B. History of Business Operations

1. Formative years and the 1985 acquisition of Houston Natural Gas

The company that became Enron Corp. was incorporated as Northern Natural Gas Company, a Delaware corporation, on April 25, 1930. The company changed its name to InterNorth, Inc. ("InterNorth") in 1980, and then to Enron Corp. in April 1986.[56]

During the company's first thirty years of existence its only business was transporting and marketing natural gas. During the 1960s, it diversified its operations to include natural gas liquids, petrochemicals, and exploration and production of natural gas and oils. Its revenues and assets increased steadily during the 1970s and early 1980s. The company underwent major expansion in the 1980s when it acquired Belco Petroleum Company (an oil and gas exploration and production company) in 1983, Chemplex Company (a manufacturer of olefins, high- and low-density polyethylene and adhesives) in 1984, and Houston Natural Gas Corporation ("HNG") on July 1, 1985. The HNG acquisition was a major contributing factor to the company's ultimate transformation from a regional natural gas pipeline to a global provider and trader of energy and other products.

At the time of the 1985 acquisition of HNG, InterNorth was a publicly traded regional interstate natural gas pipeline company based in Omaha, Nebraska. As of December 31, 1984, InterNorth had approximately 35,000 miles of natural gas pipeline, $6.1 billion of total assets, 10,551 employees, and $7.5 billion of revenues during fiscal year 1984.[57] Its natural gas operations were sold to purchasers at various points in the upper Midwest, as well as in the production area States of Texas, New Mexico, Louisiana, Oklahoma, Kansas, Colorado, Montana, and Wyoming. Following the Federal deregulation of natural gas markets commenced by the Federal Energy Regulatory Commission ("FERC") in 1985,[58] InterNorth sought to expand its presence in the domestic natural gas industry by acquiring HNG. HNG was a publicly traded intrastate natural gas pipeline company that had three large but separate pipeline systems based in Texas, Florida, and California.[59] HNG had approximately 14,000 miles of natural gas pipeline, 3,100 employees, and $3.9 billion of assets as of December 31, 1984. InterNorth and

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[56] Enron Corp. reincorporated as an Oregon corporation in 1997.

[57] InterNorth's operating revenues were derived from the transmission and distribution of natural gas at wholesale and retail (38 percent); the acquisition, production, transportation, and marketing of natural gas liquids and petroleum products (52 percent); the exploration and production of natural gas and oil (5 percent); and the production and marketing of plastic resins and films, petrochemicals, and antifreeze (5 percent).

[58] Various FERC orders mandated a fundamental restructuring of interstate pipeline sales and transportation services, and further enhanced competition in the natural gas industry by assuring comparability of pipeline sales and services offered by competitors.

[59] HNG had been an intrastate natural gas pipeline company operating primarily in Texas until 1984 when it acquired interstate pipeline systems based in Florida and California.

HNG reported market capitalization of $2.1 billion and $1.4 billion, respectively, as of March 1985.

InterNorth acquired HNG pursuant to a stock acquisition in which InterNorth paid HNG shareholders $2.4 billion cash for all of HNG's stock. For financial reporting purposes, the InterNorth/HNG transaction was reported as the acquisition by InterNorth of HNG, effective June 1, 1985, under the purchase method of accounting. For Federal income tax purposes, the transaction was reported as a taxable purchase by InterNorth of HNG's stock, and HNG and its affiliates were included in InterNorth's consolidated Federal income tax return beginning in calendar year 1985.

The combination of InterNorth's and HNG's pipeline systems formed the largest natural gas pipeline system in the United States, approximately 37,000 miles in length, and the first nationwide natural gas pipeline network in the United States. HNG's Houston pipeline served as the hub of the company's network and major interstate pipelines, and created a pipeline system that extended from the borders of Mexico to Canada, and from Florida to the Arizona-California border. The combined company's major businesses included: (1) gathering and wholesale marketing of natural gas through its pipeline system (approximately 63 percent of the company's assets); (2) exploration and production of natural gas and crude oil (approximately 25 percent of the company's assets); (3) production, purchase, transportation, marketing and trading of natural gas liquids, crude oil, and refined petroleum products (approximately five percent of the company's assets); and (4) the manufacture and marketing of polyolefin plastic resins and related products (approximately five percent of the company's assets).[60]

Although HNG was the smaller of the two combined companies, its officers and directors took over management control soon after the acquisition.[61] The combined company first operated under the name HNG InterNorth. HNG's Chairman and Chief Executive Officer, Mr. Kenneth Lay, became the Chairman of the Board and Chief Executive Officer of HNG InterNorth in February 1986.[62] By the end of 1986, a majority of Enron Corp.'s officers and directors were former officers and directors of HNG, the acquired company.

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[60] At the time of the HNG acquisition, InterNorth was the eighth largest producer of polyolefin resins in the world.

[61] This was contemplated in the agreement between InterNorth and HNG. Pursuant to section 6.12 of the Agreement and Plan of Merger between the companies, InterNorth agreed and covenanted to cause its Chairman and Chief Executive Officer to remain in those positions until January 1, 1987, at which time Mr. Lay would assume those positions, and increase the InterNorth board size to permit ten directors to be selected by HNG's board or by Mr. Lay. The Chairman and Chief Executive Officer of InterNorth at the time of the acquisition left the company in November 1985.

[62] Mr. Lay became Chairman and Chief Executive Officer of HNG in June 1984. He served in these capacities with HNG InterNorth and Enron Corp. until February 2001, at which time Mr. Jeffrey K. Skilling was promoted to Chief Executive Officer of the company. Mr. Skilling resigned from Enron in August 2001, and Mr. Lay once again became Chief Executive

2. Transition from natural gas company to diversified energy company: 1986-1995

During 1986 to 1995, Enron began its transformation from a domestic natural gas company to a global provider of energy products. Immediately following the HNG acquisition, Enron implemented a program of selective asset divestitures. Asset dispositions included certain pipelines that were required to be sold as a condition to regulatory approval of the HNG acquisition, retail natural gas operations, the petrochemicals business segment, and other smaller operations.[63]

At the end of 1986, Enron was predominantly a domestic business, with the company's foreign assets and foreign operating revenues comprising 10 percent and eight percent, respectively, of the company's worldwide totals.[64] The company had oil and gas reserves in the United States and Canada, most of which were held in its subsidiary, Enron Oil & Gas Company ("EOG").[65]

By the late 1980s, however, Enron's business began to change. Enron became involved in buying and selling energy commodities, as well as exploring, developing, and transmitting natural gas and liquid energy products. During 1987, Enron discontinued its speculative oil and petroleum products trading operations conducted by Enron Oil Corp. in New York due to losses incurred as a result of unauthorized trading activities. In 1989, Enron began entering into long-term fixed priced energy contracts, and trading natural gas commodities through the use of forward contracts and other instruments.

As recently as 1990, Enron viewed itself as a natural gas company. In its Annual Report released in early 1990, Enron stated, "Enron enters the 1990s with a focused business strategy, a strong set of values and a vision to become the premier integrated natural gas company in the world. Enron's business is natural gas, from the reservoir to the burner tip ..."[66]

Officer. Mr. Lay remained Enron's Chairman of the Board and Chief Executive Officer until he resigned from those positions in January 2002. Mr. Lay resigned as an Enron director in February 2002.

[63] The divestitures and associated layoffs of employees reduced the company's total workforce from 8,800 employees in 1985 to 7,200 employees at the end of 1986.

[64] *See* Table 5, Miscellaneous Foreign and Domestic Financial Information for Enron, 1991 to 2000.

[65] As of December 31, 1989, EOG's reserves were 91 percent natural gas and predominantly domestic (91 percent located in the United States and nine percent located in Canada).

[66] Enron Corp., 1989 Annual Report, at 6 (1990). For the year ended December 31, 1989, Enron's consolidated group of companies derived approximately 35 percent of its revenues from natural gas operations, 63 percent from liquid fuels operations (including liquid natural gas, gas liquids, and crude oil), and 2 percent from exploration and production. *Id.* at 1.

In the early 1990s, Enron increased its natural gas trading and financing activities through its subsidiaries, Enron Gas Marketing, Inc., Enron Finance Corp., and Enron Gas Services.[67] During the period 1992-1994, Enron disposed of a substantial portion of its liquid pipeline assets, including the Northern Border Pipeline in 1993, and its substantial Enron Oil Trading & Transportation Company ("EOTT") crude oil and trading operations in 1994, by transferring those assets to unconsolidated partnerships such as Enron Liquid Pipelines, LP, Northern Border Partners, LP, and EOTT Energy Partners, LP.[68] Enron's disposition of EOTT was so significant that it caused Enron to restate certain of its financial statements, beginning with those included in its 1993 Annual Report.[69]

In 1994, Enron began purchasing and selling electricity after Enron's power marketing subsidiary obtained a no-action letter from the Securities and Exchange Commission exempting its power marketing activities from regulation as an electric utility under the Public Utility Holding Company Act.[70]

In the 5-year period, 1991 through 1995, Enron's annual revenues (restated after taking into account the divestiture of EOTT) increased from $5.7 billion to $9.2 billion. Enron's total assets were $13.2 billion as of December 31, 1995.

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[67] In 1992, Enron adopted the mark-to-market method of accounting for financial statement purposes for its trading operations. *See* Appendix B, Enron Corp., Presentation to the Joint Committee on Taxation (June 7, 2002).

[68] Enron Liquid Pipelines, LP, Northern Border Partners, LP, and EOTT Energy L.P. were classified as master limited partnerships. Enron reported to the Joint Committee staff that the master limited partnership prospectus informed investors of the intent to register the aforementioned as tax shelters under sec. 6111(c). *See* Appendix B, Enron Corp., Presentation to the Joint Committee on Taxation (June 7, 2002).

[69] EOTT's operations had accounted for revenues of $8.2 billion, $7.7 billion, and $6.4 billion of Enron's consolidated revenues for 1991, 1992, and 1993, respectively. Enron Corp., Form 10-K for Fiscal Year Ended December 31, 1993 (note 3 to the consolidated income statement). Enron's reported revenues decreased from $13.5 billion in 1991 to $6.3 billion in 1992, with revenues from liquid fuels (including EOTT) decreasing from $9.9 billion to $2.0 billion for those years. Enron Corp., Form 10-K for Fiscal Year Ended December 31, 1991 (1992), at 23-24; Enron Corp., Form 10-K for Fiscal Year Ended December 31, 1992 (1993), at 20-21. Based on these reported amounts, the EOTT divestiture decreased Enron's reported consolidated revenues by approximately 55 percent and 44 percent for 1992 and 1993, respectively. *Id. See also* Enron Corp., 1992 Annual Report (1993), at 42, 51 (disclosing proposed spinoff of EOTT and reporting EOTT's activities as discontinued operations).

[70] Congressional Research Service, Financial Oversight of Enron: *The SEC and Private-Sector Watchdogs, Report of the Staff to the Senate Committee on Governmental Affairs*, at 47-51 (October 8, 2002).

During the early 1990s, Enron also increased its foreign presence principally through the development, acquisition, promotion, and operation of natural gas and power projects and the marketing of natural gas liquids. A consortium that included Enron acquired a southern Argentina pipeline system in 1992 to establish Enron's first presence in South America. In April 1993, Enron made its first substantial investment in the European energy markets when it began its Teesside operations, a combined cycle gas turbine power plant in the United Kingdom. In 1994, Enron formed Enron Global Power and Pipelines to develop energy projects in developing nations. By 1995, Enron's international activities included power plants or projects in Germany, Guatemala, and the Philippines, its pipeline system in Argentina, retail gas and propane sales in the Caribbean basin, and natural gas liquids processing at Teesside. By the close of 1995, Enron's foreign assets and revenues accounted for approximately 14 percent and 11 percent of total worldwide assets and revenues, respectively.

3. Transformation to a marketing and logistics company: 1996-2001

The period 1996-2001 involved four significant company-wide themes: (1) expansion into increasingly deregulated domestic energy markets such as natural gas and electricity; (2) movement into global markets such as power plants, water, and metals; (3) transformation from a physical assets company to a provider of risk management, communications, financial, and energy services; and (4) a focus on attaining financial and operational objectives established in January 1996. Enron promoted itself as an innovator and a company for the changing economy, describing itself as having "metamorphosed from an asset-based pipeline and power generating company to a marketing and logistics company whose biggest assets are its well-established business approach and its innovative people."[71] The company's Chief Executive Officers during this period, Messrs. Lay and Skilling, oversaw the company's transformation.

In 1996, Enron introduced "Enron 2000," a plan that represented the company's commitment to achieving three specific financial objectives: (1) $1 billion of net income by the year 2000; (2) 15 percent average compound annual growth; and (3) double-digit growth in each individual fiscal year.[72] Enron 2000 was introduced and described in the company's year-end earnings release issued to analysts, media, shareholders, and employees, and was communicated to stock analysts and management personnel at separate meetings.[73] In announcing Enron's 1996 earnings per share, Mr. Lay, chairman and chief executive officer of Enron, was quoted in an Enron press release as saying, "Enron achieved its earnings and operational goals in 1996, the

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[71] Enron Corp., 2000 Annual Report, at 9 (2001).

[72] Presentation to Enron Corp. Board of Directors' Meeting, December 9, 1997 (describing the history regarding introduction of Enron 2000 and its importance as the standard against which the company's actual financial performance was to be measured). EC 000046072.

[73] Enron Corp., 1996 Performance Review (January 17, 1997). EC 000103501.

first year of our Enron 2000 initiative to reach net income in excess of $1 billion and achieve a minimum double digit growth in annual earnings per share."[74]

Enron restructured its worldwide operations in January 1997. The restructured company: (1) consolidated its international activities into Enron International (consisting of Enron Development Corporation, Enron Joint Venture Management, Enron Americas, and Enron Global Power and Pipelines); (2) established the Enron Gas Pipeline Group, which was responsible for all of Enron's North American pipeline companies; (3) established Enron Ventures Corp. to manage its international and domestic engineering and construction activities; (4) formed Enron Renewable Energy Corp. to conduct wind energy projects; (5) formed Enron Capital Management to encompass Enron's treasury and corporate risk management functions; and (6) continued Enron Capital & Trade Resources, which was later renamed Enron North America Corp.

Enron's shift during this period from physical assets to services businesses was evidenced by its growth in reported risk management assets (from $0.5 billion in 1992 to $21 billion in 2000) relative to net plant, property, and equipment (from $6.5 billion to $11.7 billion during the same period). By March 2000, Enron was the sixth largest energy company in the world, with its businesses divided into three core areas: (1) wholesale services, including the marketing and delivery of physical commodities and financial risk management services; (2) retail energy services business, including providing integrated energy and facility management outsourcing solutions to commercial and industrial consumers worldwide; and (3) global services, including asset-based businesses such as pipelines, engineering businesses, and international power, pipeline, and distribution operations. Enron entered into contracts for physical delivery of energy products, as well as financial contracts related to trading its wholesale commodity products, including commodities contracts, forward contracts, swap agreements, securities contracts, caps, floors, collars, futures contracts, repurchase agreements, and options.

Enron's reported consolidated revenues increased from $13 billion in 1996 to $101 billion in 2000. During the same period, Enron's reported total assets increased from $16.1 billion to $65.5 billion.[75]

<u>Natural gas and electricity in the United States</u>

At the beginning of 1996, Enron operated the second largest natural gas transmission system in the world. Throughout the 1990s Enron also increased its power marketing activities, which consisted of selling power at market-based rates. Shortly after announcing its January 1997 worldwide restructuring, Enron formed Risk Management & Trading Corp. to "manage trading books" for various Enron entities. Soon thereafter, Enron formed Enron Energy Services

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[74] Press Release, Enron Corp., Enron Reports 12 Percent Increase in 1996 Earnings Per Share, to $2.31 Per Share (January 21, 1997) at http://www.enron.com/corp/pressroom/releases/1997/12per.html (last visited January 26, 2003).

[75] The asset and revenue figures were reported in the company's financial statements prior to charges and restatements announced and made in October and November 2001.

to sell energy and advisory services, such as long-term energy management, to large consumers.[76]

In early 1997, Enron took steps to increase its electricity development and production in the northwestern United States when it announced a strategic energy alliance with Northern California Power Agency, pursuant to which Enron would provide a comprehensive package of services, including the sale of natural gas and financial and risk management products. This event reportedly marked the first alliance of its kind following California's deregulation of the electric power industry. In July 1997, Enron acquired Portland General Corporation ("PGC"), an electric utility holding company, and Portland General Electric ("PGE"), its affiliated electric utility with approximately 685,000 residential and commercial retail customers in Oregon. Enron's acquisition of PGE and PGC was effected by a $1.9 billion stock swap in which Enron issued 50.5 million shares of Enron stock to PGC shareholders in exchange for 49.6 million shares of PGC stock. Enron also consolidated $1.1 billion of PGE's debt, making the total acquisition price approximately $3 billion.[77] Enron considered PGE to be its platform to enter the deregulated California electricity market.[78] In October 1997, Enron entered the California electricity market by offering consumers two weeks of free electricity and utility rates guaranteed for at least two years.

Enron's acquisition of PGE raised certain regulatory issues under the Public Utility Holding Company Act that caused Enron to change its corporate domicile from Delaware to Oregon. When Enron acquired ownership of all of the outstanding voting securities of PGE, an Oregon public utility, Enron became a public utility holding company within the meaning of the Public Utility Holding Company Act. The Public Utility Holding Company Act provided a limited "intrastate exemption" from certain regulatory provisions if the holding company (Enron Corp.) and its subsidiary utility (PGE) were domiciled within the same State. Concomitant with the PGE acquisition, Enron Corp. reincorporated in Oregon, reissued its capital stock without par

[76] As identified in Enron press releases, these long-term energy management customers ultimately included, among others: The Chase Manhattan Corporation, IBM, Quebecor, Starwood Hotels and Resorts, Compaq, Simon Properties, Sonoco, Owens-Illinois, Quaker Oats, Eli Lilly, JCPenney, and Saks Incorporated. *See* Press Release, Enron Corp., Enron and Chase Manhattan Bank Sign Long-Term Energy Management Agreement (February 2, 2000), at http://www.enron.com/corp/pressroom/releases/2000/ene/chase.html (last visited February 11, 2003); and Press Release, Enron Corp., Enron Reports Record First Quarter Recurring Earnings of $0.47 per Diluted Share; Increases Earnings Expectations for 2001 (April 17, 2001), at http://www.enron.com/corp/pressroom/releases/2001/ene/ENE-Q1-01-LTR.html (last visited February 11, 2003).

[77] The PGE acquisition was reported under the purchase method of accounting for financial reporting purposes. For Federal income tax purposes, Enron treated the acquisition of the stock of PGE and its affiliates as a tax-free reorganization pursuant to section 368(a)(1)(A) when PGC was merged with and into Enron.

[78] Enron Corp., Form U-1, Application-Declaration Under The Public Utility Holding Company Act of 1935, filed with the Securities and Exchange Commission (February 28, 2002).

value, and ceased to be a Delaware corporation, in order to place Enron Corp. and PGE within this intrastate exemption.

By 1999, Enron had become the largest merchant of power and gas in North America. Enron's gas pipeline group owned interests in four interstate pipelines, operated 32,000 miles of pipelines in 21 states, and transported approximately 15 percent of the U.S. natural gas demand.

Foreign markets

During 1996 to 1998, Enron commenced marketing electricity and natural gas, delivering energy and other physical commodities, and providing financial and risk management services around the world. Construction of the combined cycle power plant project in Dabhol, India began in 1996.[79] Years 1998 and 1999 brought further expansion into foreign markets, with Enron making a substantial equity investment in Elektro, a Brazilian electricity transmission system. In total, Enron's foreign net proved reserves of natural gas and liquids had increased as a portion of worldwide net proved reserves from four percent and 13 percent, respectively, at the end of 1985, to 45 percent and 65 percent, respectively, at the end of 1998.[80] Enron entered the water business in July 1998 when it acquired Wessex Water Plc, a major U.K. water company. The 1998 acquisition of Wessex Water for $2.2 billion, and the formation of a new water company, Azurix Corp. ("Azurix"), was effected to allow Enron to own and operate strategic water and wastewater assets, such as local distribution systems and treatment facilities, and to develop related infrastructure. Azurix pursued water projects in Europe, Latin America, and Asia.

During 2000, Enron opened a Tokyo office to pursue opportunities in Japan's energy, commodity, and financial sectors, with an initial focus on activities such as risk management, multi-commodity market making, electronic commerce, and merchant asset development. In May 2000, Enron entered the metals markets by acquiring MG plc, an independent international metals market-making business, for approximately $2 billion.

Enron's total international investment ultimately exceeded $7 billion, including more than $3 billion in Latin America, $1 billion in India, and $2.9 billion in Britain. It owned or operated electric power plants or transmission systems in the United Kingdom, Germany, Turkey, Guatemala, the Philippines, the Dominican Republic, and off the coast of China, and operated one or more of its businesses in approximately 20 countries and territories, including Central America and the Carribean (Panama, Guatemala, Nicaragua, Puerto Rico, the Dominican Republic, and Jamaica), South America (Colombia, Venezuela, Argentina, Brazil, and Bolivia),

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[79] The Dabhol project became the subject of extensive litigation between Enron and the State of Maharashtra, India, regarding energy prices charged by Enron.

[80] "Net proved reserves" is a measure of energy reserves that have been proved to a high degree of certainty, based on studies performed by engineers.

Europe (Poland, Italy, and Turkey), and Asia Pacific (People's Republic of China, Guam, and the Phillipines).[81]

Enron used foreign subsidiaries and offshore entities to hold its investments throughout the world. Enron located more than 140 subsidiaries in the Netherlands alone, including subsidiaries for its broadband and wind energy units, and formed numerous subsidiaries in low-tax jurisdictions such as the Cayman Islands and Bermuda.[82] By the end of 2001, Enron's worldwide ownership structure included approximately 1,300 different foreign entities, with over 400 entities formed in the Cayman Islands.[83] Much of Enron's reported foreign earnings remained offshore, as Enron's reported undistributed earnings from foreign subsidiaries increased from $185 million in 1993 to $1.8 billion in 2000.

By the end of 2000, Enron was reported to be the sixth largest energy company in the world, with its foreign revenues accounting for approximately 23 percent of its total reported worldwide revenues.

Communications businesses

Much of Enron's activity during the late 1990s involved expansion into the communications and financial services businesses by taking advantage of emerging technologies such as the Internet and other forms of electronic commerce.[84] Enron formed businesses designed to facilitate the trading and transacting of business by others, and to sell technological and communications capacity as a commodity.

One of Enron's major business strategies during the late 1990s was the creation of an online energy trading business that bought and sold contracts to deliver energy products such as natural gas, oil, and electricity. In November 1999, Enron created EnronOnline, a global Internet-based transaction system for wholesale energy and other commodities. EnronOnline allowed participants to view commodity prices in real time and directly transact with Enron over

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[81] *See* Appendix B, Enron Corp., Presentation to the Joint Committee on Taxation, (June 7, 2002). The assets held in the various international investments ranged from pipelines, power plants, electricity, gas processing, gas compressions, and gas distributions. *Id. See also* Enron website, factsheet Enron Global Services - International. See http://www.enron.com/corp/pressroom/factsheets/egs/egsi.html.

[82] For example, Enron Oil & Gas India, Ltd., which conducted upstream oil and gas activities in India, was a Cayman Islands corporation with a registered office in Grand Cayman.

[83] *See* Appendix B, Enron Corp., Presentation to the Joint Committee on Taxation, (June 7, 2002). Approximately 250 entities were associated with active operations. *Id. See* Part Three of this Report for a detailed discussion of Enron's use of foreign entities.

[84] *See, e.g.,* Enron Corp., 1998 Annual Report, at 21 (1999); Enron Corp, 2000 Annual Report, at 3 (2001).

the Internet free of commission.[85] In May 2000, together with IBM and America Online, Enron formed New Power Company to market power and natural gas over the Internet to homes and businesses. In May 2001, Enron reported that approximately 60 percent of all Enron transactions were being conducted online, with a 75 percent reduction in the cost of processing transactions.

Another significant event during this period was the creation of Enron Broadband Services, the purpose of which was to buy and sell Internet access as a commodity.[86] As part of this effort, Enron launched broadband steering media services and the trading of bandwidth as a commodity,[87] and built what Enron called the first all-Internet Protocol backbone in the United States (named the Enron Intelligent Network, or EIN). Enron also invested $10 million to acquire 5.4 million shares of Rhythms NetConnections, Inc. ("Rhythms Net"), a privately-held Internet service provider for businesses using digital subscriber line technology.[88] Enron later extended its Enron Intelligent Network broadband business to Europe through an agreement with British Telecommunications PLC.

Enron also entered various other financial and services markets through a variety of venues, including: (1) Enroncredit.Com, a real-time credit department for business-to-business

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[85] Enron Online commenced trading in November 1999. It reportedly generated transactions involving $857 million of notional dollar value in its first two weeks, $336 billion of notional value through 548,000 executed transactions during 2000, and $590 billion of notional value by the time EnronOnline reported its one millionth transaction on May 23, 2001. 1999 Performance Review, EC 000101574; Enron Corp., 2000 Annual Report, at 3 (2001); Press Release, Enron Corp., Enron Completes One Million Transactions on EnronOnline (May 23, 2001), at http://www.enron.com/corp/pressroom/releases/001/ene/45-MillionthTransaction-LTR-5-23-01.html (last visited January 22, 2003).

[86] This opportunity stemmed from the PGE acquisition. Enron acquired PGE's communications business, which Enron reported to be the basis for Enron Broadband Services, in the PGE merger. Enron Corp., 1999 Annual Report, at 23 (2000).

[87] This was accomplished through an Enron subsidiary, Enron Communications, Inc., which announced its first forward trade of bandwidth on December 2, 1999. The seller in the transaction was Global Crossing Services. Press Release, Enron Corp., Enron Communications Announces First Commodity Bandwidth Trade (December 2, 1999), at http://www.enron.com/corp/pressroom/releases/1999/ene/bandwidth.html (last visited January 22, 2003).

[88] Enron's initial Rhythms Net investment of $10 million reportedly grew to approximately $300 million, though Enron was prohibited from selling any of the shares before the end of 1999 because of a lock-up commitment it undertook when it acquired the shares. Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp., dated February 1, 2002 ("Powers Report"), at 77. As described below, Enron entered into a purported hedging transaction with a newly formed special purpose entity in an attempt to hedge against a decrease in Rhythms Net stock values while Enron was required to hold the shares.

customers;[89] (2) a 20-year exclusive relationship with Blockbuster Inc. to provide movies on demand to households via the Internet;[90] (3) commodity transactions involving weather derivative products; and (4) online emissions allowance auctions.[91]

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[89] EnronCredit.com was described by Enron as being the first global online credit department to provide live credit prices and information regarding hedging credit exposure instantly over the Internet, and allowed customers to transact in bankruptcy swaps via EnronOnline.

[90] The Enron/Blockbuster movie-on-demand relationship, announced in July 2000, was terminated in March 2001.

[91] Enron's first online emissions allowance auction was conducted March 2000 and involved sulfur dioxide.