

196C-HO-59147

Date: 03/23/2001

Time: 12:00 pm cst

EC000299946

KLH/elh - Revised 1/11/2006

SKILLING - JEFF SKILLING
OPERATOR - UNIDENTIFIED FEMALE
NILES - RAYMOND NILES
EASSEY - DONATO EASSEY
FLEISCHER - DAVID FLEISCHER
BARONE - RON BARONE
LAUNER - CURT LAUNER
HAIMES - BARRY HAIMES
KEAN - STEVE KEAN
COALE - CAROL COALE
RESNICK - ED RESNICK
KOENIG - MARK KOENIG
UI - UNINTELLIGIBLE

1 OPERATOR - Today's date is March 23, 2001. This is a recording of the ENRON
2 conference call. Please standby we are about to begin. Good day everyone
3 and welcome to the ENRON's conference call. This call is being recorded. At
4 this time I would like to turn the call over to the President and Chief Executive
5 Officer, Mr. JEFF SKILLING. Please go ahead Sir.

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1 SKILLING - Thank you very much. This is JEFF SKILLING President and Chief and
2 Executive Officer of ENRON CORP. With me here in Houston I have
3 MARK KOENIG, who's executive VP of Investor Relations. And RICK
4 CAUSEY who's our Executive VP and Chief Accounting Officer. Thank you
5 very much for joining the call today. Ah to be quite honest I wish we didn't
6 have to have this call, but with what's going on in the stock market we thought
7 it was probably a good idea. I just came in from South America this morning,
8 got in at 5:30 so I'm in a really lousy mood. So I hope, I hope we get the
9 message across pretty quickly today, because ah, I think this will be ah short
10 and sweet. Ah, I'm not gonna, or don't plan to give you any surprises this
11 morning. We're not pre-releasing first quarter financial results. We are just
12 going to give you an update on what's going on in the company relative to the
13 discussions we had at our analyst meeting in January and ah other discussions
14 we've had externally and with analysts subsequent to that time. ENRON's
15 business is in great shape. Ah, what I'm going to do is I'm going to go through
16 each of our core businesses very quickly and just give you a status update of
17 how the businesses are doing. So I am going to go through our Transportation
18 business, our Wholesale business, our Retail business and ENRON

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1 BROADBAND SERVICES. And then I'm going to address four areas or
2 areas of noise that we've heard about. One is the PORTLAND GENERAL
3 SALE. The other is INDIA. The other is CALIFORNIA and the last one is
4 the balance sheet and the status of the balance sheet. And then I'm going to
5 come back at the end and talk about some other things that are going on inside
6 the company which I think are important. Let me start first with the core
7 businesses. Starting first with our Transportation business. Ah, the pipelines
8 and PORTLAND GENERAL as you know have very strong earnings and cash
9 flow. Ah, they are doing great. Um, the pipelines are continuing to exceed ah
10 their budgets for the quarter. PORTLAND GENERAL is just slightly behind
11 due to some higher power costs in the west, but fully expected and baked into
12 our plan. Ah, our wholesale business, which is our second business is having
13 an outstanding quarter. Ah, volumes are very strong. We are seeing the
14 impact now of this enormous construction program that we're seeing in North
15 America. We are becoming a major factor in providing gas supplies to these
16 facilities and we are becoming a major factor in selling the power out of these
17 facilities. Ah in terms of volumes. Our gas volumes are up significantly.
18 We're running just slightly below what we saw in the fourth quarter which was

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1 an unusually high quarter but you will see a year over year increase probably
2 in the twenty-five to thirty percent range. Financial volumes have had almost
3 doubled a year ago to today. Ah, our physical power volumes. We don't
4 know exactly, we will see how this month comes out, but I wouldn't be
5 surprised if they're up in the twenty-five to fifty percent range, ah, year over
6 year and a significant increase over the fourth quarter of last year. Europe
7 continues as it has been to show very strong growth. ENRON ONLINE is
8 running somewhere around five thousand, forty-five hundred to five thousand
9 transactions a day. Two-and-a-half to three billion dollars a day of business.
10 Ah, very good performance on ENRON ONLINE. So our wholesale business
11 is having an outstanding quarter ah consistent with the outstanding year they
12 had last year and I would expect that to continue. Ah, in our retail business
13 we have already announced four billion dollars of new contracts. We are
14 highly confident in our target for the year of two hundred and twenty five
15 million of income and thirty billion dollars of new originated contracts. Ah,
16 interestingly we are seeing I think the positive effect of ah, the the, ah, ah, the
17 chaos that's going on out in California, in that as we mentioned before there is
18 tremendous interest in the product that we are offering through our retail

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1 business. And we are seeing an increased interest among utilities in out-
2 sourcing or moving out of the merchant function as they see the risks that that
3 can entail when it's in a regulated entity. Ah, I will, um, point you to an
4 interesting vote we got in California ah yesterday. The California Assembly ah
5 confirmed direct access or has a proposal for direct access and got through the
6 Assembly seventy to zero. Ah which just says that I think a lot of people see
7 that the future is a non-regulated open competitive market for retail power and
8 ENRON is perfectly positioned ah for that business. Ah, and finally in the ah
9 operating businesses ENRON BROADBAND SERVICES. There have been
10 some rumors out there that we have terminated our INTERMEDIATION
11 business. That is absolutely not true. We are having a great quarter in the
12 Intermediation side of the Bandwidth business. I'll remind you that we have
13 an enormous lead over the other players in this industry. Ah, to give you a
14 sense of that I think WILLIAMS has five people in this business, we have
15 eight or AQUILLA has eight. We have eighty-five people. My expectation is
16 that we'll see over four hundred maybe over five hundred transactions this
17 quarter ah which shows that this business is absolutely developing. It is ahead
18 of plan. And ah I expect this to be a good business for us moving forward.

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1 Our Content Services Business is still a core area of the business. We are
2 working very hard to provide a video on demand service and content for that
3 video on demand service. Ah, um, the BLOCKBUSTER contract as we've
4 discussed with you was a contract that ah was not providing us the content we
5 needed for video on demand and we're out getting the content ourselves. And
6 I am very optimistic about the outlook for that and over the next several
7 months I think we'll have, ah, specific contracts to show you. There has been
8 some talk that we are laying off people. We are moving some people around
9 inside of EBS. This is very good news. And let me tell what we are doing in
10 EBS right now. It is our view given what's going on in the communications
11 business in general that there is more access to contract availability of
12 bandwidth than we would have expected at this early stage of the, the
13 development of the marketplace. We will not have to make as large an
14 investment in our network as we had expected because we are going to be able
15 to have access to third party networks much more easily and at lower cost than
16 we expected. Ah, one very positive output of this is that we are expecting that
17 our capital budget in this business, which we had told people would be
18 running on the order of seven hundred and fifty million dollars this year to be

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1 probably closer to the two hundred fifty million dollar range and might even
2 be lower than that if we're able to get contract access to the extent that we
3 think we can get contract access this year. So, ah we are very comfortable ah
4 with the projections on volumes and the targets and the benchmarks that we
5 set for ah EBS. Ah, but we believe we can do that with less capital employed
6 than we thought in the past. And with less investment in network activities.
7 So EBS is coming along just fine. Ah, very important for us and we're
8 committed to it and I'm personally very, very comfortable with where we
9 stand. In fact, pretty optimistic about it. And again our strategy in the
10 bandwidth business ah was predicated on a surplus of supply and a decline in
11 prices. Ah, we are in a situation where we clearly have a surplus in supply and
12 we have real fast declining prices. So that's good. In fact, that's better for us
13 as time goes on. So EBS is looking good. We look at our core businesses ah
14 we told people a dollar seventy to a dollar seventy five for this year. We are
15 very comfortable with the dollar seventy for to a dollar seventy five for this
16 year and for the quarter as I mentioned in each of those businesses ah we feel
17 we've made great progress. Now let me address some of the noise. Ah one
18 piece of noise was well the PORTLAND GENERAL sale. That is true. Ah, I

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1 would give only about a five percent probability that the SIERRA PACIFIC
2 purchase of PORTLAND GENERAL will be consummated. There is still
3 some work being done on it. There's a chance that that will happen. If it does
4 not happen, and this is very important, that is in fact credit positive to
5 ENRON. Ah, if you look at the cash generation of PORTLAND GENERAL
6 it is credit positive to ENRON so I'm not in a particular rush to get it done. I
7 think strategically it would have been helpful, but in terms of balance sheet
8 performance and earnings performance it has no impact. In fact, ah it would
9 be ah somewhat positive ah if the transaction does not occur. India ah, at the
10 ah analyst conference in January, ah if you remember I said that we were
11 going to have a lot of noise about India. Ah, we have a situation where the ah,
12 the ah off-take ah contract is under pressure. We have a government
13 guarantee for the off-take ah as you would expect when that happens there's a
14 lot of noise. And there will be more noise, but again we do not feel that we
15 are in a bad position there. We have strong contracts and guarantees and ah
16 we believe that we will prevail in India. And I'm very confident of that. Ah,
17 California. The California situation continues in terms of credit exposure.
18 Our Credit exposure in California has actually dropped. Ah, we continue to

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1 have um more than ample reserves in our opinion to support that position.
2 And so regardless of what happens in California the dollar seventy to a dollar
3 seventy five number for the year I think looks great. Uh, balance sheet. As
4 some people say, well does ENRON have to issue equity? Ah, I think I can be
5 absolutely conclusive on it, on this from a credit standpoint there is absolutely
6 no need to issue additional equity either this year or for the foreseeable future.
7 Now I will tell you, there is some stock options and things that get triggered,
8 so there will be some additional shares ah related there. We have some
9 financing vehicles with de minimus share requirements, but who knows if
10 there's an acquisition we might put some stock into an acquisition. Not that
11 there's anything planned but that, who knows what can happen during the year.
12 But from a credit standpoint there is no need for us to issue equity this year or
13 the foreseeable future, uh, to meet our credit targets. So that's the comments
14 on the noise. Now I think within the noise gets hidden some things that are I
15 think some very positive things that are going on inside the company that ah
16 ah I just wanted to share with you that ah kind of surprised me as upsides as
17 we look forward. The LNG market looks very attractive. Ah, we're making I
18 think a lot of progress there. We have actually transacted ah thus far this year,

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1 fifteen spot cargos of LNG. Ah, this is up from virtually nothing ah last year.
2 We are very interested in this business I think it has a great future. Ah, people
3 may not know this but we actually have access, we have options in ownership,
4 the total of three ships, one currently, two more that will be available within
5 the next year. We have a gasification facility in Venezuela ah that is well
6 along in the development process. Ah, the Bahamas project that you probably
7 heard of looks, I think very attractive and we will in fact start listing ah LNG,
8 various LNG contracts on ENRON ONLINE later this year. Ah, so that's a
9 whole new industry that given what's going on in the energy markets of North
10 America I think can be very attractive and ENRON's got a great position
11 there. We've talked about pulp and paper, steel and some other ones that were
12 new businesses that we're going into. On the pulp and paper I can announce
13 that we are making good progress. Uh, we are now the seventh largest
14 newsprint manufacturer in the country. We've seen strong volumes and good
15 profitability in that business. Really just starting on steel, ah but I see good
16 prospects and possibilities there. Weather's looking very good. As I
17 mentioned, I just came back from South America. Ah, the environment in
18 South America I think is very good. Ah, ah, in fact, there was a newspaper

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1 article, front page in the newspaper yesterday ah that they are projecting severe
2 ah power shortages or short falls in Brazil. We are breaking ground on
3 Tuesday after the groundbreaking ceremony outside of Rio de Janeiro for a
4 five hundred megawatt ah facility. It's called, ah the project is called Eléctro
5 Volt. We have a number of others that we are working on down there. I
6 think we are well positioned to become a big player as those markets need
7 additional electricity supplies in South America. So in general, core business
8 is in great shape. Good quarter. Ah, we are hitting our numbers, we're on
9 plan. In terms of the noise, the issues related to the noise, PORTLAND
10 GENERAL, not an issue. India: we told you there would be noise; there will
11 be continued noise. We believe we will prevail there. California: ah at least
12 from ENRON's standpoint, ah we feel that we are improving our position
13 relative to ah credit and just the regulatory playout in California. Balance
14 sheet: we have a strong balance sheet. ENRON's in great shape on the
15 balance sheet which is a good position to be in given this market place. And
16 then we continue as we always do to develop new businesses ah where we
17 have expertise and where we think we can make ah a big impact. So overall,
18 ah you know ah I have ah no understanding as why the stock price would ah

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1 would be in the, or was in the fifty-three, fifty-four dollars, that's just ah crazy
2 ah given the comparables and given what's going on in the rest of the
3 marketplace. I know this is a bad stock market but ENRON's in good shape.
4 So with that I will, ah I will keep quiet and we'll open it up to any questions
5 you have.

6 OPERATOR - At this time anyone wishing to ask a question may do so by pressing star one
7 on your touch tone telephone. We'll pause a moment to give everyone an
8 opportunity to signal. And again if you have any questions please press star
9 one. We'll go to RAYMOND NILES, SALOMON SMITH BARNEY.

10 NILES - Uh, good afternoon JEFF. Ah, thanks for that update. Ah, I just wanted to
11 ask about ah, in the Bandwidth trading, it's very encouraging to see such
12 volume growth. Ah, beating all of the volumes for all of last year in the first
13 quarter. Do you want to dive into that in a little more detail. Just maybe talk
14 to us about who you're counter-parties are ah ah frankly and maybe just any
15 change in sense of how the carriers are responding or participating ah in this
16 market?

17 SKILLING - Ah sure RAY, let me, I'll take a shot at that. I actually, ah I didn't bring the
18 information that has the breakout of, of ah the transaction counter-parties.

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1 But my recollection is that it was split pretty evenly about a quarter were ah
2 carriers, a quarter were international telecom companies, a quarter were
3 marketers, and another quarter were ah various network service providers.
4 And I think, that's, that's about the split. We've transacted with virtually
5 everybody in the industry at this point. Ah, maybe for some of them it's just
6 they want to see how this works. Ah, but I think for most of them they see
7 this now as an important ah growing ah way of doing business. In terms of
8 the volumes, the volume growth is really is pretty stunning. The first quarter
9 of the year 2000 we did three transactions. We did twenty-three second
10 quarter, fifty-nine third quarter, ah 236 fourth quarter and as I said, we'll be
11 somewhere in the range four hundred maybe, maybe more than five hundred.
12 So ah I think we're seeing some, a real uptick. Just in general ah this
13 marketplace is going through a very tough time. I, I look at this as the natural
14 gas business in the mid eighties all over again. Ah, there is a meltdown ah in
15 prices. There is way too much supply and ah you can change the word ah
16 fiber and you can put in the word natural gas and, and go back in time to 1986.
17 It's almost identical. Ah, this is exactly the sort of market where people need
18 financing and they need revenues. And the only way you can get financing

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1 and the only way you can get revenues in this sort of a market is to create an
2 open competitive market for bandwidth so you can get forward prices and you
3 can have an open market for sale of excess or surplus capacity. And so I think
4 this is going to accelerate ah the opening of the market. So I'm, I'm feeling
5 very good about the position of bandwidth right now.

6 NILES - So all the parts, as far as the participants-all those, kind of, well known
7 household names of the telecom industry are now ah active, or at least
8 beginning to participate in the market.

9 SKILLING - Yeah, as I said RAY, we have done a transaction, I would imagine with every
10 telecom player, every major telecom player in North America and probably
11 with most of them in Europe right now.

12 NILES - Okay, great. Thank you.

13 OPERATOR - DONATO EASSEY, MERRILL LYNCH.

14 EASSEY - Good afternoon JEFF and thanks for having this call as well. But more from a
15 macro standpoint, you know, you've had this philosophy of being an asset light
16 exploitative kind of a, a strategy and I'm just curious, has any of that changed
17 in given the you know the market framework that we are in right now that
18 seems to be paying you know, much more attention to nuts and bolts and

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1 meat and potatoes kind of an environment is my number one question. And
2 then one of the ones that we continue to get and we know that you're trading
3 each and every day in your net neutral position if you will, but there is a lot of
4 concern as you lock up more and more of these firm contracts, that you could
5 be exposing yourself to some kind of a shortfall if have an inordinately hot ah
6 summer where we are, we know, you know, ah, ah, demand long and supply
7 short in power. And you know, is there anything that you can provide us and
8 the assurance side from a value at risk standpoint or just the overall
9 management of the book etc. that says, you know, you've got this thing well
10 in hand? So, those are my two main ones and I have a follow up if I may.

11 Thank you.

12 SKILLING - Okay, yeah first on the asset light, ah, it's philosophically, I mean, I mean you
13 know where I'm coming from DONATO, I mean philosophically I believe that
14 the day of the big vertically intergrated rigid capital intense business models
15 is, is over. And you just see it when you see the kind of fast changes we, we
16 have in the marketplace. If you are stuck with a whole bunch of concrete that
17 you can't move when the markets move. I think that's, that's a bigger risk to
18 me than any other risk you can take in the marketplace today. Now I will tell

