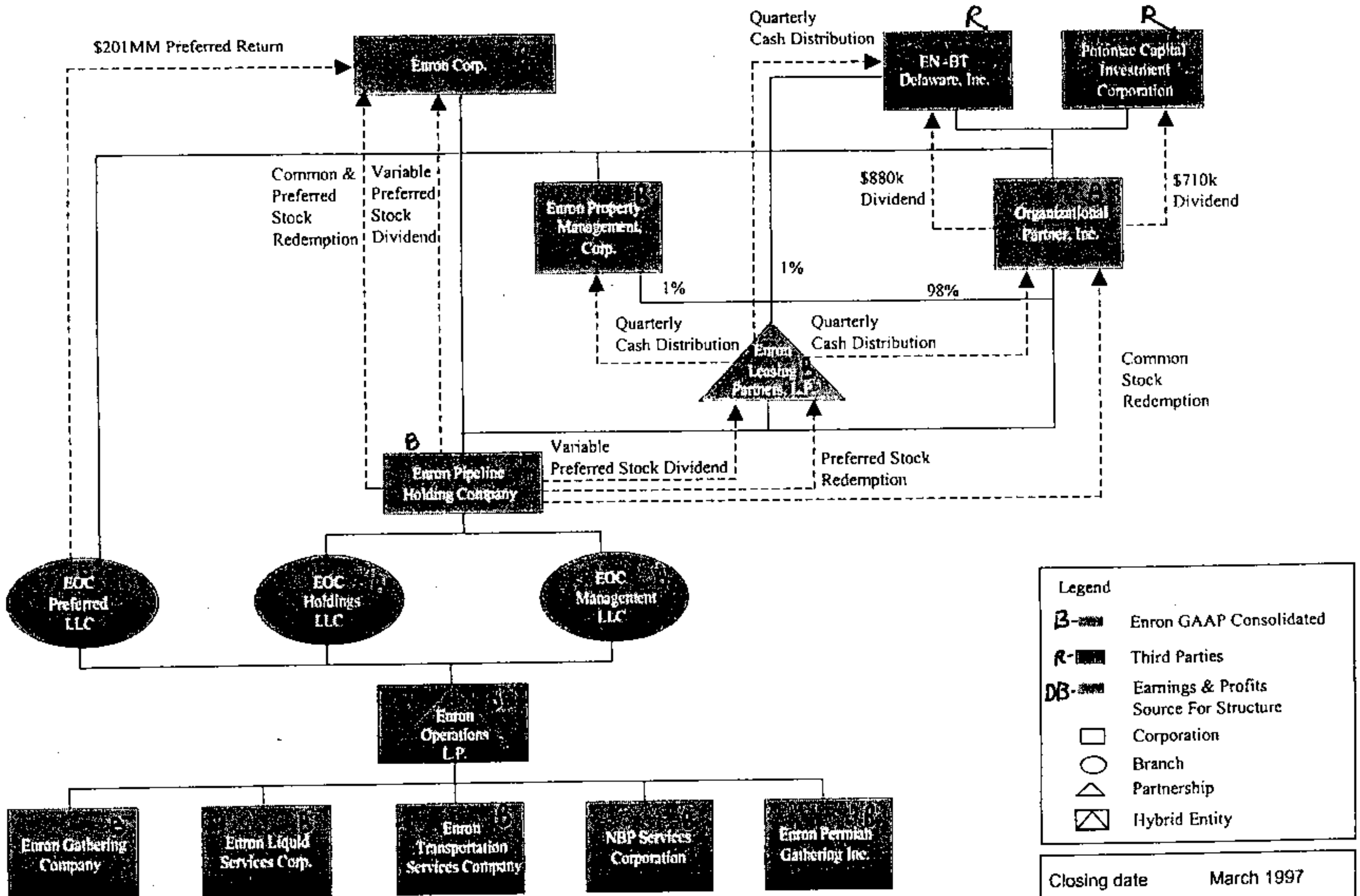
Net Income and Cash Flow Summary

(In Millions)



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

Transaction Structure



Closing date	March 1997
Total earnings	$257 million

Summary and Progress Report

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

Operational Issues and Action Items

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

Project Steele

Business Review

Structure Overview

Asset/Risk Management

Assets Acquired:
- REMIC Residual Interests — $ 7.5 million
- Corporate Bond Portfolio (rated AA or better) — $50.0 million

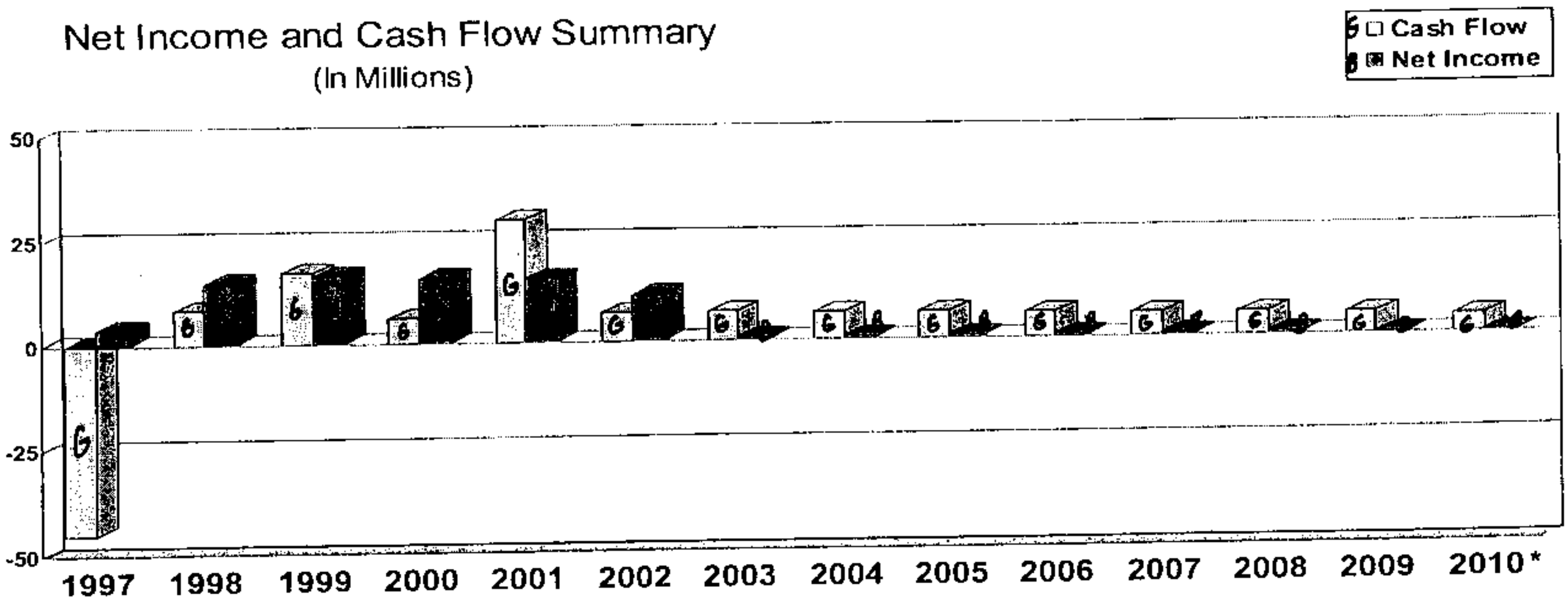
Current Status of Assets:
- Outstanding principal on bonds (the portfolio will be fully amortized by the end of 2003) — $34.0 million
- REMIC Residuals – 20% average annual cash yield during 1998-2000 — $ 1.5 million

Transaction Description

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

Net Income and Cash Flow Summary

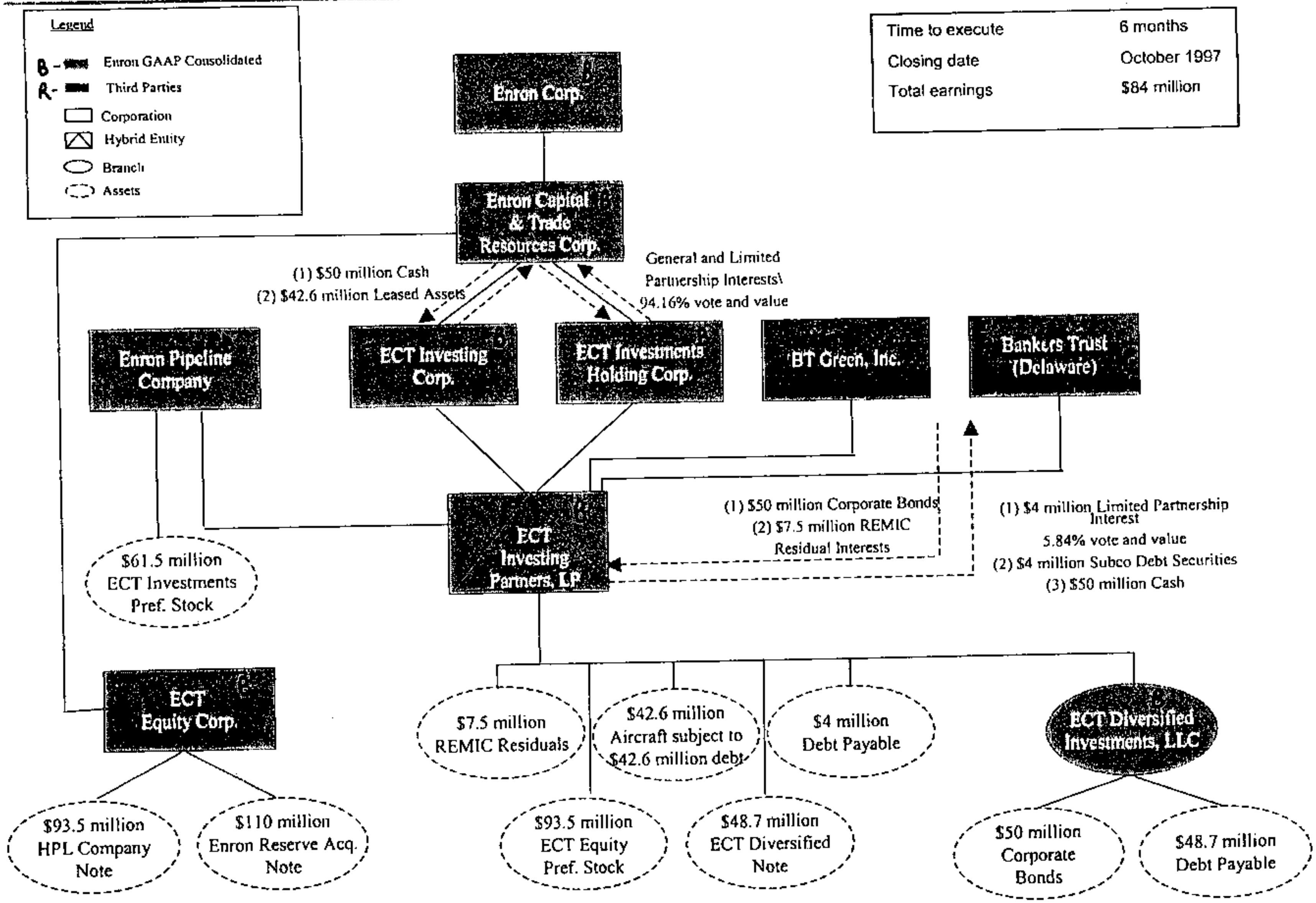
(In Millions)



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

Transaction Structure

Time to execute	6 months
Closing date	October 1997
Total earnings	$84 million



Summary and Progress Report

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

Operational Issues and Action Items

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

ENRON

Project Renegade

Business Review

Structure Overview

Asset/Risk Management

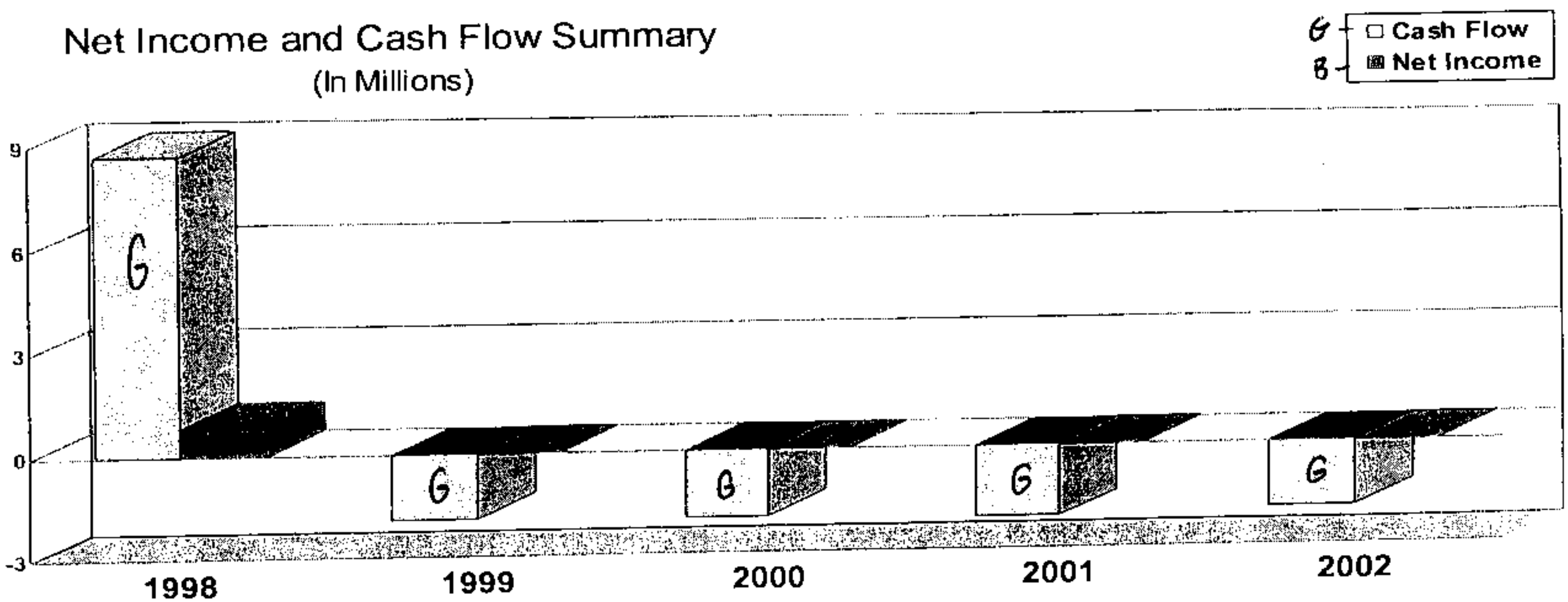
- Deutsche Bank acquired $8 million of preferred securities from the FASIT.
- The principal balance of these securities will be fully amortized in December 2002.

Transaction Description

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

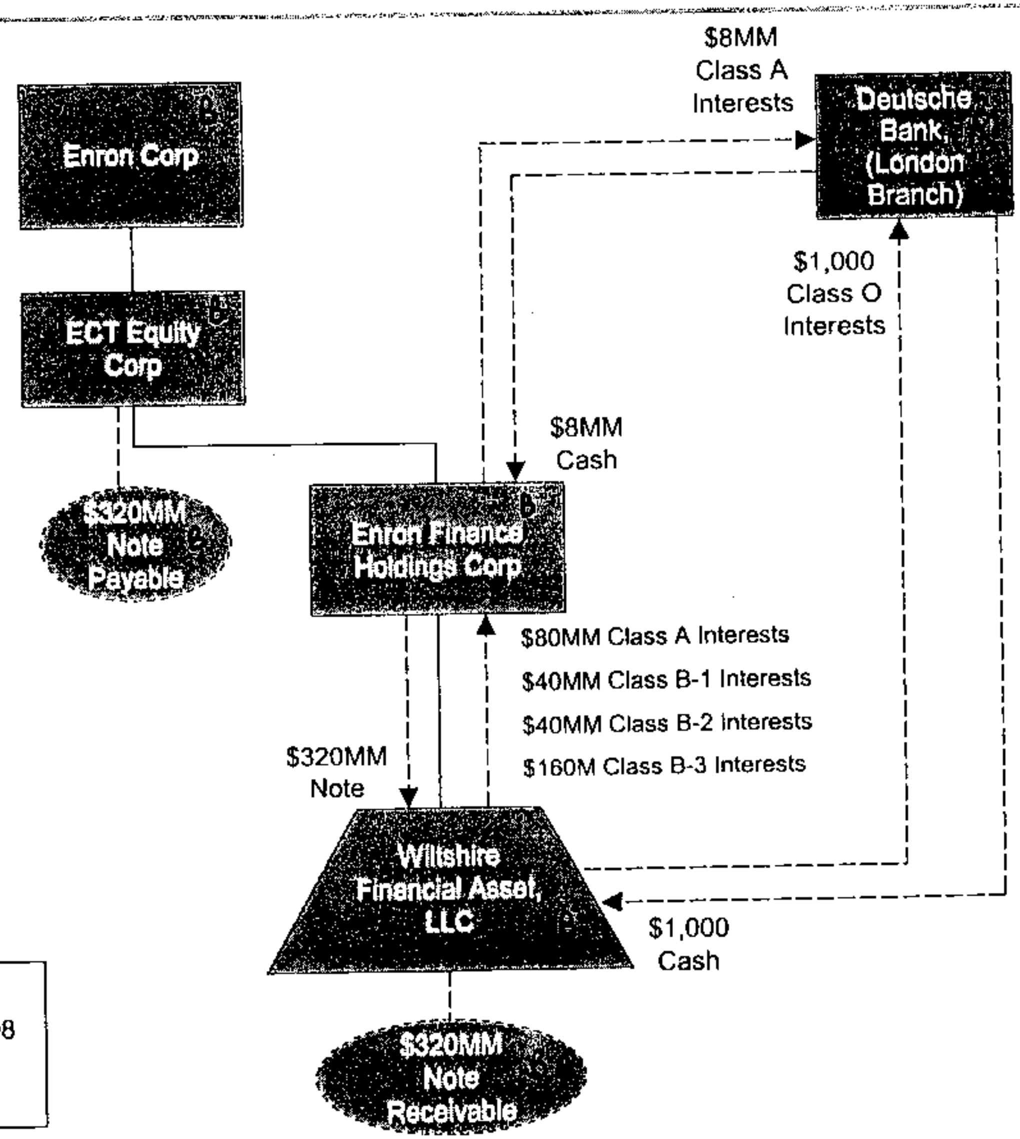
Net Income and Cash Flow Summary

(In Millions)



Transaction Structure

Legend
B - Enron GAAP Consolidated
R - Third Parties
Corporation
FASIT
Branch
Assets



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

Summary and Progress Report

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

Operational Issues and Action Items

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

Project Tomas

Business Review

Structure Overview

Asset/Risk Management

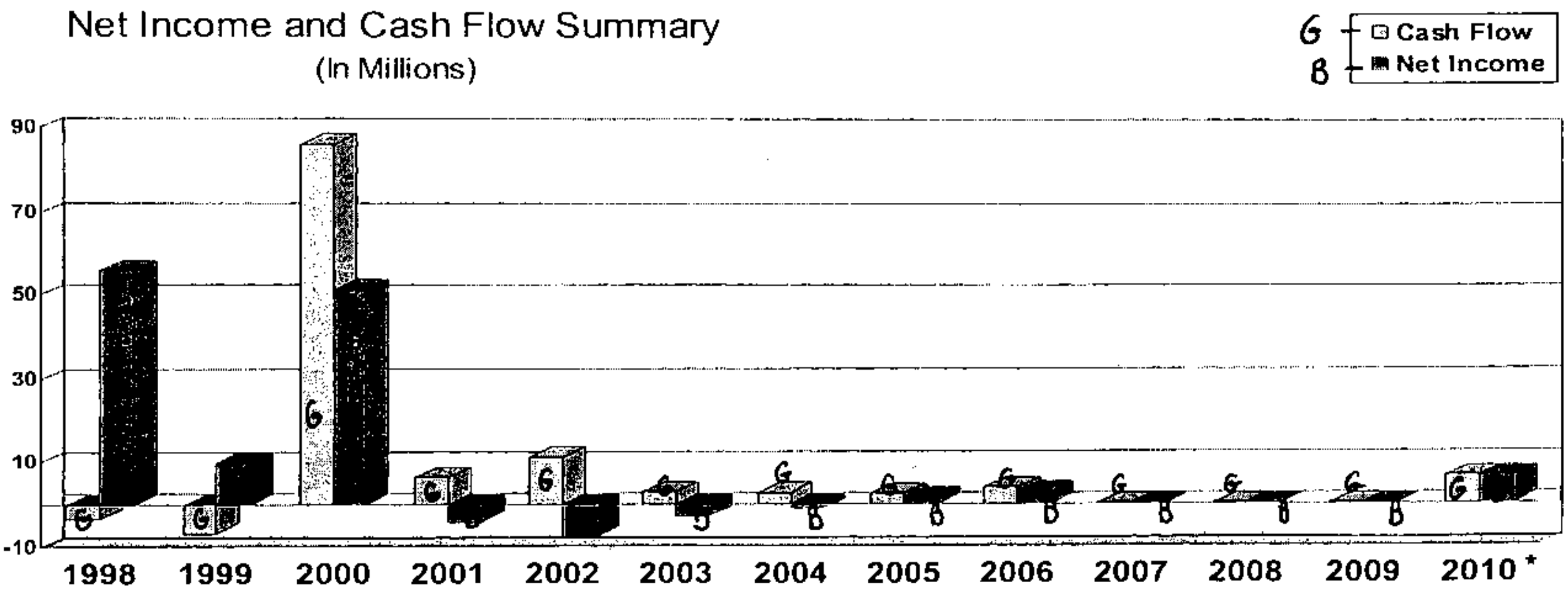
Assets Held:
- Aircraft leased to United (747) $13.6 million book value
- Aircraft leased to Continental (DC-9) $11.6 million book value

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

Transaction Description

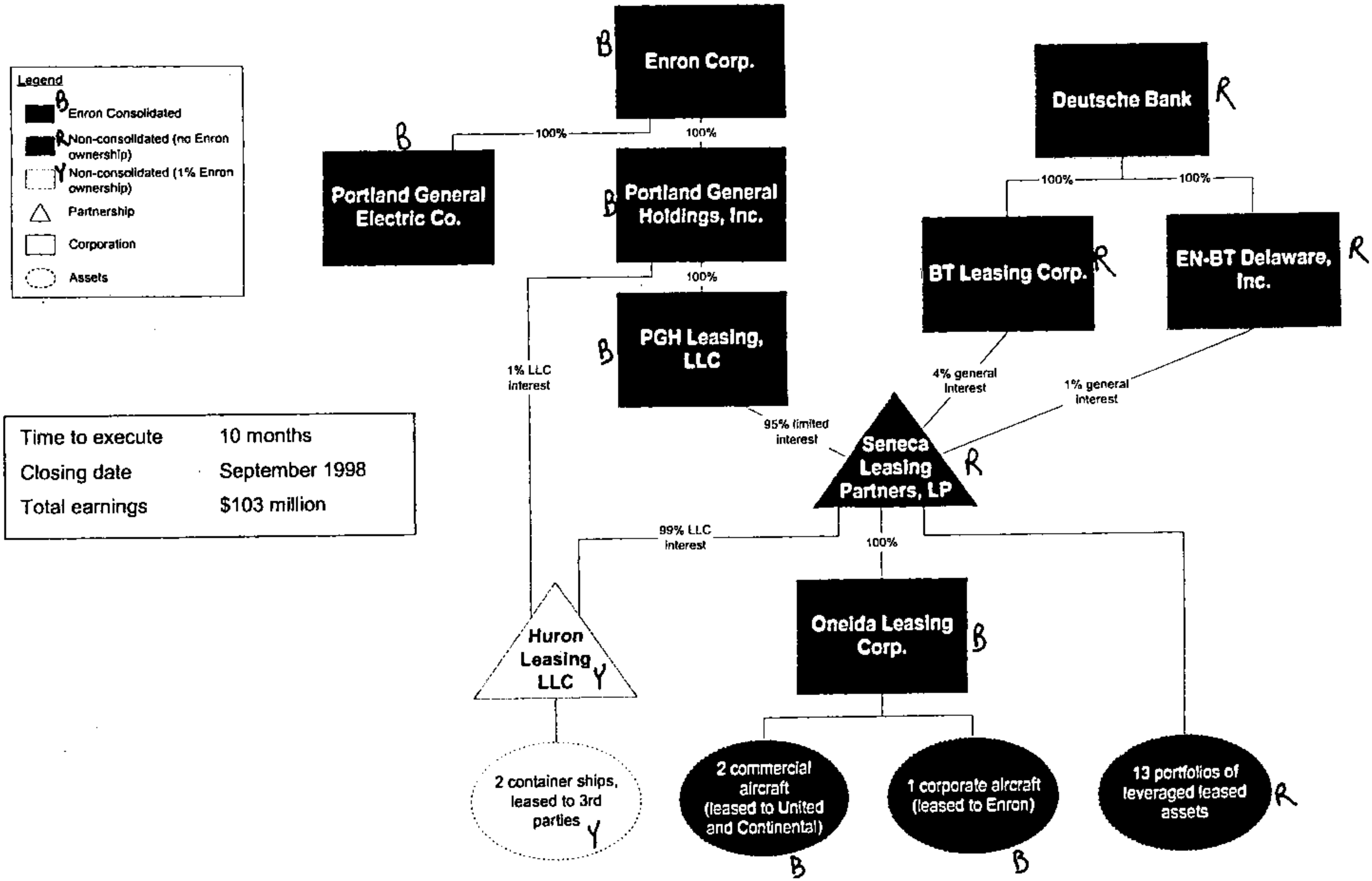
This structure generated tax basis in a portfolio of "burnt out" leveraged lease assets, which Portland General originally acquired and provided a mechanism for liquidating the portfolio at a substantial gain.

Net Income and Cash Flow Summary
(In Millions)



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

Transaction Structure



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

Summary and Progress Report

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

Operational Issues and Action Items

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

Project Cochise

Business Review

Structure Overview

Asset/Risk Management

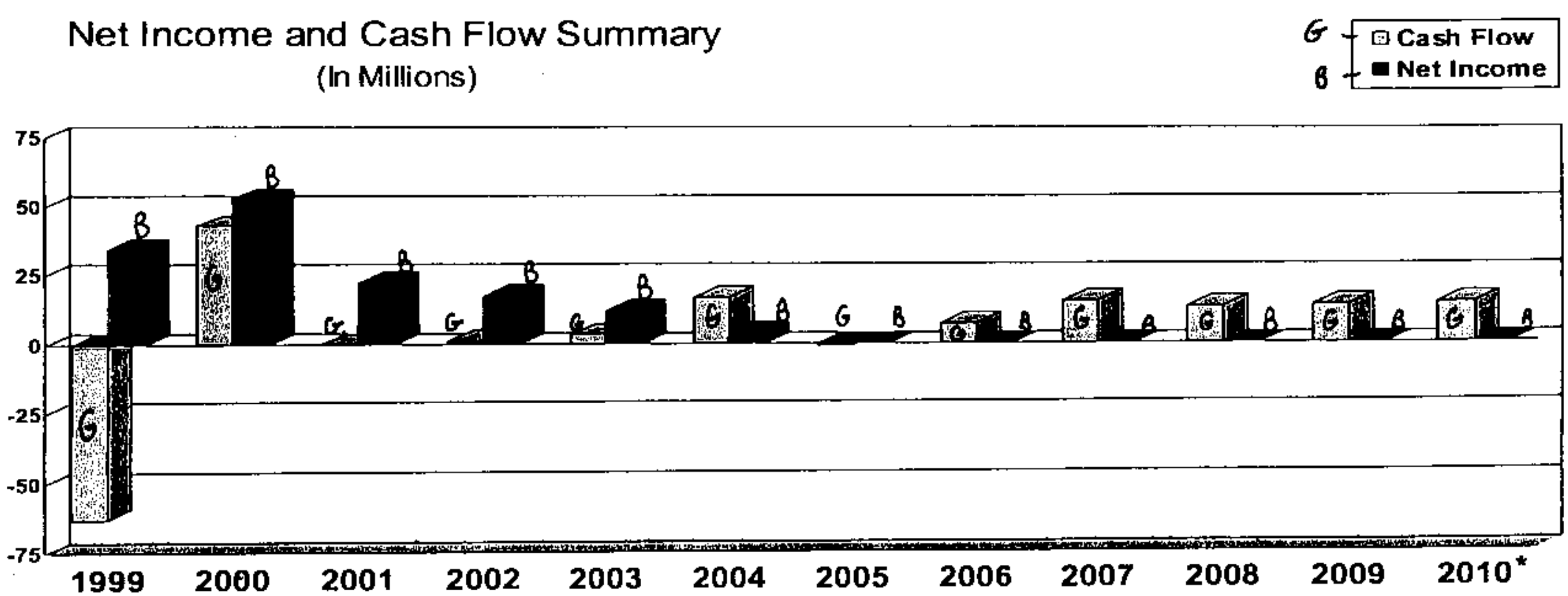
Assets Held:
- REMIC Regular Interests $26 million
- REMIC Residual Interests $0 book value

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

Transaction Description

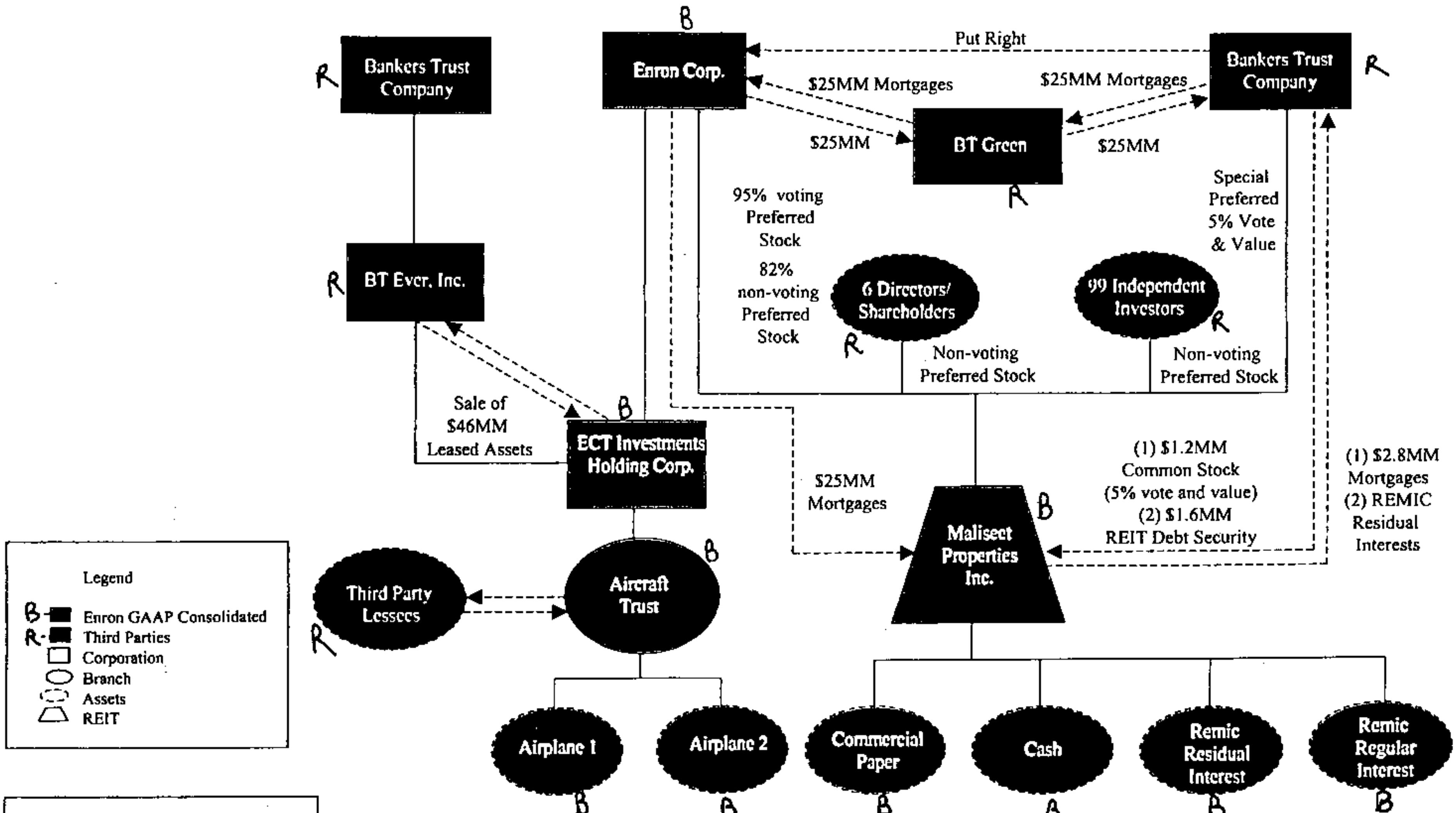
- In 1998, Enron acquired a diversified portfolio of financial instruments consisting of REMIC interests and equipment leases (commercial aircraft). Acquisition of the portfolio was consistent with Enron's wide-ranging strategy of searching for opportunistic financial investments.
- Certain financial accounting rules allowed Enron to write-down the tax basis in the leased aircraft by the amount of built-in loss in the REMIC Residual Interests thereby eliminating depreciation charges above the line on the leased aircraft.

Net Income and Cash Flow Summary
(In Millions)



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

Transaction Structure



Closing Date	December 1998
Total earnings	$143 Million

Summary and Progress Report

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

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

Operational Issues and Action Items

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

ENRON

Project Apache

Business Review

Structure Overview

Asset/Risk Management

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

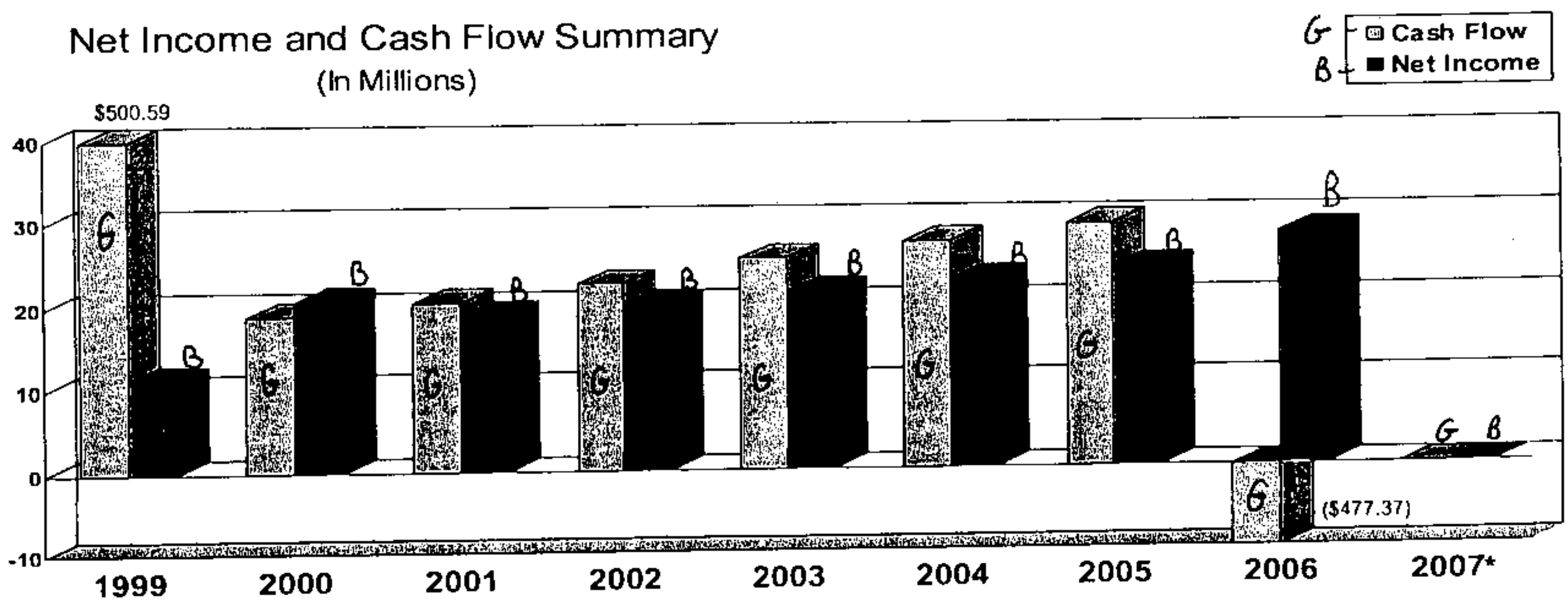
Liabilities:
- Minority interest financing of $500 million; project ends in 2006.

Transaction Description

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

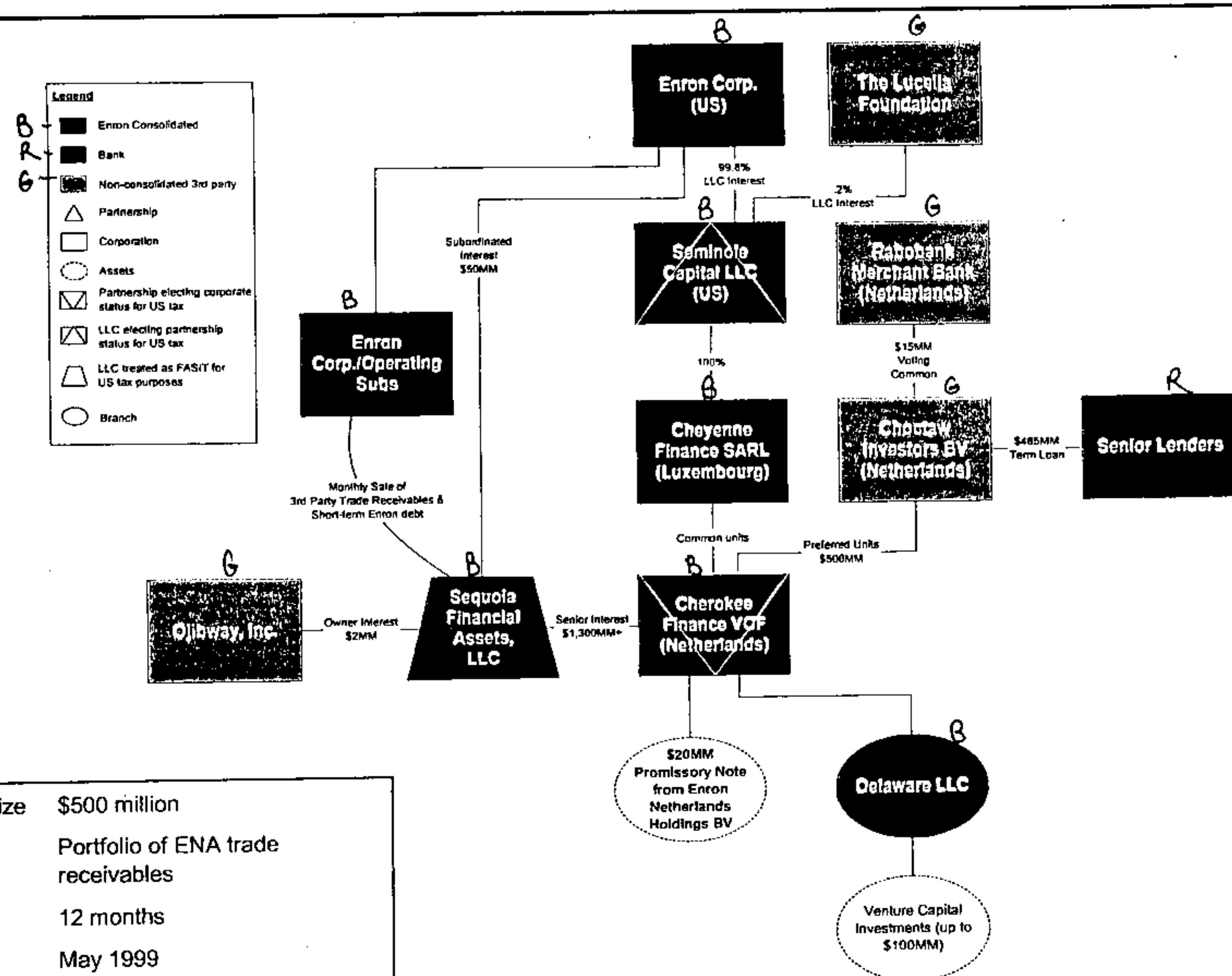
Net Income and Cash Flow Summary

(In Millions)



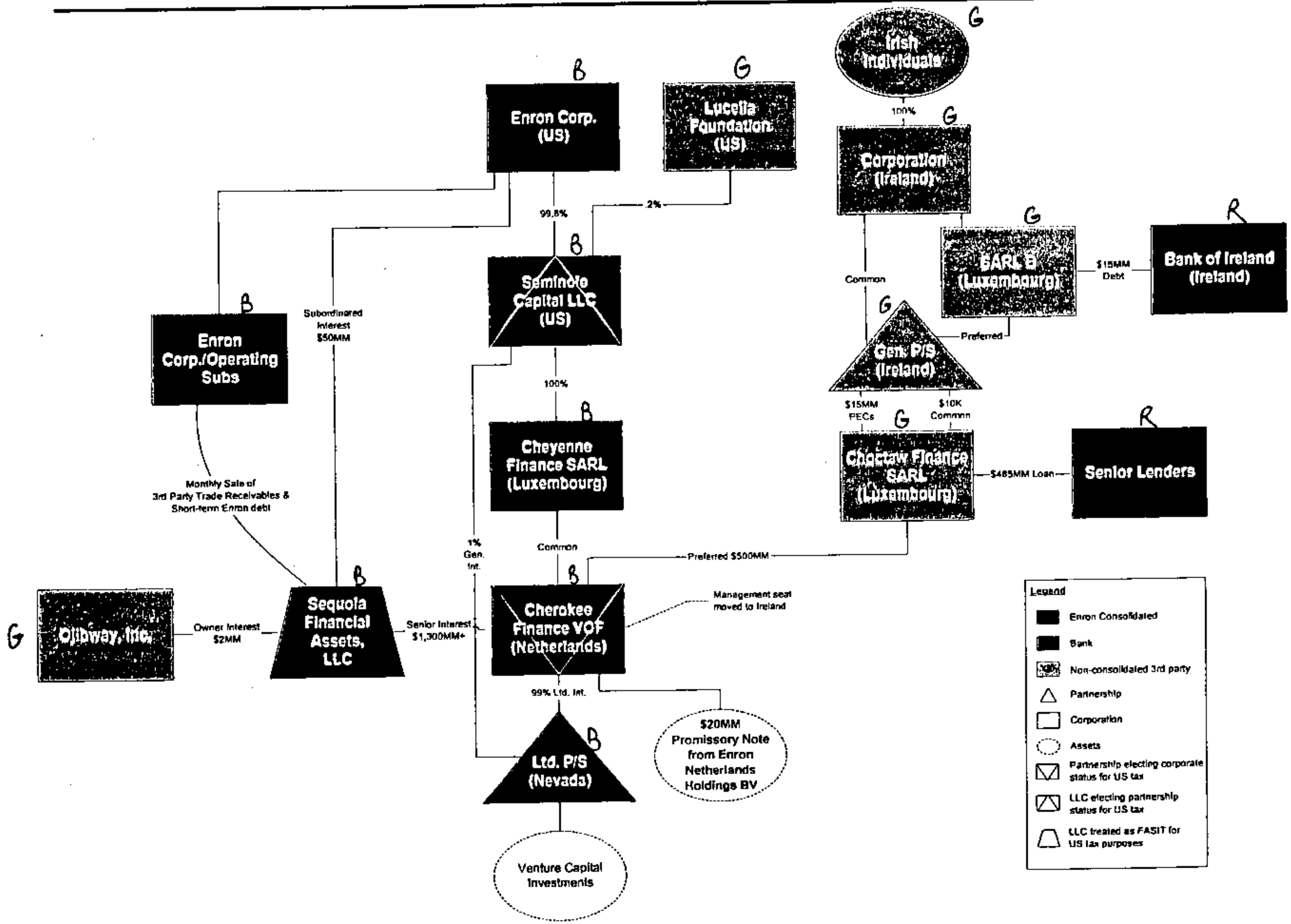
*This project will cease to produce income or cash flow after 2007.

Current Structure



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

Anticipated Restructuring



Summary and Progress Report

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

Operational Issues and Action Items

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

Project Condor

Business Review

Structure Overview

Asset/Risk Management

<u>Assets Used:</u>

- Bammel Assets $930 million

<u>Status of Assets:</u>

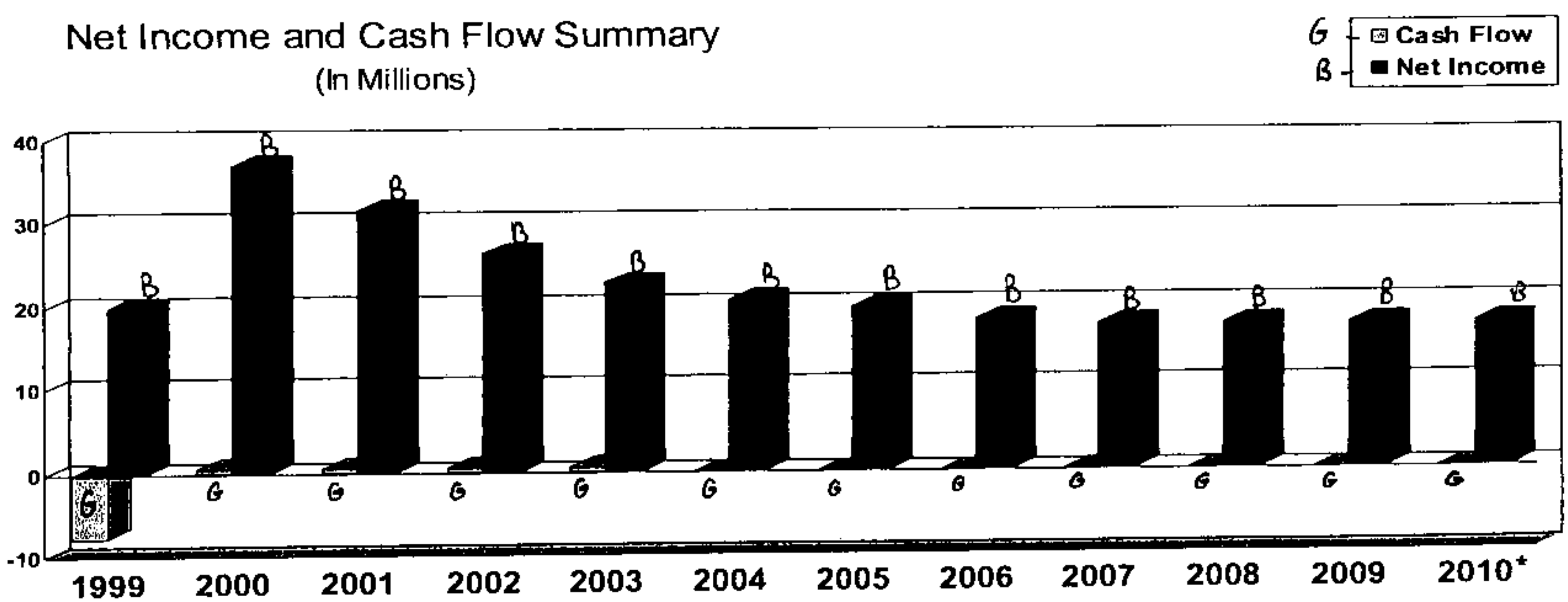
- HPL was sold to AEP in 2001. Legal ownership of the Bammel assets were retained by Enron and subleased from the Condor structure to AEP.

Transaction Description

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

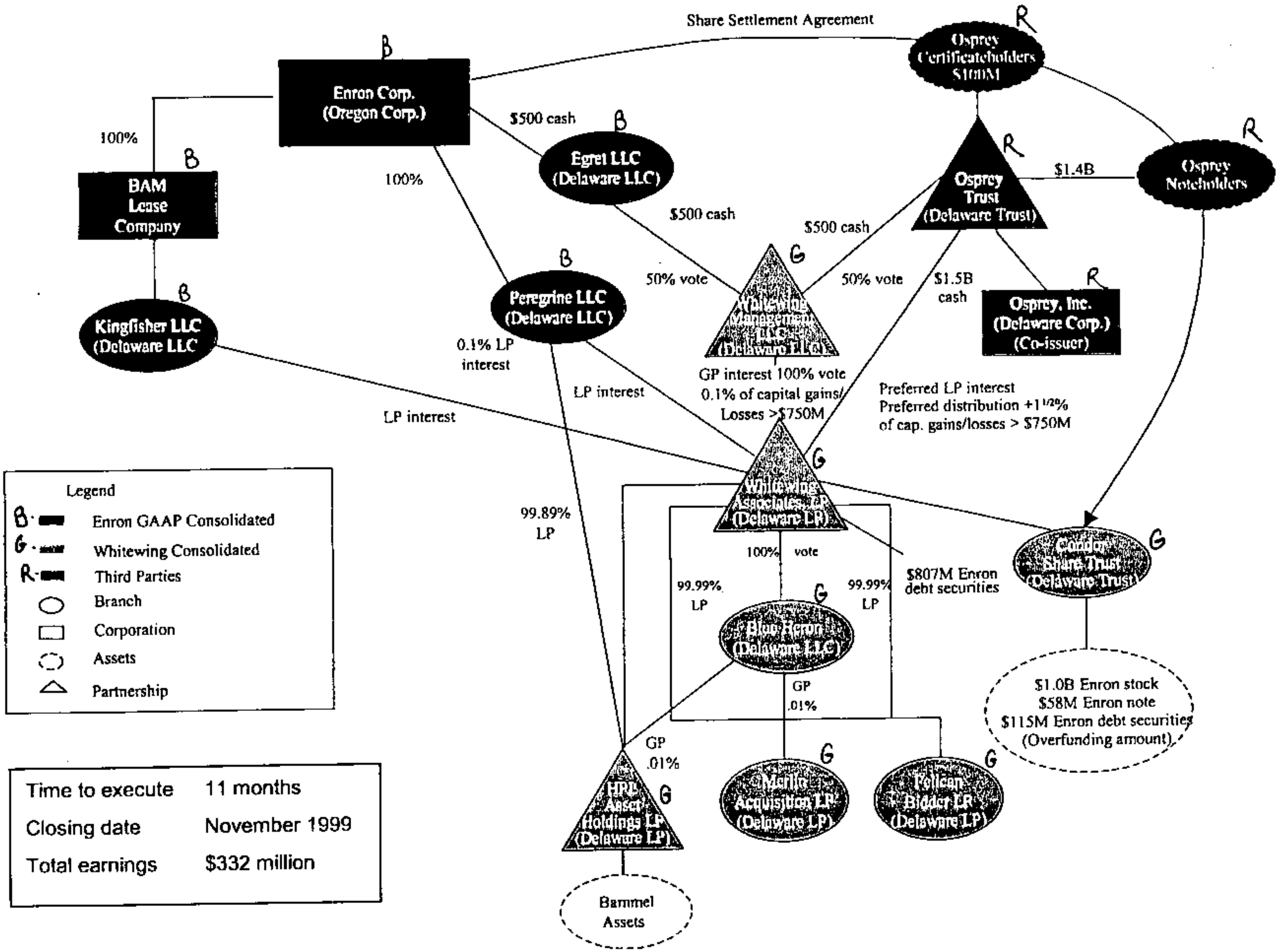
Net Income and Cash Flow Summary

(In Millions)



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

Transaction Structure



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

Summary and Progress Report

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

Operational Issues and Action Items

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

Project Valhalla

Business Review

Structure Overview

Asset/Risk Management

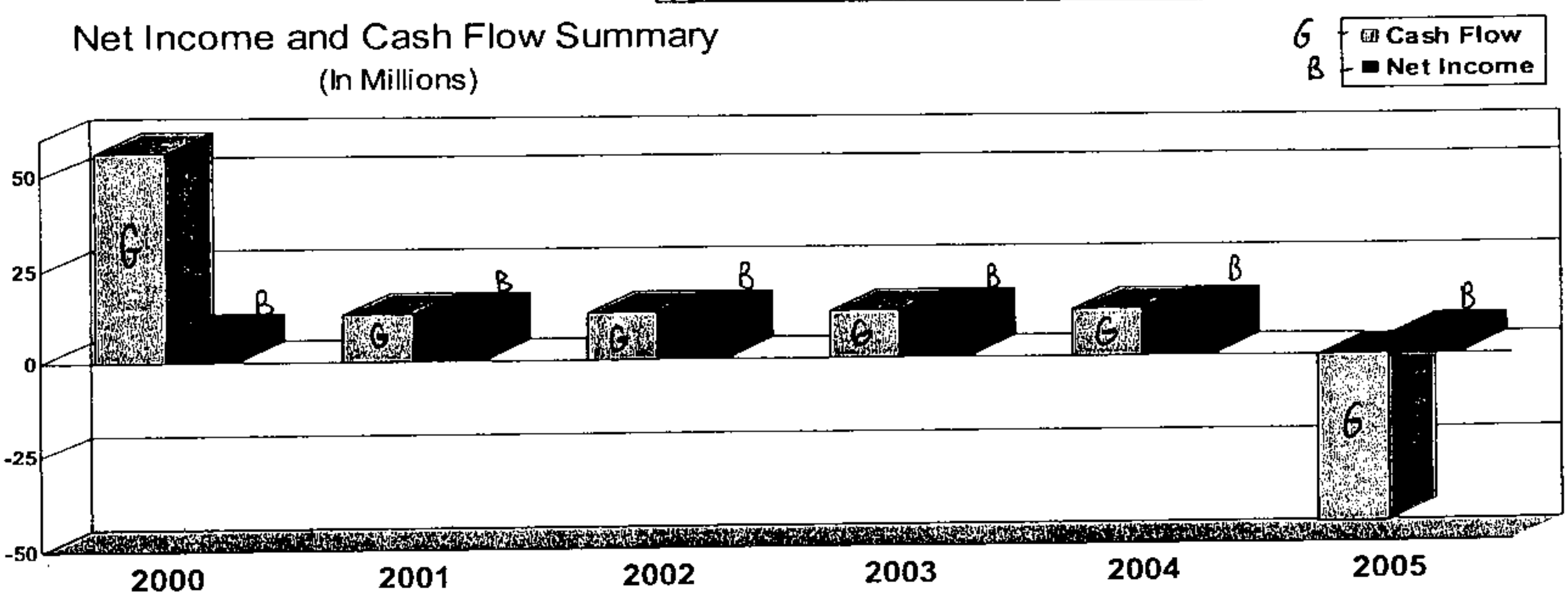
- Enron's credit exposure on $1.95B of funds deposited with DB's London affiliate is mitigated by legal set-off against the $2.0B security held by DB.
- The 5-year structure is subject to annual renewal. Changes to DB's German tax position could cause them to unwind the structure early.

Transaction Description

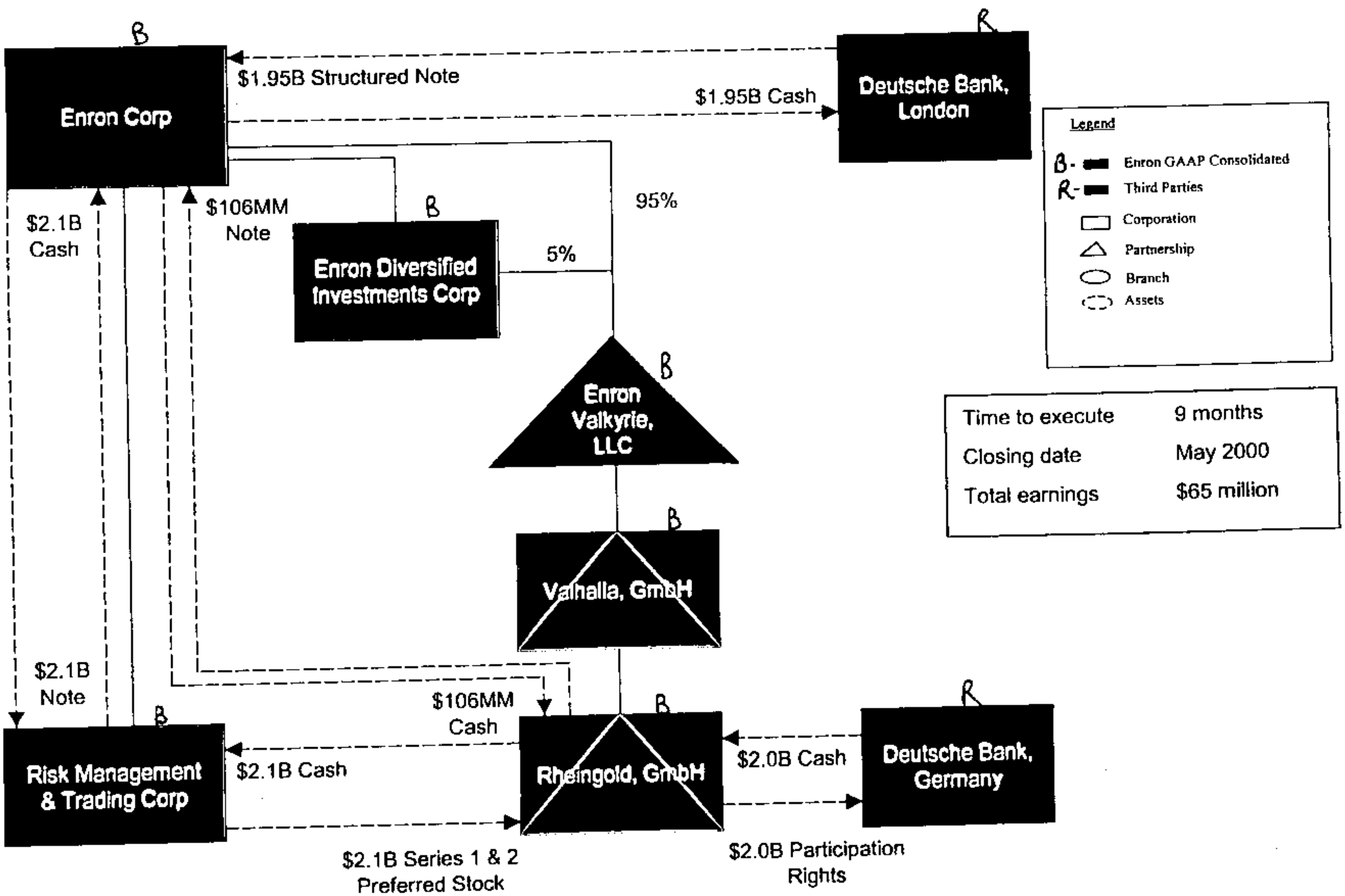
- In 2000, an Enron affiliate issued a $2.0B fixed-rate, 5-year preferred security to Deutsche Bank ("DB") in Germany. Simultaneously, Enron deposited $1.95B with DB in London with a yield based upon a package of Treasury and commodity indexes. This transaction creates commodity and interest positions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

Net Income and Cash Flow Summary

(In Millions)



Transaction Structure



Time to execute	9 months
Closing date	May 2000
Total earnings	$65 million

Summary and Progress Report

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

Operational Issues and Action Items

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

Project Tammy I

Business Review

Structure Overview

Assets/Risk Management

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

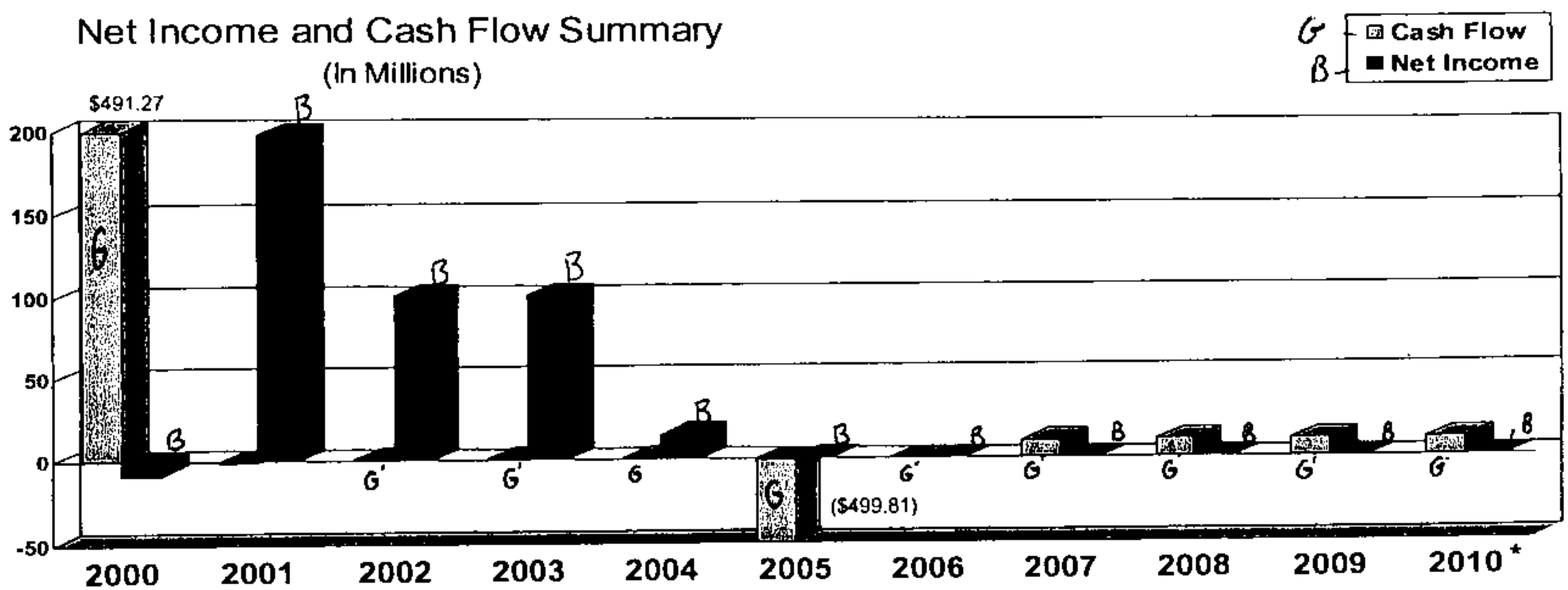
<u>Current Status:</u>
- Any sales or restructurings of finance or ownership of these assets requires coordination with the Structured Transactions Group to preserve the benefits.
- Minority interest financing of $500MM will be repaid in 2005.
- Periodically, invested proceeds from the sale of assets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

Transaction Description

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

Net Income and Cash Flow Summary

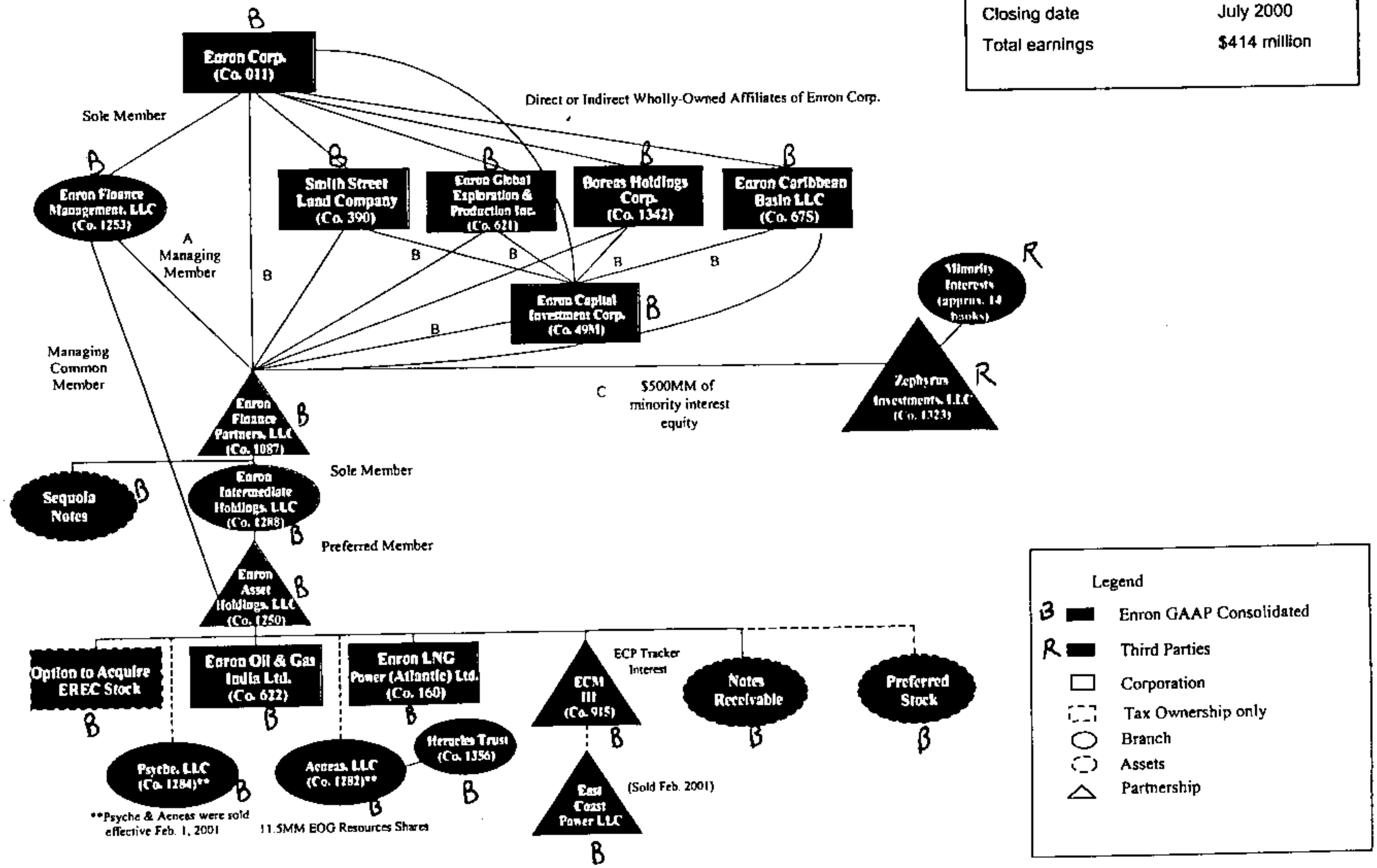
(In Millions)



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

Transaction Structure

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



Summary and Progress Report

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

Operational Issues and Action Items

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

Operational Issues and Action Items

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

ENRON

Project Tammy II

Business Review

Structure Overview

Assets/Risk Management

Assets Held:
- Tax Ownership of Portland General Electric
- Proceeds from the sale of EOTT common units
- Proceeds from the sale of Hanover Compressor shares
- Intercompany Harris Indenture and similar long-term debt
- Other Intercompany Receivables

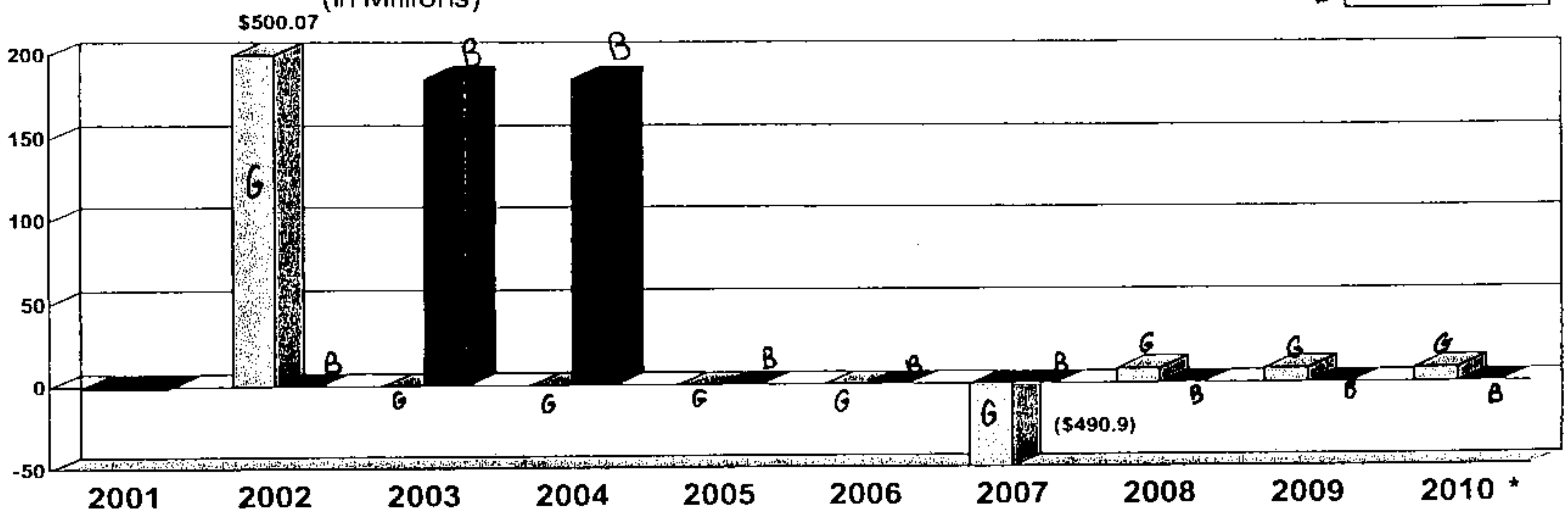
Current Status:
- The contribution of PGE into the structure deconsolidated PGE for federal income tax purposes.
- Issuance of $500 million of minority interest financing has been delayed pending further developments in the disposition of PGE.

Transaction Description

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

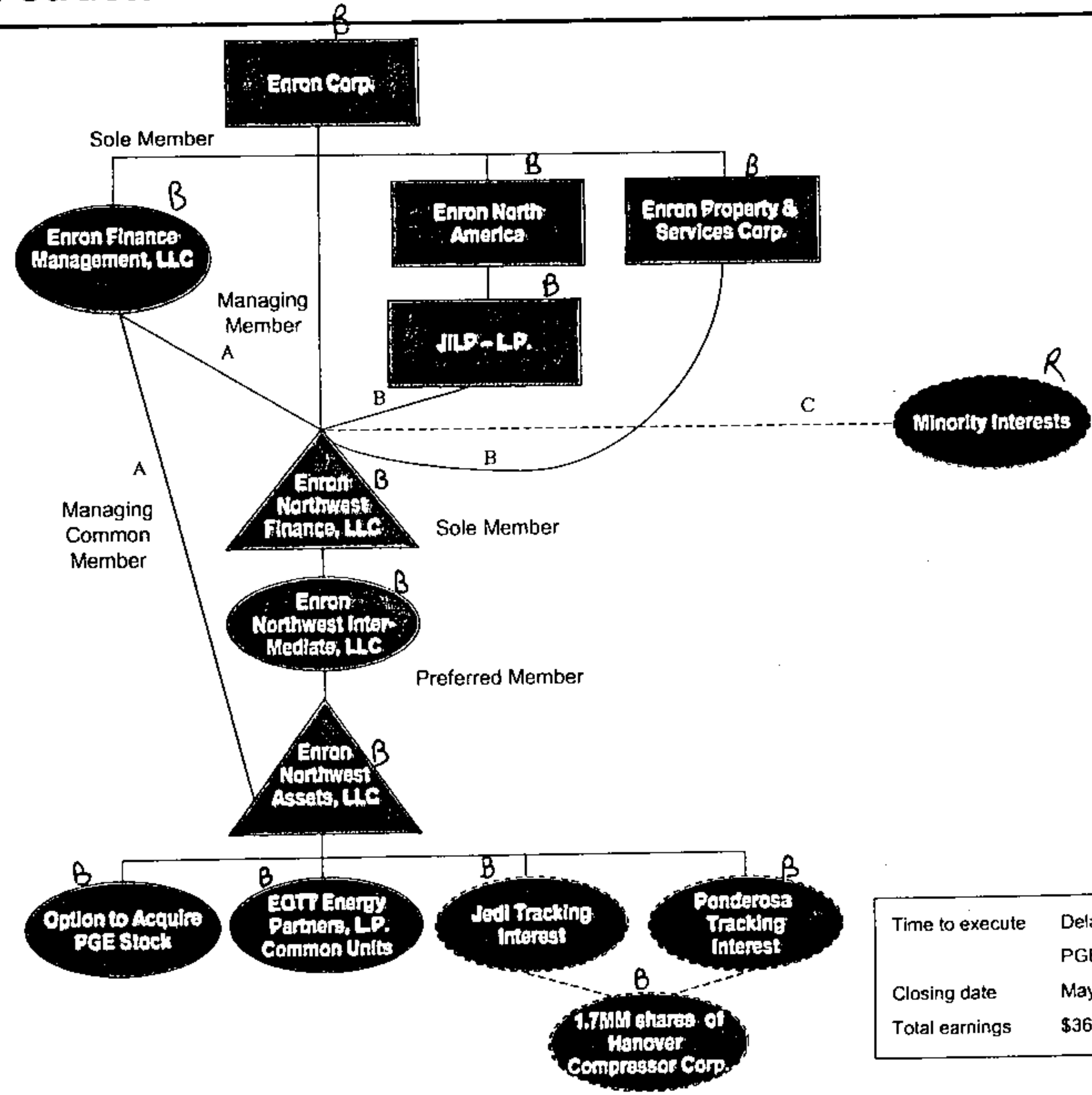
Net Income and Cash Flow Summary

(In Millions)



*There is additional positive cash flow of $332.29 million from 2011 through the year 2046 resulting primarily from tax depreciation on a long-lived asset.

Transaction Structure



Legend

B – Enron GAAP Consolidated
R – Third Parties
Corporation
Partnership
Branch
Assets

Time to execute	Delayed pending PGE Transaction
Closing date	May 2001
Total earnings	$361 Million

Summary and Progress Report

May 2001	On May 7, 2001, Enron Corp. ("Enron") created a purchase option (the "Option") on the common shares of Portland General Electric Company ("PGE") and contributed that Option together with certain other assets into Enron Northwest Finance, LLC ("Finance") in exchange for a membership interest in Finance. Finance contributed its debt and assets to two additional companies: Enron Northwest Intermediate, LLC (debt) and Enron Northwest Assets, LLC (assets). Certain other companies contributed cash and demand notes into the structure to provide substance and liquidity. Enron received Board approval for this and related transactions on May 1, 2001.
June 2001	Enron Corp. contributed the common units of EOTT Energy Partners, L.P. into the structure together with debt as an additional contribution to capital.
August 2001	Tracking interests were created out of Joint Energy Development Investments Limited Partnership ("JEDI") and out of Ponderosa Assets, L.P. ("Ponderosa") reflecting economic ownership of 1.7mm shares of Hanover Compressor Corp. stock. Enron contributed the JEDI tracking interest; and JILP-L.P. contributed the Ponderosa tracking interest into the structure as contributions to capital. These parties also contributed additional debt to the structure. Subsequently, Enron and JILP contributed a fraction of their respective interests in Finance to Enron Property and Services Corp. in exchange for additional stock in that entity.
2001-2002	The contribution of the assets was the first of several integrated steps intended to result in the issuance of minority interest equity out of Finance. Certain additional tax benefits may be realized out of the minority interest financing structure following a sale of the PGE common shares and other contributed assets.
2001-2002	This contribution of the Option deconsolidated PGE from Enron for federal income tax purposes. It did not deconsolidate PGE from Enron for financial accounting purposes. If necessary, this project can be unwound at its current stage of development in a manner that would permit PGE to reconsolidate with Enron.

Operational Issues and Action Items

Operational Issues	Action Items
Continue to monitor progress of PGE sale to determine whether an unwind may be appropriate.	Meet regularly with Mark Metts. Discuss options regularly with Rick Causey.
Actively monitor the sale of shares in Hanover Compressor Corp. and manage the resulting cash flows and income to insure proper routing to the project.	Promptly analyze any transactions that occur; ensure the consistent book and tax treatment for all parties involved. Coordinate cash flows with the tracker interests.
Actively monitor the restructuring of EOTT to insure that any tax sale is appropriately accounted for and to insure that the structure does not incur any additional liabilities.	Meet regularly with ETS management for updates on restructuring. Assess and reflect the impact on the Tammy II structure.
Perform preliminary analysis on minority interest financing.	Work closely with Global Finance on developing a structure for minority interest financing.
Legal & Tax compliance concerns.	Draft amended limited liability company agreements for operational entities.
Accurate and timely identification of cash, tax, and financial accounting issues.	Continue to develop model to accurately anticipate tax, cash flow, and financial accounting impact of various activities.