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KOENIG - MARK KOENIG
RICE - KEN RICE
NILES - RAY NILES
FLEISCHER - DAVID FLEISCHER
MEADE - ANDRE MEADE
FOLLOWILL - REBECCA FOLLOWILL
GRUBMAN - RICHARD GRUBMAN
YANELLO - JAY YANELLO
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TSAO - ANNIE TSAO
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MOELLER - KURT MOELLER
OPERATOR - UNIDENTIFIED FEMALE
UM - UNIDENTIFIED MALE
UI - UNINTELLIGIBLE

OPERATOR - Good morning everyone and welcome to the ENRON's first quarter earnings release conference call. This call is being recorded. At this time I would like to turn the call over to the President and Chief Executive Officer, Mr. JEFF SKILLING. Please go ahead, sir.

SKILLING - Thank you very much. I hope you all heard that music that was on before.

We're all dancing here, it's pretty good stuff. We need to change that PAULA. See if we can work on that. This is JEFF SKILLING, President and Chief Executive Officer of ENRON Corporation. With me here in Houston I've got MARK KOENIG, who is Executive Vice President of Investor Relations, KEN RICE, who is CEO of ENRON BROADBAND SERVICES, RICK CAUSEY who's Executive Vice President and Chief Accounting Officer and PAULA RIEKER who is Managing Director of Investor Relations. So I'd like to thank you all for joining us on the call and Web broadcast this morning. Earlier today we recorded our first quarter results. I will provide a brief overview of our quarterly results then open the call for your questions. Okay, summary of earnings. For the first quarter of 2001, ENRON reported outstanding recurring results, including an 18 percent increase in diluted earnings per share to 47 cents per share compared to 40 cents per share a year ago, a 281 percent increase in revenues to $50 billion versus $13 billion a year ago and a 20 percent increase in net income to $406 million versus $338 million a year ago. Volumes and transaction levels are expanding rapidly. We are translating this activity and growth into increased profitability. Our first quarter results demonstrate the strength of all of our businesses. Today, we also announced an increase in our earnings expectations for the Year 2001 to a range of $1.75 to $1.80 per diluted share. What I'll do is go through each of the individual businesses and give you a recap starting first with our wholesale business. Wholesale Services led our strong performance in the first quarter.

Total income before interest - minority interest and taxes or IBIT for the quarter increased 76 percent to $755 million from $429 million a year ago, making Wholesale Services' twenty-first consecutive period of year-over-year quarterly earnings growth. These earnings are primarily attributable to ENRON's leading role worldwide in our commodity sales and service business where we market and deliver energy and other commodities. First quarter IBIT for the commodity business increased 207 percent to $785 million. In the first quarter, our total volumes increased 65 percent to 69 BCF equivalents versus 42 BCF equivalents a year ago. That is obviously the crucial number. Our earnings are directly proportional to the increase in physical volumes delivered to our customers. Natural gas volumes increased 55 percent to 36 BCF a day equivalent versus 24 BCF a day equivalent a year ago. And power volume, showing strong growth, increased 109 percent to 232 million megawatt hours versus 111 million megawatt hours a year ago. So very, very strong volume increases. Let me give you a regional recap starting first with North America. Our North American wholesale business natural gas volumes increased 32 percent in the quarter to 27.8 BCF a day. Sales east of the Rockies contributed the largest volume increase followed by solid increases in each of Canada and in the Western U.S. Power volumes in North America increased 90 percent to 195 million megawatt hours. Deliveries in the Eastern U.S. grew substantially, accounting for nearly 80 percent of the total increase. We completed the previously announced sale of two peaker plants in the southeast in the first quarter. We continue to actively develop new generation sites, providing both an inventory of future capacity sales and low-cost, high-value optionality in a highly volatile marketplace. We now have 50 generation prospects under various stages of development in North America. Wholesale markets in Europe: The European energy business continues to grow. Natural gas volumes in Europe increased over 250 percent to 8.7 BCF a day. The accessible market is expanding rapidly, due in part to the gas directive that was implemented on the continent in August of last year. European power volumes also showed strong growth, increasing over 360 percent from a year ago to 36 million megawatt hours. The growth outlook for our European power market is, is very favorable. The UK power market, historically a financial market, has been substantially modified to a physical market through the new energy trading arrangements or NETA, which became effective on March 27th. The new structure provides for long-term and bilateral transactions which play into ENRON's strength and is similar to other markets in which we participate. So that transition has been very favorable for ENRON in the UK. Let me just give you a brief overview of the other businesses in our wholesale area. We're successfully extending our business model to new commodity markets, as we've mentioned to you. We've already established strong, profitable franchises in new markets including crude oil, products, coal, metals and steel. Interestingly, metals and coal volumes during the quarter increased by 90 percent and 120 percent, respectively. So we're getting a lot of traction in these new markets, probably more than we had anticipated. Uh, also related to our wholesale business, Enron Online: Enron Online continues to provide a key competitive advantage by significantly expanding our market reach and increasing deliveries. During the quarter, just during this quarter alone, ENRON executed over 275,000 transactions with a total gross value of $162 billion. So that in total, since inception in November of 1999, over $525 billion of total gross value has been transacted online and we established new records for average weekly volume throughout the first quarter. So that's the commodity and services side of the wholesale business. On assets and investments, assets and investments reported an IBIT of $59 million for the first quarter compared to $220 million last year. The change in earnings from last year is primarily due to reduced earnings from ENRON's merchant investments and timing issues related to asset dispositions from our wholesale portfolio. That's an overview of the wholesale business. Just an outstanding quarter, another outstanding quarter. Let me move on to our retail business. In our Retail Energy Services Business, first quarter IBIT increased to $40 million. Contracting continues to accelerate with nearly a 60 percent increase in the current quarter activity to $5.9 billion in new contracts. Recently announced long-term customers included OWENS ILLINOIS, QUAKER OATS, ELI LILLY, J.C. PENNEY and SAKS. In total, we added over 2,500 facilities to our service portfolio during the quarter for a total of 31,300 facilities under management. We are now the largest manager of customer energy assets with more than three billion square feet of facilities under management. These are big, big numbers. Beginning in 2001, commodity-related risk management associated with our retail customer contracts is being managed now by our wholesale services group, consolidating all of our energy commodity risk management activities within our wholesale group. Reported results for the retail and wholesale businesses have been restated to reflect the change. It's not a big deal as a restatement for last year. The restated impact to last year's annual IBIT is an $8 million increase to retail energy services and a reduction of the same amount to wholesale services. Revenues have also been restated, reducing retail sales revenues last year by 2.8 billion and increasing wholesale services revenue by an equivalent amount. The retail business will continue to reflect the management of customer relationships, net profits of new commodity contracts, origination and all flows related to energy asset management and services. Our 2001 targets of $225 million for retail IBIT and $30 billion in new contracts remains unchanged. Now let's move down to the Transportation and Distribution Segment. Our transportation and distribution business is comprised of ENRON TRANSPORTATION SERVICES, which includes our interstate gas pipelines and PORTLAND GENERAL ELECTRIC. Our Transportation Services continues to report solid earnings with first quarter IBIT of 133 million compared to 128 million last year. We have several expansions underway including the addition of 150 million cubic feet per day of capacity to California to be placed in service in 2002 and two capacity additions to Florida for 200 million cubic feet a day and 425 million cubic feet per day to be placed in service in the second quarter of this year and next year, respectively. PORTLAND GENERAL reported an IBIT of $60 million in the recent quarter compared to $105 million in the first quarter of 2000. Reduced earnings in 2001 reflected higher power cost, reduced investment income and the impacts of certain regulatory events. As previously reported the sale of PORTLAND GENERAL has been delayed due to legislative actions in the Western U.S. that are impacting the sale of assets by SIERRA PACIFIC; the potential buyer. The delay has no impact to ENRON's earnings or credit rating. And finally, our Broadband Services business: Broadband Services reported an IBIT loss of $35 million for the first quarter. Our network now is substantially complete. We have 25 pooling plants operating in North America, Europe and Japan and, as you know, we have two revenue sources in ENRON BROADBAND SERVICES: bandwidth intermediation and content services. Let me address each of those individually. In our Bandwidth Intermediation Business, we are making excellent progress in creating a commodity market for bandwidth. During the quarter, we completed over 580 transactions or more than double our fourth quarter 2000 activity and more than all of the year 2000 activity. We also more than doubled our customer base during the quarter with the addition of 70 new customers for a total of 120 customers and counter-parties. Seventy percent of our customers are carriers or network service providers. These two customer groups accounted for about half of the transactions completed during the quarter. Also related to bandwidth intermediation, we are physically delivering bandwidth against our contracts. We reported these deliveries in terms of terabytes, which is a common denominator for different sizes of bandwidth, IP transport and storage capacity. In the first quarter, we delivered 43,400 terabytes, and so, therefore, at the end of the first quarter of 2001 we already have commitments in place to deliver over 40 percent of our target of 570,000 terabytes of deliveries in 2001. Similar to our gas and power business, the next step in the development of our intermediation business will be the origination of long-term, structured transactions. We've had discussions with many interested parties and we expect this business to become significant, as it is in our natural gas, electricity and other commodity markets. But at this time it's moving a little bit slowly due to - I guess no surprise here - lack of credit capacity in the industry. But we're working on different structures that would be analogous to the production payment structure that we developed in the natural gas business to see if we can improve this. But overall, on the intermediation side, very strong development of the marketplace and the commoditization of bandwidth and we're feeling very good about the development of this business. Now on the second P&L center in Bandwidth Services, Content Services, we are focused today exclusively on high-potential, near-term opportunities with large content providers to provide video-on-demand. We have already successfully demonstrated the technical capability of our network. During the first quarter, as you know, we terminated our relationship with BLOCKBUSTER due to their inability to secure content from major movie studios. We expect to secure premium content directly from content owners. New content-related contracts signed during the quarter totaled $45 million and included a contract with ELECTRONICS BOUTIQUE. We are also working with our distribution partners to extend our network over DSL, cable and satellite. Revenues for the quarter relate to the monetization of a portion of ENRON's Content Services Business. This is a very important year for broadband services as we move quickly to become the leading participant in intermediation and content services areas. So those are the individual business units. Let me talk for just a second about corporate and other and non-recurring items. The corporate and other, we reported an IBIT loss of $158 million for the first quarter of 2001 primarily due to increased, unallocated corporate-wide expenses and operating losses from non-core operating businesses, including AZURIX. On the non-recurring front, like all U.S. companies, ENRON was required to adopt new accounting standards in 2001. It's amazing to me the way they make us do that (UI) have to do that. But ENRON was required to adopt new accounting standards in 2001 resulting in a non-recurring after-tax gain of $19 million or two cents per diluted share in the first quarter. As you know, ENRON follows mark-to-market accounting for its price risk management activity. The new rules require certain derivative instruments that are not included in ENRON's price/risk management activities to be recorded at fair value. Including these non-recurring results, ENRON reported earnings of 49 cents per diluted share in the first quarter of 2001 compared to 40 cents in the same period in 2000. Let me address just a couple of things very quickly and then we'll move on to the Q&A. But as it relates to California and the PG&E bankruptcy, the press recently reported a $580 million receivable to ENRON from PG&E. Let me clarify those reports and update you regarding the California power market. Last week, ENRON requested appointment and was appointed to the creditors' committee for the PG&E bankruptcy. Nothing has changed from our earlier disclosures; we fully expect to be paid the amounts due us. In addition, we have adequate reserves and other credit offsets in place to cover this exposure. As we have stated previously, we remain confident that the situation in California will have no material impact on our financial condition and no inverse impact on 2001 earnings. So in conclusion, first quarter results were great. Each of our major businesses continue to generate high levels of earnings and provide opportunities to extend our business model to new markets. We are very optimistic about each of our businesses and are confident that our record of growth is sustainable for many years to come. So with that let me go ahead and open it up to questions.

OPERATOR - Today's question-and-answer session will be conducted electronically. In order to pose a question please press the star key followed by the digit one on your touch-tone telephone. Once again, if you would like to ask a question, please press the star key followed by the digit one. We'll go first to RAYMOND NILES of SALOMON SMITH BARNEY.

NILES - Good morning. I win the Jeopardy prize today. Um, two questions: First, on the portfolio of generating development sites, uh are those accounted for as essentially part of your whole book of business in the energy um intermediation business? In other words, do you maintain a balanced uh position, long versus short overall, on your entire book of business, including your generation development projects?

SKILLING - Yeah, RAY, I think the best way of thinking about it is that these - we're basically developing projects and at the time any project is completed or any project goes to financial close, we will have the position hedged. It will just go into our overall portfolio and will be matched like any other position that we have in the book.

NILES - OK, and then maybe a follow-up on this on this area um can you talk to us about maybe which regions you want to be more long in or have, are more actively developing sites in which ones, well, we know where you're selling your peakers. Can you comment on that a little bit?

SKILLING - RAY, it is very diverse. I mean, we're working every place that we think there will be some sort of a potential grid dislocation. That includes Florida, California, New England, Canada. We even have a couple working in (UI). Typically,-what we're doing is we're using the information that we get from our day-to-day activities of moving power across the grid and moving gas across the gas grid to find places where there's a good match of stress on the power grid and gas availability and then we - and then we initiate a project. As you know, RAY, I am not a big bull on the value of generation investments. I think we are currently in a seller's market, this will continue for some period of time. I don't know if that'll be six months or a year, two years. But I, I do not want to be in a position where we've got a huge exposure to a bunch of steel and concrete in the ground as this market gets back into equilibrium again. So we are, we are looking for ways to increase our inventory of sales prospects, but once these things are developed they will be sold.

NILES - Are they peaking plants, generally?

SKILLING - All kinds. They include peaking, base load, single cycle, combined cycle. We're even doing some hydro projects.

NILES - OK. One other quick question. You mentioned on the Content Services Business that the revenues included a portion, a monetized portion, of the Content Services Business, I guess, as opposed to bandwidth trading, which appears to be doing very well. Can you just elaborate on that, what kind of amount that might be?

SKILLING - Yeah, in fact, I've got KEN RICE here. KEN, do you want to address or MARK, do you want to address ...

RICE - Yes, let's let MARK address it.

KOENIG - RAY, probably the amount was about a third of our revenue. It's very similar to the steps we've taken in our, kind of, our wholesale business all along and early on and some businesses like retail and others. It's a way to, kind of, monetize and recognize the value of some of the business and the contracts we've set up, in this case, in the content business, but a pretty small amount on a net basis.

NILES - It's not - it doesn't amount to a shutting down of operations at all or it's more just a sale or harvesting of some value?

RICE - No Ray, what we've done is we have, we've executed a number of content agreements for the Content Services Business and we have the capability to monetize the value of some of those agreements so we have done that a little bit in the last two quarters. So, we're continuing to execute content agreements and so that's, I think that's a very good sign for what we're doing. And we terminated the BLOCKBUSTER deal and we've gone out and been able to actually get content under better terms and conditions than we were getting through the BLOCKBUSTER arrangement.

SKILLING - Yeah and RAY, this actually gives me a platform. I'd like to make a comment. This issue about - and I think it's hit the papers again - that we were reducing staff in our Broadband Business and this is somehow related to exiting the Content Services Business. Let me just put a bullet in that right now. That is just not the case. We are very committed to our Content Services Business. We believe we have the only video-on-demand platform that works and we are aggressively working to sign up content suppliers. As far as redeployment or people in the organization, ENRON is constantly redeploying people. In fact, I have some statistics here I thought you might get a kick out of. In the period from April 2000 to March 2001, we redeployed 3,174 employees within ENRON. So that's an employee who went from one organizational group to another organizational group. That is 25 percent of our domestic workforce. That is a typical process that we go through to match our human resources to business opportunities. Now, a lot of those were voluntary, a lot of those were set up prior to the actual transfer. In terms of formal redeployment, and that's with people who were looking to move from one business area to another that had not been pre-arranged, we last year had 511 employees prior to what we're doing in our Bandwidth Business that went into formal redeployment. So this is a natural occurrence for the company and it's something that we view as one of our real competitive advantages. But let me say again, we are not exiting the Content Services Business. This is a business that we are very interested in and we think has tremendous upside potential for the future.

RICE - I'll reinforce that and RAY, you know me. I've been here 20 years with KEN and I've been redeployed 18 times. But as I said, we got out of the BLOCKBUSTER arrangement at the end of February and in six weeks we have twice as many movies, under better terms and conditions for our VOD platform and I think that's a great sign. We are getting out of the PC streaming business because there are no revenues there and it's just, you know, a natural response to that. But the VOD business is going to be a huge business.

NILES - OK, great. Thank you very much.

SKILLING - Thanks, RAY.

OPERATOR - We'll go next to DAVID FLEISCHER of GOLDMAN SACHS.

FLEISCHER - Hi, JEFF. Congratulations on a good quarter here. Uh, I know you were expecting this question from somebody; let me ask it first here. Uh, on the reserving side, you know, you've had volatility this quarter, in the aggregate, a lot of volatility earlier in the quarter, in particular gas and electricity, and we've heard more from some of your competitors out in California about the levels of reserving and you've used the words "adequate" and "full." And, and others have said 75 percent to 100 percent. I'm just wondering how you can help us uh gain more comfort that in fact these reserves are adequate out there and really in the aggregate, what's happened to the reserves?

SKILLING - Uh DAVID, I'm not going to give you the specific numbers on it because that's just - that's just information that we keep internally. But, I mean, we've been at this business for 10 years and, if you remember, in 1990 I told you how we set up our credit reserves for all payments that were due to us from counter-parties. We go through a process every day, as a matter of fact, where we rate the credit quality of the counter-parties in our entire portfolio, every single, individual credit that we have. We determine what their credit rating is and we have our own proprietary, internal system for determining what the credit ratings are of each of these companies, and we assign a credit rating to over 5,000 individual counter-parties. But at the end of day, we run all of our credit exposures against that, that matrix that shows what their - what we believe their credit quality is and then from that it kicks out what we need to reserve – uh the total number that we need to reserve, assuming a standard bankruptcy uh or expectation of bankruptcy as a function of what that credit rating is that we've assigned. We have done this for a decade and it is - it's proven itself in the past. Our credit reserves, you can see in our Annual Report, are significant, they always have been significant, and they're totally a function of what's going on in the marketplace every single day. The fact that someone can say that they've reserved 75 percent against a credit to me is ludicrous because every day, depending on what's going on in the marketplace, those numbers are changing based on updated information and assessment of likelihood of collection although I can tell you every single day we determine what that credit exposure is and we reserve against it. And I feel very good about our current level of credit reserve.

FLEISCHER - Okay, let me ask you this question now on broadband where your loss was larger than you know earlier guidance related to the quarter, it appears that it was larger. I'm wondering how much this might be related, uh and what the implications if it is, to BLOCKBUSTER being out and the implication being that you need to, you know, spend more money because BLOCKBUSTER was offering incentives to the studios before and trying to get them to sign up and, you know, reduce fees on their existing rentals. Are you now having to pay - if you were saying that's at lower cost at BLOCKBUSTER. Are you now having to pay money? Should we be expecting these losses to be larger as you're trying to build this business?

SKILLING - Okay, let me go through two issues. The first one, on the losses in Bandwidth. The losses in Bandwidth have nothing to do with BLOCKBUSTER. I mean, these were anticipated. Um and if you go back, DAVID, to the projections that we gave you guys last year and this year in the analysts' review, you'll see what the projections were from Content Services and you'll see that was a relatively slow ramp-up in revenues and profitability. To be quite honest, the place that I guess I'm looking at right now as an area to really watch, we feel very good about the intermediation business and the development of markets for bandwidth. I'm a little uh disappointed at the speed of the larger, structured transactions and the speed with which those develop. If you look at our gas and electricity business, we always started by creating a commodity market and then we immediately begin bundling these components, these individual commodities together in a turnkey solution for the customer and we call these highly structured, long-term transactions. We have an issue in this business. And the issue is that the counter-parties have no credit capacity. You know, if you look at most of the large telecom players right now, you would be hard-pressed to assume that they could perform on a contract that's anything more than six months to one year long. This is a tough credit environment to try to put together long-term packages in. This is going to come a little slower than what we expected. Uh, I don't know if that'll impact our overall profitability numbers here but we've got to find a solution to it. As you remember, in the gas business, we had the same credit problems in the mid-'80s and late-'80s and got around it by creating this production payment structure. Do you remember that?

FLEISCHER - Yep, yep.

SKILLING - And that gave us a claim - a credit claim that was better than the credit claim that we had against the counter-party because we actually attached the asset. We're looking for some analogies here in the Bandwidth Business because the credit capacity of the counter-party, or most of the counter-parties in the industry, is pretty bad right now. So we'll just have to see how that plays out. But I am very encouraged by what we're seeing on the development of commodity markets.

FLEISCHER - OK, thanks JEFF.

OPERATOR - We'll go next to ANDRE MEADE of COMMERZBANK.

MEADE - Hi, guys. A few questions and uh I promise I won't touch on broadband layoffs or reserves. Uh, first is on PG&E. It looks like you're going to be, you're going to have that through the summer and part of the result this quarter was higher purchase power. What is your net long or short position there and is the Q1 just maintenance issues? And are you going to be net long or short during the summer peak?

SKILLING - Yeah, ANDRE. Uh with PORTLAND GENERAL, it was basically uh during the quarter. It had something - it had a lot to do with a regulatory settlement that they made that delayed rate increases until later this year and those will be made up as time goes on. We are balanced in our portfolio - our purchase portfolio of supplies at PORTLAND GENERAL for the next two years. After that period, PORTLAND GENERAL has a net short position of about 500 megawatts, which we believe could be closed either through a purchase contract or a construction of a power plant.

MEADE - Okay. And, just - I wonder if you could just clarify a bit on your change in accounting for energy services. How um, it looks like the commodity piece is going into wholesale but not quite the whole thing. Can you just uh walk through what's being recorded as risk management in wholesale, what stays with EES?

SKILLING - Yeah, the uh, probably the best way - the best way of thinking about it is in our wholesale business we have centralized risk management and then we have what we call origination groups. We actually had a separate centralized risk management activity in our retail business. And to be quite honest, organizationally, that is not optimal because we have such capability in our wholesale business that we were - we just weren't taking advantage of that in managing our portfolio at the retail side. And this retail portfolio has gotten so big so fast that we decided we needed to get the best, uh the best hands working risk management there. So what we did is we - essentially, when a contract is being originated with a customer in retail, the person that's originating that contract actually is buying the components for that contract from our wholesale desks. So, essentially, what they're doing is they are packaging all the pieces together for the contract in retail and then they in turn are selling that retail to the end-use customer. So all the profitability associated with any uplift over the wholesale value of the risks that we're putting in the contract, that's the profitability in retail. All value that's related to managing the risk of the portfolio shows up in wholesale.

MEADE - Okay, does that ...

SKILLING - It's an ecostructure, actually, what we're using with the origination groups and our wholesale groups. It's a direct analogy to that. We could probably show you how it works, probably, better close up.

MEADE - Okay. And let me move on. I've just got a couple more short ones. You mentioned earlier that you were not a bear, or you're not a bull on power plants and going long generation. And we hear various things from the uh owners of capacity and where they think markets are going to go. It would be helpful to me to get a general sense of what ENRON's thinking on when U.S. markets hit equilibrium - and just a general sense, nothing that's specific - and just look at Northeast pools, the West, Texas and Midwest, Southeast. Maybe get a sense of what you're thinking would be helpful.

SKILLING - Well, if you've get the construction activity that people have announced, we're going to be back in balance probably in about a day and a half. I mean, the amount of capacity that's been announced is just staggering. I mean, the last numbers I saw show that there's been about 250,000 megawatts of new capacity announced in a total marketplace of about 640,000 megawatts. I mean, these are enormous numbers. And if you look at the real problem, the real problem, the grid is pretty modest. In Southern California, it was probably triggered by a shortfall of 500 megawatts this Christmas or this winter. And so the whole system's on an edge and particularly in an environment where the economy is softening, I would guess that we've only got another year or two of high prices before this thing breaks. And that's, kind of, my view and then after that, you know, everybody's got their own opinion. My opinion is that this is one of the most undifferentiated commodities in the world. You know, this - if you look at the commodity chemical business and say that that's undifferentiated, that is hugely more differentiated than an electron because if you're a commodity chemical company, you can differentiate your commodity. I mean, you, you control the technology and you can come up with different variations on that. In this industry we don't even control the technology. The technology's controlled by GENERAL ELECTRIC and GENERAL ELECTRIC sells to any comer. So I just think, you know, a couple of years from now this is going to be the prototypical commodity business and uh and that's fine. I mean, as far as we're concerned, that's a pretty good market to be in. I don't particularly want to take risks of holding a lot of assets in that kind of an environment so our objective is to come up with a new inventory of plants, which is what our project - our site development activity's associated with. And then as quickly as possible, as we've created value by bringing those packages together I'd like to sell into this seller's market. Now, two years from now it may be a totally different world. If the world has changed in two years, I may be on the telephone telling you guys that we think now is the time to be buying. But right now this strikes me as the time to sell.

MEADE - OK, great, very helpful. And uh separate topic, here Other business, $150 million negative EBIT-IBIT, I should say - is this a normal run rate we should expect through 2001?

SKILLING - No, it involves some organizational changes we made primarily related to back-office activities and so there was some unallocated costs. Over time those will be reallocated out to the businesses where those costs will be streamlined. The other piece of it is that there are some other businesses, specifically AZURIX and CLEAN FUEL. And between the two of them, they are a big piece of that number. We are working to reduce those, those losses and I can tell you I'm focusing a lot of time and energy on it.

MEADE - Okay, you don't have a 2001 target you're trying to ...

SKILLING - No, but those numbers will be going down.

MEADE - Okay and the final question is do you have a total book value estimate for your assets and investments? This is something that's pretty tough to track and I was wondering if you just have the end of the quarter number for that or can

I get it?

SKILLING - It's about $1.8 billion.

MEADE - 1.8 billion. Okay, great. Thanks.

OPERATOR - We'll go next to REBECCA FOLLOWILL of HOWARD WEILL.

FOLLOWILL - Good morning. Most of my questions have been answered, just two more. On the sale of the plants to CINERGY during the quarter, where is that included within - is it commodity, sales and service or is it under assets and investments? And then on broadband, are there any dark fiber sales within the quarter?

SKILLING - On the second question first, no. On the first question, the contracts and facilities show up in commodities, sales and services.

FOLLOWILL - Okay, thank you.

OPERATOR - We'll go next to RICHARD GRUBMAN of HIGHFIELDS CAPITAL.

GRUBMAN - Yes, good morning. Um, can you tell us what the assets and liabilities from price risk management were at quarter-end, what those balances were?

KOENIG - We don't have the balance sheet completed. We'll have that done shortly when we file the Q. But until we pull all that together, we just can't give you that.

GRUBMAN - Well can I - can I ask you - I mean that's - I'm trying to understand why that would appear to be an unreasonable request in light of your comments about daily control of all your credits. I mean, you've got a trading desk with a $21 billion matched book that's two times your book value and you can't tell us what the balances are?

KOENIG - I'm not saying we can't tell you what the balances are. We clearly have all those positions on a daily basis, but at this point we will wait to disclose those until all the proper netting and the right accounting is put together. But -

GRUBMAN - But you're the only financial institution that can't produce a balance sheet or a cash flow statement with their earnings.

SKILLING - You, you, you, well thank you (audio redacted).

GRUBMAN - Appreciate it.

OPERATOR - We'll go next to JAY YANELLO of UBS WARBURG.

YANELLO - My questions have been answered, but I'll just follow-up with KEN. A quick question, the user's experience on the video-on-demand, can you give us some flavor on the positives and potential negatives or areas which might need improvement, and is this capable of being streamed on, say, a 40-inch TV or are there any limitations as far as that's concerned'?

RICE - Yeah um, there are really no limitations on the size of your TV because it delivers, I guess, VHS or DVD quality. The experience is pretty good. Technically, the thing works great. The big issues are we're working with MICROSOFT and REAL NETWORKS to get the, we have to stream at around a megabit per second. So one of the challenges is getting enough DSL and digital cable subscribers with that kind of bandwidth. But the CODEC producers are bringing that requirement down, which will greatly expand the size of the market that we're able to address. So from the user perspective, really, the only issue is they want better content. Technically it works great and we've just got to - we've got to be able to get to more of them and that's just going to mean more distribution agreements, better roll-out of DSL and evolving CODEC technology which allows us to deliver the same quality at six or 700 kilobits per second. And when we get down to that, which I think is going to be within a year or so, there are going to be big numbers of DSL subscribers that will have access to it.

YANELLO - Is the big point with the studios still the encryption or the fear that encryption's not sound or is it just they're still not convinced as to who or how - what mode they want to deliver the movies, as far as ...

RICE - Yeah, I'll tell you what I think the big issue is. They're obviously concerned about security, but they're - but the technical solutions there are, they work and they're actually satisfied with that. They want to keep as much of the money for themselves as they can. So they're wrestling with the tradeoff of getting a high-quality network to deliver this, guaranteed quality, um guaranteed security and paying someone to do that. So they're coming around, though.

YANELLO - Okay, thank you.

OPERATOR - We'll go next to CURT LAUNER of CSFB.

LAUNER - Good morning. CURT LAUNER. Two separate questions if I could. First, just to ask a little bit differently the question about reserves, not necessarily for any specificity relative to numbers –and I understand the sensitivity there - but just to try to gauge the earnings power for EES and Wholesale. If there's anything you could tell us about how the reserves are split up between those two business entities? And second question, relative to your progress on capital expenditure budgets year-to-date, a balance sheet outlook perhaps for the end of the year in light of the fact that the interest expense number of $200 million or so in the first quarter represents the first sequentially down interest expense quarter in a long time.

SKILLING - Yeah CURT. Let me address first the reserves. All credit exposures are managed centrally so once any contract is originated it all goes into one central pool that shows up in our wholesale group because they're the ones that manage all of our credit exposures. And, as I mentioned, they do that on a real-time basis. On the CAPEX budget, we are - we're having good, success with the CAPEX budget and not withstanding my comment earlier in response to RICHARD GRUBMAN, we believe we have a very strong balance sheet and manage our balance sheet quite well. But, as I mentioned earlier, we're, we've reduced our assumptions or estimates for CAPEX in our Broadband Business from the $750 million number that we had mentioned earlier down to about $250 million. And again, that's a result of the fact that we were able to get access to connectivity without actually having to build it, which is very positive. Cash balances from our wholesale business have been extremely strong. You'll see the same trend continuing that we saw at year-end, where we saw a very strong cash generation from that business. The pipeline group, as you know, continues to generate, on a net basis, cash and retail is about cash neutral. So, right now the only business center that's absorbing cash is Broadband and that number's down from what we expected and the other three big business areas are cash generating - significantly cash generating. Now, which also brings me to another comment I'd like to make about disposal of assets. As I mentioned before, we are still aggressively working to sell some of our particularly international assets and we are I think close to having some success on those. So as the year goes by not only will cash generation be positive in the business centers but I think you'll see some additional cash generation from sale of some of the international assets.

LAUNER - Okay. Could you just put that into a sense of a goal for the balance sheet perhaps at any point in time like year-end and an outlook for the interest expense?

SKILLING - Gee, CURT, I just don't have those ...

KOENIG - CURT, for interest expense, it'll probably look a lot like last year's number. We'll know more as we go through the year.

LAUNER - Okay, thank you.

OPERATOR - We'll go next to CAROL COALE of PRUDENTIAL SECURITIES.

COALE - Hi, good morning. Um, amazingly, I still have a question after all these questions. I wanted to go back to the receivables issue in California, the $580 million that was disclosed. As I understand it, this is your exposure to PG&E which includes the ISO and the PX and about two-thirds of that is related to your retail contract. Do you have any additional exposure that's not disclosed that might be - in Southern California, for example, might even have some exposure to, say, EDISON, not that - we're thinking that they're going to go bankrupt, but just -would that be additional to this $580 million? That's question number one. Question number two is just a detail question. In your energy services, your EES business, your results actually beat our expectations. I was wondering if the losses at NEW POWER COMPANY were less than expected or did you sell warrants in new powers to offset the losses there? Thanks.

SKILLING - Okay, on the second one first, CAROL, we really can't talk about that because they haven't announced their numbers yet.

KOENIG - But, CAROL, there's not anything that's materially different than probably what you have modeled for NEW POWER. But again, they will announce their earnings separately on May 10th so we've got to keep that separate.

COALE - Okay.

SKILLING - On the question on SOUTHERN CALIFORNIA EDISON, we do have credit exposures to SOUTHERN CALIFORNIA EDISON. Not nearly of the magnitude of PG&E, but as is typical of all of our credit exposures, we've reserved for those, CAROL, so we feel real good about it.

COALE - Okay, thank you. See you this afternoon.

OPERATOR - We'll go next to LESLIE RICH of EVERGREEN INVESTMENTS.

RICH - Hi, you referred to certain regulatory events for PORTLAND GENERAL. Could you elaborate on what those were that impacted the results so?

SKILLING - Just their rate settlement for last year and the structure of that rate settlement was essentially under recoveries early in the term and then the acceleration of recoveries later in the term. So that's kind of a self-correcting number.

RICH - OK. And then, not to beat a dead horse on this 580 million, but how is that number growing? Since two-thirds of it is related to retail, does that amount continue to grow over time until the bankruptcy settlement?

SKILLING - Now that - the retail portion of the credit is essentially a claim, it's called the negative CTC, which is a charge that is due to us for servicing and customers. Those customers have been removed from PG&E's - or have been removed from direct service and put back into utilities so those numbers-are static now.

RICH - And is it likely - I understand there's some sort of a controversy about returning them to the utilities. Do you foresee that that's likely to change or what's the status on that?

SKILLING - You know one way or the other we still serve the customers and we still bear the financial consequences of serving the customers so it really shouldn't make much difference one way or the other. But we did have a setback in California. We returned the California State University system to service by the local utilities. That was found to be, I guess, what's the term that they used? They went to court and they basically have asked us not to do that, which was a surprise because we believe the contract very clearly, very clearly allows that. So we're just going - we filed an appeal and we believe we'll win that appeal. But it really, from an economic standpoint, doesn't make a big difference. It does make a difference for our customers in terms of the quality of their service, which is why we changed the sourcing and we would prefer that sourcing structure be in place; from an economic standpoint, it doesn't make much difference one way or the other.

RICH - Okay. And on the broadband, I'm not clear. Were people let go or were people not let go?

SKILLING - What we did is we - as we always do - we redeployed people so that any business center that has - that we've got surplus people, we redeploy them into areas that are still growing. We've got areas all over the company that are growing. There are sometimes issues about some of the people who are no longer needed if their skill base is not needed elsewhere in the company, some of those people will ultimately get a severance package. But we try very hard to get everybody replaced within the company. So my guess is that the vast majority of those people will get jobs elsewhere inside of ENRON.

RICH - Thank you.

OPERATOR - We'll go next to ANNIE TSAO of ALLIANCE CAPITAL.

TSAO - Good morning everyone. A couple questions in terms of your tax - income tax expenses, can you, kind of, explain why first quarter of last year numbers were more than double, you kind of restated the numbers first of all? And also, what your effective tax rate for this quarter versus last one?

SKILLING - I've got RICK CAUSEY here. Let me let RICK address that. He looks puzzled.

CAUSEY - Well, the effective rate is 24 percent this quarter versus about 17 percent for that same quarter last year. And, so on an effective rate basis we're actually up a little bit and that's just the timing of equity earnings and other of the asset and stock, the basic difference is the (UI) quarter to quarter. So overall, our effective rate's around 24 percent and we'd expect it to be in that neighborhood throughout the year.

KOENIG - And there were - this is MARK. And there was no restatement of any tax amounts.

TSAO - Okay.

CAUSEY - The other - the other increase in just the overall expense is just due to the increase, so the expense went up from 72 to 130 million but that was driven based on pre-tax income.

SKILLING - And pre-tax income was up a lot. I'll have - we'll take one more question then we'll call it quits. Any other questions?

OPERATOR - We'll go next to KURT MOELLER of ABN AMRO.

MOELLER - Good morning, gentlemen. Can you hear me?

SKILLING - Yes.

MOELLER - I just - I'm sorry. I'm just a little puzzled as to why the reluctance to disclose the reserves and the amount that's owed ENRON by people in California who's credit quality is less than stellar. I mean, it sounds like that you guys are trying to hide something. I know you're not but it just sounds that way. I think as owners for our clients of your stock we deserve to know that so, I mean, what other exposure do you have to less than stellar credit quality companies in California and what's the reserves as a percent of that and for PG&E?

SKILLING - Well, you know, I disagree with you on the need to disclose specifics. I think that would hurt our competitive position, particularly when people are jostling for position in bankruptcy. Any - everyone wants to keep that information as close to the vest as possible. What we will disclose, and we disclosed in excruciating detail in our footnotes in our Annual Report, are total credit exposures by type of credit exposure and by quality of credit exposure, what offsets are in the form of margin and reserves against those amounts and we had our accountants and our internal risk people that are looking at those numbers daily and when there's volatility in the market they're looking at it on a minute by minute basis. And then you just have to rely on our statements as to the adequacy of those reserves. And I can tell you that we look at it very hard and those reserves are adequate to meet the requirements and we have a 10-year track record of reserving and disclosure of those reserves. So you ought to have a pretty good sense for our track record in managing that position. We feel very good about our reserves in California and as I said in December, we were going to hit our $1.70, $1.75 number. We've raised that to $1.75 to $1.80 number. So that should give you the level of our confidence that the reserving has been appropriate.

MOELLER - I mean, it came out in the media how much you were owed by PG&E when they went to bankruptcy court so I don't understand what the competitive advantage is to not revealing that. Maybe I'm - please help me out.

SKILLING - Well, the reason that that went to the media is we, in fact, sent a specific letter to PG&E to articulate all the specifics of our view of what the claims were that we had against PG&E, which was clearly different than what PG&E had filed in their initial filing data with their bankruptcy petition. And, so, this is a case where it is very, very complicated. A number of credit exposures that we have put on the books with PG&E have a range of different type of offsets, depending on the specific wording of specific contracts. There are a number of other issues associated with just the legal structure of each individual contract. It is not as simple as saying, somebody owes you a dollar. Well, do they owe you a dollar under this form of contract, they owe you a dollar under that form of contract, those are two fundamentally different credit claims. And so we can sit down and probably spend, my guess is, three days non-stop going through contract by contract with PG&E and describing what the nature of the credit claim is. It is highly, highly complex and what we do is we put it all into a portfolio and we look at each of those contracts. Each one is assessed for credit worthiness and then we determine a credit reserve against each of those contracts. Now the last thing we want to do from a competitive standpoint is to go into a discussion with all the other creditors and say, gee, my contracts have these issues and those issues. What are the issues you have in your contracts? Because they're not going to tell you. And, so, what you have to do is you have to keep your cards close to your vest and you negotiate just as you do in any other negotiation related to claims and bankruptcy. It is a very complex exercise and if people tell you they can distill it down to a single number they either don't understand their own credit claims or they're trying to simplify a point that, in my opinion, is not appropriate. I think that's it so I'll turn it over to the operator.

OPERATOR - At this time if you do have a question please press the star key followed by the digit one.

KOENIG - We're done. Operator, we're done.

SKILLING - We're going to terminate questions.

OPERATOR - At this time, due to time constraints, our conference will end. I'll turn the conference back to our speaker for any closing remarks.

SKILLING - Great. Thank you very much. I really appreciate everybody calling in and asking the questions. We had a great quarter, the company's doing very well, we feel very good about the prospects for the future and I look forward to seeing you - anyone who's attending our one-on-one investor meetings over the next couple of days. So thank you very much.

OPERATOR - That concludes today's conference call. We thank you for your participation. You may disconnect at this time.