

196C-HO-59147

Date: 03/23/2001

Time: 12:00 pm cst

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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 teminated 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 payout 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

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1           you that ah people call it asset light. I think we've got fifty five billion dollars  
2           in assets and so you call that asset light. I mean we will put physical assets  
3           and whatever other kinds of assets are necessary in the ground or on the table  
4           to conduct business. And ah, if they're profitable. But I will guarantee you I  
5           do, I have no interest whatsoever in owning an asset that does not earn a  
6           compensatory rate of return. If it will earn me a compensatory rate of return,  
7           I'm all over it. I'm building a power plant in South America right now. This  
8           thing is going to be gangbusters. And we've got a bunch more behind that.  
9           We'll make a lot of money on those. Ah, because it supports our merchant  
10          business and supports what we do elsewhere inside of the company. So ah,  
11          assets will be a function of the profitability on assets and, and probably  
12          nothing else. In terms of positions, ah you now ah, we have very tight ah  
13          value at risk tolerances that we live with and we always have. Ah, you know,  
14          DONATO, you know I have been at this now for ten years and we've been  
15          through markets where prices were ah sixty cents a natural gas, they've been  
16          ten dollars in natural gas, electricity at twenty dollars been to seven thousand  
17          dollars and we have managed those positions well. Ah, and that's just, the  
18          way we conduct our business. Ah, we are in a much better position today,



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1 given ENRON ONLINE liquidity that we have, than any other player in the  
2 industry to manage those positions. And ah, I, I think that that ah I just feel  
3 very comfortable with where we are. Just from a quantitative standpoint if  
4 you look at value at risk for the company our, our limits. Ah, you see them in  
5 the annual report. We have what average value at risk ah numbers are and  
6 we're probably running today at a, you know, third to a quarter of that. Just  
7 because the market place is liquid enough and we don't need it. Ah, we're able  
8 to match purchases and sales pretty effectively. But ah, ah the system's  
9 working great.

10 EASSEY - Great. I appreciate it JEFF. And finally, with respect to PORTLAND  
11 GENERAL, ah as we head into the summer with California and the situation  
12 in the northwest in general, the west half of the United States. You know,  
13 assuming that it's not sold to SIERRIA PACIFIC I'm certain there is a laundry  
14 list of folks still interested in it. But has your philosophy about keeping it at  
15 this point in time ah changed in any way, ah, you know, given the situation out  
16 west, is it long is it short? You know where do we stand there? Thanks,  
17 JEFF.

18 SKILLING - It is ah strategically it is not necessary for us, for us to own PORTLAND

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1 GENERAL to conduct our business in the west. Ah and so now it's purely a  
2 question of price and the terms of the transaction. If we can get an attractive  
3 price to where it's worth more to us to sell it than to keep it, ah I would, I  
4 would entertain those offers. Ah, PORTLAND GENERAL's position.  
5 PORTLAND GENERAL was flat ah in their position for the next two years ah  
6 through purchases on the open market and then they've got about a 450  
7 megawatt short position going forward in time and ah ah we believe that that  
8 position is probably ah, ah, well, I mean we could close it tomorrow if we  
9 wanted to. It's just a question of looking at the, the market conditions.

10 EASSEY - Thanks a bunch.

11 OPERATOR - DAVID FLEISCHER, GOLDMAN SACHS.

12 FLEISCHER - Hi JEFF, ah couple of things. Let me just a follow up on the previous  
13 question. See if I can pin you down a little bit more there because I think  
14 everyone bought into your, your redeployment of of assets ah thought process  
15 ah, you know, from, from the physical side. Some of the physical sides where  
16 you emphasized that you mentioned South America works. Where you had a  
17 lot, have a lot of assets in a lot of commitments to to build and create there  
18 and I guess, you know, the PORTLAND GENERAL ah you know transaction

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1 assets around the world that ah, you know, that that add up to a lot of assets.  
2 You know, maybe my question is ah, you know, what might be the timing you  
3 know as we try to, you know, independently figure out, you know, what your  
4 balance sheet will look like going forward and what capital you do have to  
5 reallocate into the intellectual capital business? And that would be my first  
6 question.

7 SKILLING - Yeah, ah, well, as you know DAVID I am very anxious to ah monetize assets  
8 where we're not earning the rates of return that we need to earn. And that's  
9 that quite frankly given the financial environment around the world is taking  
10 longer than I would like. Ah, but I can just say that that is discretionary for us.  
11 Our balance sheet is in great shape now. That's all upside of the balance sheet  
12 moving forward. Ah so we don't have to do it. I don't have to do anything  
13 that is not economic. Ah, so we are going to look at the deals that we're  
14 offered. We've turned down a number of people because we haven't gotten the  
15 kinds of prices that we think are reasonable ah for the assets. And we will  
16 continue to entertain offers on a whole range of assets. Ah, it's my guess that  
17 over the next couple of years there, there's several billion dollars of assets that  
18 we're gonna, that we will find ah that we get good offers for, but ah right now

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1 I just want to wait and just get the best price.

2 FLEISCHER - Okay, well, uh, that sounds like a good reason to not sell assets. Ah, if you

3 have that strength and you do. Ah, and then my next question is, given how

4 strong ah it absolutely appears that you're doing in wholesale in particular but

5 really across the board ah and, and we're hearing from some of your

6 competitors that the numbers that they may be reporting the first quarter might

7 be even better, a lot better than, than estimates out there ah I wanted to give

8 you the opportunity to also tell us why you maybe even should be raising your

9 targets here and the dollar seventy and seventy five is very conservative?

10 SKILLING - Nice try DAVID.

11 FLEISCHER - Thanks JEFF.

12 SKILLING - You're welcome.

13 OPERATOR - RON BARONE, UBS WARBURG.

14 BARONE - Hi Jeff. There's been some talk on the street about the possibility of some

15 Senior Management reassignments at ah ENRON. Can you comment on any

16 changes?

17 SKILLING - Ah, let me, whoa. Oh, there's one. Ah actually this ah y'all might be

18 interested in this. Ah LOU PAI, ah who started up ENRON ENERGY

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1 SERVICES. Actually LOU'S been with me really from the beginning. LOU  
2 was involved in the start up of our natural gas business. Started up our  
3 wholesale electric business. Then I asked LOU to run, to go over and start up  
4 ENRON ENERGY SERVICES, back in 1996, I guess it was 1996 or 1997, I  
5 guess 1996. Anyway, I've asked LOU to head up something called the  
6 ENRON ACCELERATOR. And what this is RON, is we have a lot of new  
7 business development activities going on around ENRON. We've got a lot of  
8 people with some great ideas. And I want to get that a little focused. Make it  
9 a little more efficient. So what I have told LOU to do is to put in place this  
10 concept called the ACCELERATOR. We're going to take the six best ideas  
11 inside of ENRON and we're going to create businesses out of them and that's  
12 what LOU likes doing and that is what LOU'S very good at doing and he's  
13 very enthusiastic about it and I think. We'll tell you more about it later, we're  
14 not ready really to show you too much of what's going in there. But I think it's  
15 going to be a really good ah upside ah for the stock moving forward. We have  
16 moved DAVE DELAINEY. DAVE was running our North American  
17 business into ah EES to head up EES. DAVE ah really started our Canadian  
18 office and made our Canadian office the success it is and we moved DAVE

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1 down to Houston to head up North America. We've asked DAVE to move  
2 over to ENRON ENERGY SERVICES ah to head that up so that will help us.  
3 DAVE's got a great perspective. He was involved in the retail business  
4 development up in Canada and he also has a good linkage into the wholesale  
5 business which helps as EES grows so quickly to ensure that we've got the  
6 power and gas available for the ah retail business. Then we moved JOHN  
7 LAVARATO, who was DAVE'S number two in Canada and was Chief  
8 Operating Officer, North America. Made him head of North America. And  
9 then, I guess I can go through the whole cascade. Then we took LOUISE  
10 KITCHEN, who started ENRON ONLINE and we asked her to become Chief  
11 Operating Officer of ENRON NORTH AMERICA, actually ENRON  
12 AMERICAS, which includes our South American activities too. And then  
13 PHILIPPE BIBI, who most of you know who has been our Chief Information  
14 Officer, he took over from Louise as Head of ENRON NETWORKS. So  
15 there's been a little bit of a, I guess you'd call it a domino effect there. But the  
16 real intent was to get LOU working on these new businesses and bring DAVE  
17 over to help better bind together our wholesale and retail businesses and help  
18 us push forward the retail business. But it's very positive. These are ah, these

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1 are some really talented people. The only thing that scares me a little, I'm  
2 forty seven years old now and I think ah DELAINEY's thirty six and  
3 LAVARATO is thirty four and LOUISE is thirty one. You know they're  
4 coming. Ha, ha.

5 BARONE - Okay great now, the ACCELERATOR sounds like some fertile territory.  
6 We'll wait to hear more about that. Thanks a lot JEFF.

7 SKILLING - Thanks, RON.

8 OPERATOR - CURT LAUNER, CS FIRST BOSTON.

9 LAUNER - Yeah, thank you. Just a couple of unrelated questions if I could. First, there's  
10 been some discussion relative to movement towards standards for bandwidth  
11 trading within the industry. This is something I think would accelerate the  
12 amount of transactions, and how they can be provisioned which gets talked  
13 about a lot. If you could discuss that just a little bit? Second, any reaction on  
14 the eve of the NETA rules going into place in the U.K. How are you  
15 positioned for that as of March 27th? Any changes in the business or the  
16 outlook there? And third, just if you can give us an update with the change in  
17 the EBS capital allocation into the total capital expenditure budget you have  
18 for this year?

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- 1 SKILLING - Give me the last one.
- 2 LAUNER - The capital expenditure budget for this year in light of ah changing around
- 3 EBS capital from seven hundred and fifty to two hundred and fifty in light of
- 4 the contract access of the networks.
- 5 SKILLING - Ah okay. Let's see CURT. The first one was ah..
- 6 KOENIG - Standardizing contracts.
- 7 SKILLING - Oh, standardizing contracts in ah EBS. You know, there is a lot of talk about
- 8 that and they're having a whole bunch of meetings on it and I, I really don't see
- 9 them making a whole lot of progress in coming up with a single standardized
- 10 form. Because the, I just don't think all of the players are yet ready to commit
- 11 to a standard form. And part of that is I think they still want to see how the
- 12 bandwidth intermediation business comes along. We have a standard, our
- 13 standard and we are conducting business based on that standard today and
- 14 we'll see how the rest of it plays out. I think as these volumes grow CURT,
- 15 and we're seeing strong volume growth. They'll have to finally, you know, get
- 16 off of the ah, um, off of the fence and come down on some specific structures.
- 17 Ah but right now we have one, and we're contracting based on that. And it's
- 18 like in the gas business, when we started out we set the contract and we



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1 transacted and then let them come along later. And I remember meetings that  
2 we had when the NYMEX was starting up and we were trying to come up  
3 with a standardized contract. And this was like the United Nations getting  
4 together, you know everybody's you know, got fifty thousand different  
5 irrelevant comments to add to the bucket. But, uh, that was in 1990 before we  
6 had a contract on the NYMEX and we just said, well forget it here's our  
7 contract and we started doing business. And that's where we are today.

8 LAUNER - But do you agree that the business if you use that natural gas analogy really  
9 took off after the NYMEX started trading in April of 1990 and we knew  
10 where HENRY HUB was and we knew that there was a million BTU's that  
11 you could put as a standardized contract and figure out basis, differentials and  
12 things like that?

13 SKILLING - Well you know, I don't, I remember '88 and '89 we were doing a lot of  
14 business then and I really didn't see it pick up. I think at that point you could  
15 draw in a lot of players who hadn't traditionally been in the industry. Ah, but  
16 for those of us that were in the industry, I look at kind of '86, '87 time frame  
17 when we really started getting liquidity. Ah, and that was based on bilateral  
18 contracts and it worked just fine back then. Ah, so I don't think it is a big

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1 issue one way or the other Curt. It will come and when it comes it makes it  
2 easier for a broader range of players to play. Ah, but I, you know, even today  
3 in the natural gas business you have a HENRY HUB contract but probably  
4 ninety percent of our business and ninety eight percent of our profitability  
5 comes from contracts that are outside of that settlement location. And ah  
6 those are all pretty much custom designed ENRON contracts. And the  
7 industry has picked that up as a standard but ah I don't think it will be any  
8 different in the telecom business.

9 LAUNER - Okay.

10 SKILLING - On NETA and UK this is great news. This is moving toward a market that we  
11 are much more comfortable with. We've been pushing very hard for the  
12 adoption of these new rules and so we're up and running. You'll see I think a  
13 significant increase in volume, of ENRON volume in ah, the U.K. as a result  
14 of the adoption of the new exchange rules. And then cap. ex., now probably  
15 what you can do is just whatever we don't spend in ah bandwidth, I'll probably  
16 just knock it off the total number because we don't need to spend it.

17 LAUNER - Is there a revised total number you could give us to make sure we got the right  
18 stuff in the model.

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1 KOENIG - Curt, this is MARK. We did file of course our 8K with the financial  
2 statements. We had a billion and half as our estimate for total cap. ex. this  
3 year, so if you took five hundred off that would be a billion estimate for cap.  
4 ex. now. Of course we have equity investments that some of you kind of  
5 include in that total and that has ranged anywhere from half a billion to a  
6 billion. So it will be ah somewhere in that same range ah, this year.

7 LAUNER - Okay, thank you.

8 OPERATOR - DENNIN CALLAN (PH), CCW INVESTMENT MANAGEMENT. DENNIN  
9 CALLAN your line is open. Hearing no response, we will go to BARRY  
10 HAIMES, SAGE ASSET MANAGEMENT

11 HAIMES - Hi JEFF, I had a question about California? The situation there seems like it is  
12 going from bad to worse and you know when you are getting blackouts on the  
13 shoulder period, you know, one can only imagine what the summer might be  
14 like and, you know, from the individual company point of view as you point  
15 out you're well positioned and ah, you know it might even help EES, etc. But  
16 um from an overall industry point of view ah you know in terms of  
17 deregulation versus regulation and so on. Ah, I just want to get your view on  
18 ah, you know, what a summer full of blackouts might mean and ah you know,

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1                    what if anything ah you know you as part of the industry can do to ah you  
2                    know make sure that the whole um you know free market deregulation  
3                    movement stays on track? Thanks.

4       SKILLING    -   Well, BARRY I mean, I don't, I guess I can't answer the whole question but I  
5                    will tell you that if there are continuing problems and it looks like there will  
6                    be. This is just a real wake up call to everybody that you do have to manage  
7                    risk and it's a wake up call to everyone that you've got to have effective  
8                    markets functioning. And I think that's the direction it will go. You almost  
9                    can't go backwards right now. And so if people realize they have a problem I  
10                   think this will push forward to more open competitive markets and that's, you  
11                   know I think that's the way we would like to see it come out. You know it's  
12                   interesting they are changing the term though. It's not blackouts any more. I  
13                   don't know if you saw the Sacramento Beat today but they are calling them  
14                   grayouts.

15       HAIMES     -   (Laughs). That's great. Just by way of follow up um in terms of the upcoming  
16                    administration proposal in terms of energy bill. Ah, are there some things in  
17                    there that you think will see ah that would affect electricity?

18       SKILLING    -   You know, BARRY, I just got back from South America today and I really, I

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1                   really haven't seen what any more of the specifics. Do you know MARK?

2    KOENIG       -   No.

3    SKILLING     -   STEVE KEAN just wandered in, who runs our government. What, STEVE do

4                   you have any?

5    KEAN         -   Yeah, I think from what we're hearing certainly it appears that the BUSH

6                   administration is going to be taking a much more ah active ah active role and

7                   we would expect to see I mean, we've seen speeches coming out of the

8                   Secretary of Energy for example. I would expect to see a much more active

9                   and; and, and a presumably much more market oriented role or approach to ah

10                  the problems in California. So we would expect to see some, some pretty

11                  critical elements of the energy plan including electricity in California.

12   SKILLING     -   Okay, just two more questions, if that's okay?

13   OPERATOR     -   CAROL COALE with PRUDENTIAL SECURITIES.

14   COLE         -   Hi, good morning. Ah I wanted to clarify a few things when you were talking

15                   about some of the ah noise and I know you addressed this at the ah conference

16                   in January but if you could just remind us again of what the INDIA situation is

17                   and, you know, exactly what the problem is. I know it's a conflict between the

18                   ah state electric board and the government of Maharasha. And I know they are

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1 in a political standoff. But if you could just refresh our memories, that would  
2 be great? Ah, second ah, in the broadband trading business, um this is coming  
3 actually from some of your competitors that the market has been one sided  
4 which would make intuitive sense in a business where the price is falling  
5 rapidly, that there would be more sellers than buyers. I just wondered if you  
6 were sensing the same type of trend among your market and your customers  
7 and if so um what would be the general length of the contracts that you are  
8 signing? Are they, are they thirty days, um sixty days or you able to do one  
9 year type of deals? Then third, um in the noise category again, related to  
10 Azurix. As I recall, I think that you have collateralized a one billion dollar  
11 note with MARLIN WATER TRUST that um may require either cash or, or a  
12 convertible preferred stock that I think the collateral is due on September 15th.  
13 I was just wondering if you could comment of those three things. Thanks.

14 SKILLING - Sure CAROL, let me start first with what's going on in India. The situation  
15 there is identical to California. You have a distribution company that has fixed  
16 rates. Ah, the price of wholesale power has gone up because oil prices went up  
17 and the rupee has gone down. So they are in a really, really tough liquidity  
18 position. They just don't have any money. Just change the name of SOCAL

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1 EDISON, the picture's just about dead on. Now the difference here is that the  
2 contract that we have with the Maharashtra state electricity board ah has a  
3 guarantee. So this would be like the state of California and the Federal  
4 Government guaranteed our contract with Southern California Edisons. We  
5 have a guarantee from the Maharashtra state, state government and a guarantee  
6 for the first phase from the Indian government, federal government. And so  
7 it's, basically where the noise comes from is that the buyer, the payer has no  
8 cash. And what we have to do is we have to keep triggering the credit  
9 guarantees to get the state or the Federal government to cough up the money.  
10 And that's, that's kind of where it stands, so every month it's just noisy and it  
11 will continue to be noisy and there's just nothing we can do about it. They  
12 have a lot of newspapers in India and they say a lot of things and you can just  
13 expect noise, but we have guarantees and we will continue to get paid. It's just  
14 been just a little more difficult to get the paper converted into money than  
15 might have been typical. On Broadband trading, one sided markets absolutely.  
16 Everybody's a seller. I mean there is unbelievable amount of capacity that's out  
17 there that's looking for a home. Ah, there is a huge ah supply overhang in the  
18 market place. So this is, ah this is the natural gas business in 1986. You have

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1 people that are desperate to sell capacity for cash. And the real challenge here  
2 is, is finding buyers and figuring out how you can wire together the buyers ah  
3 with those sellers that are so desperate to sell capacity. In terms of term  
4 structure, I would say the majority of the transactions on average are in the  
5 three to five to six month range. Ah, there's virtually no very long term  
6 transactions. Or virtually no long term transactions currently ah being  
7 executed. So again it's like the gas business back in '86 and '87. On Azurix,  
8 ah there's Azurix, there's some debt on Azurix which we have the option of ah  
9 paying off with equity, we also have the ability to pay off in cash and we will  
10 pay it off in cash when it comes due or we will roll it.

11 COLE - Okay, thanks for the update.

12 SKILLING - One more question then I think we will call it off.

13 OPERATOR - We'll take our last question from ED RESNICK, FERGAMENTS  
14 ADVISORS.

15 RESNICK - Yeah, hi, actually a lot of my question has been answered. It was in  
16 Bandwidth trading. But if you could just comment maybe a little bit on the  
17 rumor of layoffs in Bandwidth trading. Because it seems like the volume  
18 growth there has been on your targets and ah the need to redeploy kind of



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1 seems counterintuitive to that.

2 SKILLING - Yeah, again, the you know, the two P&L centers that we have, one is  
3 BANDWIDTH INTERMEDIATION. We are growing that fast and our head  
4 count there is growing fast. CONTENT SERVICES, the other P&L center, is  
5 growing fast. And that's our video on demand and ah we're out marketing  
6 basically content aggregation services. Where we have less need than what we  
7 thought is on the network side. Ah, we expected that we would have to  
8 continue to spend enormous amounts of money to build out the network.  
9 We're finding that we don't have to do that right now. That we can get access  
10 to liquidity and access to bandwidth without having to build it ourselves. So  
11 we're, we're reducing, we just don't have as big a need for cap. ex. as we had so  
12 we are taking a number of people out of our network organization and moving  
13 them to other parts of the company. This is not unusual within ENRON over  
14 the last year. I would imagine that we've redeployed between business units  
15 within ENRON several, at least a thousand probably several thousand people.  
16 It's one of the real strengths of ENRON. We can move very quickly to move  
17 people from one unit to another as the markets change. But essentially, strong  
18 growth on the intermediation side, strong growth on the Content Services side,

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1 in terms of people budgets, the whole thing. And a reduction in the amount of  
2 capital we have to spend with a commensurate reduction of the number of  
3 people we need to spend that capital.

4 RESNICK - Okay, thank you.

5 OPERATOR - That's all the time we have for questions today. I'll turn things back over to our  
6 moderator for any additional or closing remarks.

7 SKILLING - Great, thank you very much. Again thanks very much for listening to the  
8 phone call, ah if you take one thing out of this meeting today ah everything's  
9 on track. The company's doing well. A dollar seventy, a dollar seventy five  
10 we're very comfortable with. We're having a good first quarter. Ah, we're  
11 seeing some good things happening in a number of our markets. Ah, we do  
12 have the PORTLAND GENERAL issue, India, California, the balance sheet,  
13 ah that I believe we've addressed and so ah hope that answers the questions  
14 and we can get this thing back on track. But ah, thank you very much for your  
15 time.

16 OPERATOR - This concludes our conference for today. Thank you for, thank you for your  
17 participation.

18 [END OF CONVERSATION]