Presentation Agenda

- Status of the Project - Phase I Operations

- Status of the Project - Phase II Construction
DPC Project Profile

- **Location**: Maharashtra, India
- **Power Station Capacity**: 2,184 MW
- **Regasification Facility**: 3 LNG tanks, Vaporizers, Dredging, 2.3 km Breakwater, 1.7 km Fuel Jetty
- **Primary Fuel**: Natural Gas (from LNG)
- **Back-up Fuel**: Naphtha or Distillate
- **Power Purchaser**: Maharashtra State Electricity Board
- **Shareholders**: Enron Corp., MSEB, General Electric Capital Corporation and Bechtel Enterprises Holdings Inc.
- **Fuel Suppliers**:
  - **Phase I**: Glencore (International Tender)
  - **Phase II**: Oman LNG and Abu Dhabi Gas Liquefaction Company
- **Shipper**: Greenfield Shipping Co. Ltd.
Aerial Views of Dabhol

Phase II Power Project - November 00
DPC’s LNG Tanker

Launch of DPC’s LNG Tanker “Lakshmi” - December 00
Presentation Agenda

Status of the Project

Phase I Operations
[(b)(4)]
Presentation Agenda

Status of the Project

Phase II Construction
# Phase II Construction - Key Milestones

<table>
<thead>
<tr>
<th>Facility</th>
<th>Guaranteed Completion Date (per EPC)</th>
<th>Anticipated Completion Date (per DPC-PDO's estimate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Plant</td>
<td>Block B: 7-Jun-01</td>
<td>Jun-01</td>
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<tr>
<td></td>
<td>Block C: 1-Oct-01</td>
<td>Aug-01</td>
</tr>
<tr>
<td>LNG Facility</td>
<td>Phase A: 15-Dec-01</td>
<td>15-Dec-01</td>
</tr>
<tr>
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<td>Phase B: 30-Jan-02</td>
<td>30-Jan-02</td>
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<tr>
<td></td>
<td>Phase C: 15-Mar-02</td>
<td>15-Mar-02</td>
</tr>
<tr>
<td></td>
<td>Phase D: 1-Jun-02</td>
<td>1-Jun-02</td>
</tr>
</tbody>
</table>
Phase II Construction - Progress Update

Construction Progress (as of Dec. 2000)

Power Plant: 91% complete
LNG Facility: 72% complete
LNG Vessel - Construction Update

- Ship construction on Schedule
- Ship launched on Dec 28, 2000
- Sea Trials scheduled in September 2001
- Start Date Window - October 15, 2001 to November 15, 2001
let's give it a day or two

-----Original Message-----
From: Wiedman, Mark
Sent: Monday, January 07, 2002 10:26 AM
To: Bitsberger, Timothy
Subject: RE: Draft Memo on Enron/CFMA Articles

do you want to suggest a meeting? i think you should, not me
i could also talk to him, but that strikes me as less likely to succeed

-----Original Message-----
From: Bitsberger, Timothy
Sent: Monday, January 07, 2002 10:25 AM
To: Wiedman, Mark
Subject: RE: Draft Memo on Enron/CFMA Articles

me too

-----Original Message-----
From: Wiedman, Mark
Sent: Monday, January 07, 2002 10:23 AM
To: Bitsberger, Timothy
Subject: RE: Draft Memo on Enron/CFMA Articles

[(b)(5) , (b)(6)]

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From: Bitsberger, Timothy
Sent: Monday, January 07, 2002 10:10 AM
To: Wiedman, Mark
Subject: RE: Draft Memo on Enron/CFMA Articles

[(b)(5) , (b)(6)]

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From: Wiedman, Mark
Sent: Monday, January 07, 2002 10:08 AM
To: Bitsberger, Timothy; Roseboro, Brian
Subject: RE: Draft Memo on Enron/CFMA Articles

[(b)(5) , (b)(6)]

Mark

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To: Roseboro, Brian; Bitsberger, Timothy
Subject: FW: Draft Memo on Enron/CFMA Articles

This is something to keep close tabs on -- would it make sense to meet with Heidi and Norman on this?

----Original Message-----
From: Carleton, Norman <Norman.Carleton@do.treas.gov>
To: Roseboro, Brian <Brian.Roseboro@do.treas.gov>; Bair, Sheila <Sheila.Bair@do.treas.gov>; Gross, Jared <Jared.Gross@do.treas.gov>; Wiedman, Mark <Mark.Wiedman@do.treas.gov>; Bitsberger, Timothy <Timothy.Bitsberger@do.treas.gov>; Smith, Amy <Amy.Smith@do.treas.gov>
CC: Schultheiss, Heidilynne <Heidilynne.Schultheiss@do.treas.gov>; Nickeloff, Peter <Peter.Nickeloff@do.treas.gov>; Ellett, Martha <Martha.Ellett@do.treas.gov>; Gabilondo, Jose <Jose.Gabilondo@do.treas.gov>; Sutton, Gary <Gary.Sutton@do.treas.gov>
Sent: Fri Jan 04 17:29:36 2002
Subject: FW: Draft Memo on Enron/CFMA Articles

Attached is a memo that details our first attempt to clarify what the press has been saying in regards to Enron and the Commodity Futures Modernization Act.

I talked to the Ken Raisler, a New York lawyer, about this. He told me that Enron did not directly lobby the administration about the CFMA but was part of an energy coalition, which Mr. Raisler represented, that did lobby on this issue. The exempt commodity/electronic trading facility provision in the CFMA did not directly benefit Enron since EnronOnline was not structured as a trading facility as defined in the CFMA. Therefore, the major beneficiaries of these provisions are Enron’s competitors, such as the InterContinental Exchange and TradeSpark, which are structured as electronic trading facilities. Enron did get the legal certainty it wanted that the CFTC cannot regulate EnronOnline. [(B)(5)]

Ken also told me that he had talked to then Assistant Secretary Lee Sachs about the exempt commodity issue. According to Ken, Lee told him that the Treasury would not oppose the CFMA because of the exempt commodity issue but encouraged the industry to reach a compromise with the CFTC. In the end, Wall Street firms, energy firms, and the futures industry, as well as the FWG (including the CFTC) all supported passage of the CFMA.

----Original Message-----
From: Schultheiss, Heidilynne
Sent: Friday, January 04, 2002 5:10 PM
To: Carleton, Norman
Subject: Draft Memo on Enron/CFMA Articles

Attached is the draft memo on the Enron articles that asserted that the CFTC and FWG objected to the energy exclusion provisions of the CFMA. The three news articles are downloaded as the latter pages.
Attached is a revised document based on Mark's comments.
Attached is an updated copy of the Enron/CFMA memo. The first four pages are the memo; the following pages are the downloaded newspaper articles. I will bring copies with me at 12 noon, but I thought you should have an advance copy.
DRAFT
January 10, 2002

TO:       Norman Carleton
          Director
          Office of Federal Finance Policy Analysis

FROM:     Heidilynne Schultheiss
          Financial Economist
          Office of Federal Finance Policy Analysis

SUBJECT:  Dow Jones Newswires and Washington Post Articles on Enron and the
          Commodity Futures Modernization Act of 2000

BACKGROUND

[(b)(5)]
CEA EXEMPTIONS

[(b)(5)]
ISSUE AND DISCUSSION

[(b)(5)]
Campaign Gifts, Lobbying Built Enron's Power In Washington

By Dan Morgan and Juliet Eilperin
Washington Post Staff Writers
Tuesday, December 25, 2001; Page A01

During the administration of the first President George Bush, a new party fundraiser named Kenneth L. Lay was invited to spend the night at the White House. The sleepover was an early coup for the chairman of Enron Corp. and a harbinger of things to come.

Over the following decade, Lay and Enron poured millions of dollars into U.S. politics, cultivating unequaled access and using the entree to lobby Congress, the White House and regulatory agencies for action that was critical to the energy company's spectacular growth. Now, with Enron's sudden bankruptcy, public attention has turned not only to the financial practices that brought the company down, but to what its far-flung political operations say about the country's campaign finance system.

Some Democrats in Congress are spoiling for an opportunity to use Lay and Enron to embarrass the Republican Party, which received most of the company's largess over the years. They want to look into such things as Enron's relationship with Phil Gramm (R-Tex.), ranking minority member on the Senate Banking Committee and chairman of the committee at a time when his wife, Wendy L. Gramm, was serving on Enron's board. Last year, Gramm's committee approved legislation that included a key provision exempting parts of Enron's massive energy trading operation from federal oversight.

"I think the Enron story is going to turn out to be an enormous political story," said Rep. Henry A. Waxman (D-Calif.), ranking minority member on the House Energy and Commerce Committee.

The ties of Lay to the White House and GOP leaders, he added, were so multilayered that Republicans are likely to be reluctant to pursue them. But he made clear that he intends to do so and expects the Democratic-controlled Senate to follow suit.

Enron also cultivated relationships with Democrats, however. Lay played golf in Vail, Colo., with President Bill Clinton, and Enron gave hundreds of thousands of dollars to Democratic campaign committees and Democrats in the House and Senate, including Sen. Charles E. Schumer (N.Y.) and Rep. Martin Frost (Tex.), the ranking minority member on the House Rules Committee.

A Routine Cost for Some

Advocates of campaign finance reform say the Enron case vividly illustrates the ties between politics and big money, though it's unclear that the company's political operations were radically different from others for whom political contributions have become a routine cost of doing business.
"There are aspects of [the Enron case] that remind us of the savings and loan scandal, in the sense that a powerful institution used big money to buy influence and protect itself while ordinary citizens ended up losing their life savings," said Fred Wertheimer, president of Democracy 21, a Washington interest group, referring to a banking controversy in the 1980s. Enron's ties to Republicans and the present Bush administration were especially close. Lay raised large sums for George W. Bush's campaign.

Enron, Lay and its employees have contributed $572,350 to him over his career, far more than any other company, according to the Center for Public Integrity in Washington.

Several top administration officials have been Enron advisers or stockholders. Enron, Lay and other senior executives contributed $1.7 million in soft-money donations to politicians in the 2000 election cycle, two-thirds of it to Republicans, according to the Center for Responsive Politics.

Republicans clearly are sensitive to the potential political dangers. The National Republican Senatorial Committee recently returned a $100,000 check collected from Enron in November, after deciding that "it was appropriate to give it back," spokesman Dan Allen said. The Republican Governors Association last week returned an Enron donation of $60,000.

What was unique about Enron, competitors and allies agree, was a brash and sometimes counterproductive political style.

Stories of Enron's hardball style are legion. In October 1999, for example, Jeffrey K. Skilling, then Enron's president, expressed his displeasure at Rep. Joe Barton's position on a deregulation bill pending in the energy subcommittee Barton chairs.

The meeting grew "heated and awful," said one person who was present, until Barton (R-Tex.), a usually mild-mannered man who keeps a Bible on his desk, exploded. "Jeffrey Skilling, I may not have your millions of dollars, but I am not an idiot," one witness recalled Barton saying. The meeting ended without Enron getting the changes it wanted. "Skilling did not get Washington," the source added.

"In their lobbying, they acted like the 800-pound gorilla they were," said Christopher Horner, a Washington lawyer who briefly directed Enron's government relations in 1997. Lay and Skilling declined interview requests, but Enron officials say they have no regrets about their use of money. "It got us name recognition," company spokesman Mark Palmer said. "Given the aggregation of our foes, we had to make sure that people knew what our argument was."

**Jump-Starting Deregulation**

Almost from its start in 1985 as a gas pipeline company, Enron needed help in Washington, and it got it in a series of actions by Congress and the Federal Energy Regulatory Commission (FERC) that undermined the traditional monopoly of utility companies over power plants and transmission lines.

Enron lobbied for several of the initial actions that set the stage for the era of a deregulated wholesale electricity market.
It supported the 1992 Energy Policy Act, which opened the utility companies' wires to electricity merchants such as Enron. It also worked with the Commodity Futures Trading Commission -- then chaired by Wendy Gramm -- for a regulatory exemption for futures trading in energy derivatives, which later became Enron's most lucrative business. Soon after Gramm stepped down in 1993, she was appointed to Enron's board.

Independent sources knowledgeable about these dealings, however, said Enron was not the main interested party. They said the lead was taken by several major oil companies, including British Petroleum Co. and Phillips Petroleum Co., which were concerned about the effect of CFTC regulation on their offshore trading in crude oil contracts. Wendy Gramm, an apostle of free markets, needed little convincing, the sources said.

That same year, Lay served as chairman of the committee organizing the Republican National Convention in Houston. Hedging its bets, Enron made a major contribution to a "street fair" in honor of Sen. John Breaux (D-La.), a key energy policymaker, at the Democratic convention. Key orders by FERC in 1996 also supported Enron's transformation into a freewheeling trader of gas, electricity and more exotic products, such as telecommunications services and sulfur-dioxide emissions credits.

The new rules ensured that Enron and other merchant companies could buy electricity from independent power plants and sell it to distant customers, using transmission lines borrowed from utility companies.

Even Enron's harshest critics credit Lay with putting new issues -- such as electricity deregulation -- on the Washington agenda. Lay, a former Interior Department official with a PhD in economics, became "the ambassador" for deregulation, one former employee said.

Throughout the 1990s, Enron's agenda was opposed by coal-burning utilities, especially ones in the Southeast, which viewed the emerging wholesale electricity market as a threat to their turf. Many of these, such as Atlanta-based Southern Co., had impressive political funding and connections of their own.

But with the explosive growth of Enron and the GOP takeover of Congress in 1995, the company's soft-money donations -- unregulated and unlimited gifts to political parties and organizations -- jumped sharply. They went from about $136,000 in the 1993-94 election cycle, to $687,000 in 1996 and $1.7 million in 2000, according to the Center for Responsive Politics.

**Frustrated by Washington**

For all its connections, sources say, Enron often found Washington frustratingly slow and unreliable.

The company placed a substantial bet on federal support for limits on the greenhouse gases causing global warming. Enron officials hoped to exploit a new market in industry for carbon-emissions credits, similar to the one that developed for sulphur credits after clean-air legislation was enacted in 1990.
Lay joined the Union of Concerned Scientists and environmental groups in calling for curbs on carbon in the atmosphere. The Clinton administration was supportive, but this year the Bush administration reneged on a campaign pledge to impose limits on greenhouse gas emissions from coal-burning power plants.

A multimillion-dollar lobbying campaign in Congress to secure legislation requiring states to institute retail electricity deregulation fared even worse.

Enron hired former New York representative Bill Paxon, a leading conservative, to run Americans for Affordable Electricity, which commissioned studies and recruited business support for deregulation. But the legislation never made it out of a congressional subcommittee. At the same time, Enron was growing restive over the slow pace of deregulation in the wholesale electricity market, the core of its business. Large parts of the country, especially the Southeast, were still monopolized by regulated utilities that limited the opportunity for trading gas, electricity and energy derivatives.

**Political Pragmatism**

Enron's political pragmatism was demonstrated in the 1998 New York Senate election, when it dropped its support of the Republican incumbent, Alfonse M. D'Amato, after Democrat Schumer endorsed Enron's goal of wholesale deregulation, sources said. Lay reciprocated by hosting several fundraisers for Schumer, and Enron's political action committee contributed $7,500 to the Schumer campaign.

The company's lobbying team expanded along with its political spending. It outgrew the two-person operation that existed in 1989 and began to reflect Enron's interest in everything from pipeline safety and derivatives trading to Overseas Private Investment Corp. loan guarantees. By last year, its lobbying expenses exceeded $2 million a year and covered a raft of big-name consultants, such as former Montana governor Marc F. Racicot, the new Republican National Committee chairman, and former top aides to House Majority Leader Richard K. Armey (R-Tex.) and House Majority Whip Tom DeLay (R-Tex.)

The hazards of Enron's efforts to connect with both parties were evident last year, when shortly before the November election, the company picked a Clinton administration Treasury official, Linda Robertson, to run its Washington office.

A perturbed DeLay, whose campaign and related funds had received more than $100,000 from Enron and Lay, briefly "excommunicated" Enron, a House source said. Robertson was not invited to a series of meetings of electricity lobbyists held in DeLay's office last July, though an Enron official did finally attend the sessions.

Enron had more success when Congress overwhelmingly approved legislation last year containing a provision precluding the Commodity Futures Trading Commission (CFTC) from regulating Enron's trading in energy derivatives. These instruments are traded largely between electricity dealers and big wholesale consumers, which use them to hedge against price swings that could adversely affect their businesses.
The exemption, tucked into broader legislation that established the legality of unregulated derivatives trading by banks, was not supported by a Clinton administration working group, largely because of opposition from the CFTC. Since the departure of Wendy Gramm, some in the agency had lobbied for tighter control over the exploding energy derivatives market. The legislation passed through the Senate Banking Committee, then chaired by Phil Gramm, who has received $97,350 from Enron employees and its political action committee since 1989. A Gramm spokesman said the senator does not recall talking to his wife, an Enron director, about the energy provision and played "no role" in negotiating it. Wendy Gramm did not return phone calls seeking comment.

Enron was a primary player, with Koch Industries Inc., a large, privately held oil and gas company based in Wichita, in pushing for the exemption, a source said. But the company's main effort was focused on the House Agriculture Committee, where the legislation originated. Its chairman and ranking Democrat, Texas Reps. Larry Combest (R) and Charles W. Stenholm (D), respectively, were among the top recipients of Enron campaign donations in the House since 1989.

The CFTC objected strenuously to the initial draft marked up by the committee, but the Texas congressmen helped work out a compromise between Enron and the agency. The compromise was then offered by Rep. Jerry Moran (R-Kan.), the home-state congressman of Koch Industries and a recipient of campaign donations from Enron and Koch in the last election cycle. Moran did not return a phone call seeking a comment.

Early this year, Lay seemed to be at the height of his political power, getting a private meeting with Vice President Cheney to discuss the administration's energy policy proposals and weighing in on key nominations to FERC.

Curtis Hebert Jr., FERC's chairman at the time, has reported that Lay called him and implied that Enron would urge the newly installed Bush administration to keep him in the job -- if he changed his views to support Enron's position for faster electricity deregulation. Lay contended that Hebert called him to ask for support.

Hebert was not reappointed. He was replaced by Texas lawyer Pat Wood III, a strong advocate of deregulation who had the backing of Lay and Enron.

Ironically, since Enron's fall, both FERC and Congress seem to be moving in the direction of the deregulated markets Lay and Enron lobbyists had pushed for.

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CORRECTION

Wednesday, December 26, 2001; Page A02

A Dec. 25 article incorrectly reported the action taken by the Senate Banking Committee, chaired by Phil Gramm (R-Tex.), on a bill that exempted much of Enron Corp.'s trading activities from federal regulation. The legislation was approved by the Senate Agriculture Committee.

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Enron Executives Face Subpoenas

Senate Panel Also Orders Testimony of Directors
By Peter Behr and Dan Morgan
Washington Post Staff Writers
Thursday, January 3, 2002; Page E01

A Senate committee announced yesterday that it is subpoenaing top executives and directors of the bankrupt Enron Corp. to determine their roles in the Houston company's epic collapse.

Three other congressional committees already are digging into the Enron failure, but the subpoenas announced yesterday are believed to be the first of the congressional probes. Among the likely recipients is Wendy Gramm, an Enron director who is the wife of Sen. Phil Gramm (R-Tex.).

Sen. Carl M. Levin (D-Mich.), chairman of the Governmental Affairs Committee's permanent subcommittee on investigations, said the panel also will subpoena financial and trading records from Enron and audit documents from its accountant, Arthur Andersen LLP.

Enron's attorney, Robert Bennett, called the subpoenas "totally unnecessary" and said "we are fully cooperating with Congress."

Although Enron Chairman Kenneth L. Lay did not show up for two earlier congressional hearings on Enron's bankruptcy, he has agreed to testify next month before the Senate Commerce Committee, Bennett said.

Enron has turned over nearly three dozen boxes of documents to the House Energy and Commerce Committee, Bennett said. "I don't question the legitimacy of an inquiry [into Enron's failure], but it's not a measured approach to have a half-dozen different committees doing this at the same time," he said. "It can lead to a circus atmosphere and a lot of wasted time and effort."

The full Governmental Affairs Committee has scheduled a hearing for Jan. 24 on Enron's use of a large number of partnerships that kept billions of dollars of corporate debt off the company's books. The hearing will also examine whether federal regulators missed warning signs of the company's trouble.

Accounting errors involving the private partnerships caused Enron to overstate its earnings by half a billion dollars over the past four years. Enron's disclosure of the overstatement, in November, triggered a final plunge in the company's stock price and the company's bankruptcy filing Dec. 2.

Sen. Joseph I. Lieberman (D-Conn.), chairman of the full committee, said, "The focus is, how did this corporation collapse, and what can we do to make sure that something like this never happens again?"

Lieberman's committee joins an already crowded field of Enron inquiries. The House Energy and Commerce Committee has sent investigators to interview Enron officials in Houston.
Subcommittees of the House Financial Services Committee and the Senate Commerce Committee have already held hearings.

But Lieberman's panel is the top investigative committee of the Senate. Under Republican leadership during the Clinton administration, then-chairman Fred D. Thompson (R-Tenn.) headed an investigation of Bill Clinton's 1996 presidential campaign fundraising.

Lieberman and Lieberman said they intend to look into the close ties between Lay and President Bush, a connection that some Democratic Party officials say they hope to take advantage of in this year's congressional election campaigns.

Lieberman said he wants to know what advice Lay, who was a large contributor to the Bush campaign, gave to officials of the new administration as it formulated energy policy a year ago. Enron "also had close relationships with some Democrats, it's fair to say," Lieberman acknowledged. He said he expected the inquiry to be bipartisan and to have Thompson's support. "We are going to work together," Lieberman said.

Lieberman said the committee also wants to learn whether federal regulators have the authority to adequately oversee the complex commodity trading and financial transactions that were the foundation of Enron's rapid growth over the past three years.

Lieberman noted that much of Enron's trading in energy derivatives was exempt from regulation by the Commodity Futures Trading Commission, and he said a focus of the inquiry would be whether this allowed the company to hide some transactions.

Enron was an active player in lobbying for the exemption beginning in the early 1990s, according to sources. The exclusion was initially approved by the CFTC in 1992, and in 2000 Congress endorsed it as part of the Commodity Futures Modernization Act, despite concerns of some senior regulators.

At a joint hearing on the legislation by the Senate Banking and Agriculture committees in June 2000, then-CFTC chairman William J. Rainer spelled out his "reservations" about the exclusion and said that "the case for it has not been made" with regard to energy derivatives.

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December 18, 2001

Senator Eyes End To Enron-Type Special-Purpose Entities

Dow Jones Newswires

WASHINGTON -- U.S. Senate Commerce Committee Chairman Fritz Hollings, D-S.C., pledged Tuesday to introduce legislation to eliminate the sorts of financial accounting that led to the financial collapse of Enron Corp. (ENE).

At a committee hearing on the Enron debacle, Hollings called for legislation to eliminate the use of special-purpose entities, which are partnerships or trusts through which companies keep their debt off the books and, in Enron's case, overstate earnings.

Hollings said such off-the-balance-sheet transactions should end in order to protect investors. Hollings also was highly critical of the amount of insider stock selling by top Enron officials. He noted that Enron Chairman Kenneth Lay and former Chief Executive Jeffrey Skilling each sold shares in recent months for more than $60 million, while members of Enron's board sold shares worth more than $160 million.

"The selling of Enron was prolific," Hollings said, calling the insider selling "a screaming red flag."

If Enron officials felt the stock was undervalued, as they publicly attested, "why were they cashing in?" Hollings said.

Hollings also said there was plenty of blame for the "shenanigans" associated with Enron's collapse, which he likened to a "cancer." He cited Enron's role in persuading the Commodity Futures Trading Commission against the Clinton administration's call for regulation of energy derivatives, and subsequent congressional action to exempt from regulation the highly complex energy derivatives Enron's special-purpose entities engaged in.

"We are all guilty for letting it happen," Hollings said of Enron's collapse.

Sen. Byron Dorgan, D-N.D., chairman of the committee's consumer affairs panel, described Tuesday's hearings as the first of several that will delve into the roles in Enron's financial collapse played by: Enron officials; Arthur Andersen, Enron's outside auditor; Wall Street analysts, and regulators.

"This is about an energy company that morphed into a trading company involved in hedge funds and derivatives. It took on substantial risks, created secret off-the-books partnerships and, in effect, cooked the books under the nose of their accountants and investors," Dorgan said.
Dorgan noted that Lay, Enron's chairman and chief executive, has agreed to testify at a future hearing. Dorgan also said the committee will invite Skilling, Enron's former chief executive, and Andrew Fastow, Enron's former chief financial officer, to testify at the same hearing.

"Was this just bad luck, incompetence and greed, or were there some criminal or illegal actions, as has been suggested by the accounting firm that reviewed Enron's books?" Dorgan said.
-----Original Message-----
From: Bitsberger, Timothy
Sent: Monday, January 07, 2002 10:10 AM
To: Wiedman, Mark
Subject: RE: Draft Memo on Enron/CFMA Articles

[b(5), b(6)]

Mark
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CC: Schulteiss, Heidilyme <Heidilyme.Schulteiss@do.treas.gov>; Nickoloff, Peter <Peter.Nickoloff@do.treas.gov>; Ellett, Martha <Martha.Ellett@do.treas.gov>; Gabilondo, Jose <Jose.Gabilondo@do.treas.gov>; Sutton, Gary <Gary.Sutton@do.treas.gov>
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Sent: Friday, January 04, 2002 5:10 PM
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[(b)(5)]

The three news articles are downloaded as the latter pages.

Wiedman, Mark

From: Wiedman, Mark
Sent: Monday, January 07, 2002 10:21 AM
To: Wiedman, Mark

MR. RUSSERT: Enron, the biggest bankruptcy in our nation's history-people at the top were able to trade out their stock and bring home some money. People at the bottom were not able to do that because of some of the regulations imposed upon them. As secretary of Treasury, will you investigate Enron?

SEC'Y O'NEILL: You know, I think what we've been doing and what we'll do going forward is look and see if there are regulatory actions or rules that could be put in place that would avoid this kind of situation. I think the dust hasn't cleared yet on this case and it's not clear whether the company fulfilled all of its obligations under the existing rules. If they did, it suggests that we need rule change. If, on the contrary, it turns out that they didn't fully comply with all the rules, we have a different issue on our hands.

MR. RUSSERT: That's criminal behavior.

SEC'Y O'NEILL: Well, I don't know. You're jumping to a conclusion. I wouldn't do that.

MR. RUSSERT: If they don't comply with the rules.

SEC'Y O'NEILL: I would tell you from my own experience, again, having run a Fortune 50 corporation, that I thought the rules were very clear on what's required for reporting. And I think we'll see fairly soon from the work that's being done by the SEC and others whether or not the corporation fully complied with its reporting responsibilities.

MR. RUSSERT: Are you going to look into some of the offshore investments?

SEC'Y O'NEILL: Well, I think we need to look at their compliance with rules, and to the extent that takes us to
that issue, yes.

MR. RUSSERT: Do you believe the Treasury Department should look at this aggressively because of the political considerations that some are suggesting?

SEC’Y O’NEILL: I think we need to be constantly looking at the rules and the schemes that exist for the way private enterprise operates. With this in mind, investors and the general public need to be able to rely on the truthfulness and completeness of what enterprises report. It’s a critical aspect of why our economy has done so much better than the rest of the world. It’s because capital believes, people who invest believe, that they can rely on information that’s provided to them and the U.S. economy. It’s a principle we need to protect and cherish and extend because it is so important to the fundamental operation of our kind of economy.

MR. RUSSERT: Do you think that Enron is a big story, a serious story?

SEC’Y O’NEILL: Well, it’s obviously a big and serious story when millions of people are economically impacted by the meltdown of a major corporation. Of course, it’s a very important story and it’s something that we need to pay attention to. But we need to pay attention to, again, whether or not all the facts have been dutifully reported and people were given the information required under law to make intelligent decisions.

Wiedman, Mark

From: Wiedman, Mark
Sent: Monday, January 07, 2002 10:08 AM
To: Bitsberger, Timothy; Roseboro, Brian
Subject: RE: Draft Memo on Enron/CFMA Articles

[b(5)]

Mark

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Subject: FW: Draft Memo on Enron/CFMA Articles

This is something to keep close tabs on -- would it make sense to meet with Heidi and Norman on this?

-----Original Message-----
From: Carleton, Norman <Norman.Carleton@do.treas.gov>
To: Roseboro, Brian <Brian.Roseboro@do.treas.gov>; Bair, Sheila <Sheila.Bair@do.treas.gov>; Gross, Jared <Jared.Gross@do.treas.gov>; Wiedman, Mark <Mark.Wiedman@do.treas.gov>; Bitsberger, Timothy <Timothy.Bitsberger@do.treas.gov>; Smith, Amy <Amy.Smith@do.treas.gov>
CC: Schultheiss, Heidilayne <Heidilayne.Schultheiss@do.treas.gov>; Nickoloff, Peter <Peter.Nickoloff@do.treas.gov>; Ellett, Martha <Martha.Ellett@do.treas.gov>; Gabilondo, Jose <Jose.Gabilondo@do.treas.gov>; Sutton, Gary <Gary.Sutton@do.treas.gov>
Sent: Fri Jan 04 17:29:36 2002

00722

01200000000067
-----Original Message-----
From: Schultheiss, Heidilynne
Sent: Friday, January 04, 2002 5:10 PM
To: Carleton, Norman
Subject: Draft Memo on Enron/CFMA Articles

[b(5)]
downloaded as the latter pages.

-----Original Message-----
From: Wiedman, Mark
Sent: Friday, January 04, 2002 5:47 PM
To: Roseboro, Brian; Bitsberger, Timothy
Subject: FW: Draft Memo on Enron/CFMA Articles

envorche.doc

This is something to keep close tabs on -- would it make sense to meet with Heidi and Norman on this?

-----Original Message-----
From: Carleton, Norman <Norman.Carleton@do.treas.gov>
To: Roseboro, Brian <Brian.Roseboro@do.treas.gov>; Bair, Sheila <Sheila.Bair@do.treas.gov>; Gross, Jared <Jared.Gross@do.treas.gov>; Wiedman, Mark <Mark.Wiedman@do.treas.gov>; Bitsberger, Timothy <Timothy.Bitsberger@do.treas.gov>; Smith, Amy <Amy.Smith@do.treas.gov>
CC: Schultheiss, Heidilynne <Heidilynne.Schultheiss@do.treas.gov>; Nickoloff, Peter <Peter.Nickoloff@do.treas.gov>; Ellett, Martha <Martha.Ellett@do.treas.gov>; Gabilondo, Jose <Jose.Gabilondo@do.treas.gov>; Sutton, Gary <Gary.Sutton@do.treas.gov>
Sent: Fri Jan 04 17:29:36 2002
Subject: FW: Draft Memo on Enron/CFMA Articles

Attached is a memo that details our first attempt to clarify what the press has been saying in regards to Enron and the Commodity Futures Modernization Act.

[b(5)]
-----Original Message-----
From: Schultheiss, Heidilynne
Sent: Friday, January 04, 2002 5:10 PM
To: Carleton, Norman
Subject: Draft Memo on Enron/CFMA Articles

The three news articles are downloaded as the latter pages.

Wiedman, Mark

From: Wiedman, Mark
Sent: Friday, January 04, 2002 11:33 AM
To: Smith, Amy
Subject: RE: Enron

-----Original Message-----
From: Smith, Amy
Sent: Friday, January 04, 2002 11:31 AM
To: Wiedman, Mark
Subject: RE: Enron

-----Original Message-----
From: Wiedman, Mark
Sent: Friday, January 04, 2002 9:37 AM
To: Smith, Amy
Subject: RE: Enron

-----Original Message-----
From: Smith, Amy <Amy.Smith@do.treas.gov>
To: Wiedman, Mark <Mark.Wiedman@do.treas.gov>
Sent: Fri Jan 04 09:33:41 2002

00724
01200000000069
When would this speech take place?

-----Original Message-----
From: Wiedman, Mark  
Sent: Friday, January 04, 2002 9:32 AM  
To: Smith, Amy  
Subject: RE: Enron

-----Original Message-----
From: Smith, Amy  
Sent: Friday, January 04, 2002 9:25 AM  
To: Wiedman, Mark  
Subject: Enron

Amy D. Smith  
Deputy Assistant Secretary  
(Banking and Finance)  
The Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220  
(202) 622-1900  
(202) 622-0534 (fax)

Wiedman, Mark

From: Wiedman, Mark  
Sent: Friday, January 04, 2002 11:33 AM  
To: Smith, Amy  
Subject: RE: Enron

Smart.

-----Original Message-----
From: Smith, Amy  
Sent: Friday, January 04, 2002 11:31 AM  
To: Wiedman, Mark  
Subject: RE: Enron

[(b)(5)]

-----Original Message-----
From: Wiedman, Mark  
Sent: Friday, January 04, 2002 9:37 AM  
To: Smith, Amy  
Subject: RE: Enron

[(b)(5)]

00725

012000000000070
-----Original Message-----
From: Smith, Amy <Amy.Smith@do.treas.gov>
To: Wiedman, Mark <Mark.Wiedman@do.treas.gov>
Sent: Fri Jan 04 09:33:41 2002
Subject: RE: Enron

[(b)(6)]

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From: Wiedman, Mark
Sent: Friday, January 04, 2002 9:32 AM
To: Smith, Amy
Subject: RE: Enron

[(b)(5)]

[(b)(6)]

-----Original Message-----
From: Smith, Amy
Sent: Friday, January 04, 2002 9:25 AM
To: Wiedman, Mark
Subject: Enron

[(b)(5)]

Amy D. Smith
Deputy Assistant Secretary
(Banking and Finance)
The Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
(202) 622-1900
(202) 622-0534 (fax)

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Sent: Friday, January 04, 2002 9:37 AM
To: Smith, Amy
Subject: RE: Enron

[(b)(5)]

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[(b)(6)]
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-----Original Message-----
From: Wiedman, Mark
Sent: Friday, January 04, 2002 9:32 AM
To: Smith, Amy
Subject: RE: Enron

[binary data]

-----Original Message-----
From: Smith, Amy
Sent: Friday, January 04, 2002 9:25 AM
To: Wiedman, Mark
Subject: Enron

[binary data]

Amy D. Smith
Deputy Assistant Secretary
(Banking and Finance)
The Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
(202) 622-1900
(202) 622-0534 (fax)

Wiedman, Mark

From: Wiedman, Mark
Sent: Friday, January 04, 2002 9:32 AM
To: Smith, Amy
Subject: RE: Enron

[binary data]

[OUTSIDE SCOPE]

-----Original Message-----
From: Smith, Amy
Sent: Friday, January 04, 2002 9:25 AM
To: Wiedman, Mark
Subject: Enron

[binary data]

Amy D. Smith
Deputy Assistant Secretary
(Banking and Finance)
The Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
(202) 622-1900
(202) 622-0534 (fax)
Lemme see where I can take this, and we'll talk Jan 2.

-----Original Message-----
From: Carleton, Norman <Norman.Carleton@do.treas.gov>
To: Bitsberger, Timothy <Timothy.Bitsberger@do.treas.gov>; Wiedman, Mark <Mark.Wiedman@do.treas.gov>
Subject: Revised Enron Talking Points

Attached is a revised document based on Mark's comments.

Wiedman, Mark

From: Wiedman, Mark
Sent: Friday, December 21, 2001 1:28 PM
To: Bitsberger, Timothy
Subject: RE: Enron Talking Points

am doing this right now

-----Original Message-----
From: Bitsberger, Timothy
Sent: Friday, December 21, 2001 11:31 AM
To: Wiedman, Mark
Subject: RE: Enron Talking Points

can you please review and make comments to me first

-----Original Message-----
From: Carleton, Norman
Sent: Friday, December 21, 2001 9:47 AM
To: Bitsberger, Timothy; Wiedman, Mark
Cc: Schultheiss, Heldilynne; Nickoloff, Peter
Subject: Enron Talking Points

<< File: Enron talking points.doc >>

Attached are draft Enron talking points for Peter Fisher.
Wiedman, Mark

From: Wiedman, Mark
Sent: Friday, December 21, 2001 11:35 AM
To: Bitsberger, Timothy
Subject: RE: Enron Talking Points

Peter sat me down yesterday and told me exactly how he likes to do speeches. I'll re-work it with Norman to get it into that form and then forward it to you.

-----Original Message-----
From: Bitsberger, Timothy
Sent: Friday, December 21, 2001 11:31 AM
To: Wiedman, Mark
Subject: RE: Enron Talking Points

can you please review and make comments to me first

-----Original Message-----
From: Carleton, Norman
Sent: Friday, December 21, 2001 9:47 AM
To: Bitsberger, Timothy; Wiedman, Mark
Cc: Schultheiss, Heidilynne; Nickoleff, Peter
Subject: Enron Talking Points

<< File: Enron talking points.doc >>

Attached are draft Enron talking points for Peter Fisher.

Wiedman, Mark

From: Wiedman, Mark
Sent: Wednesday, December 19, 2001 11:21 AM
To: Bitsberger, Timothy; Carleton, Norman
Subject: RE: enron

Tim's right -- an issue rehash isn't useful. Maybe we could append an article or two that has been particularly helpful (e.g., WSJ).

-----Original Message-----
From: Bitsberger, Timothy
Sent: Wednesday, December 19, 2001 11:18 AM
To: Carleton, Norman; Wiedman, Mark
Subject: enron

[(b)(5)]
Enron Enriched Wall Street Firms, Analysts Ignored Warnings

By Adam Levy

Houston, Dec. 18 (Bloomberg) -- On Tuesday, Oct. 16, Enron Corp. Chief Executive Kenneth Lay delivered a shocker. Late in a conference call that followed the release of the company’s third-quarter results, Lay said Enron would terminate one of its several limited partnerships -- and thereby wipe out $1.2 billion of shareholder equity.

"I shuddered when I heard that," says Gregory Phelps, who invests $1.1 billion in energy and utility stocks at John Hancock Advisers Inc. and has long avoided Enron. "But it didn't seem to make much of an impression on part of the investment community."

Over the next few days, reports began piling up on Phelps's desk from the Wall Street analysts who track Enron. Merrill Lynch & Co., UBS Warburg LLC, Credit Suisse First Boston and Goldman Sachs Group Inc. still rated Enron a "buy."

Prudential Securities Inc. analyst Carol Coale wrote that she was "dismayed" by management's "disguise" of the $1.2 billion equity reduction, yet she kept intact her "buy" rating and $55 price target on Enron stock, which was then trading at $33.17.

"Strong Buy"

Richard Gross of Lehman Brothers Holdings Inc. maintained his "strong buy" rating. "The end of the world is not at hand," Gross said. "We think investors should rustle up a little courage and aggressively buy the stock."

Phelps and other investors say the analysts' reactions were just another sign of Wall Street's gullibility about Enron.

For more than a year, they say, analysts had ignored red flags ranging from inflated business valuations to large insider stock sales, to the abrupt resignation of Jeffrey Skilling in August 2001 -- just six months into his tenure as CEO.

As recently as September, Enron was the second most highly rated stock in the Standard & Poor's 500 Index, behind Tyco International Ltd., according to Thomson Financial/First Call.

"Enron is uniquely positioned to be the GE of the new economy," Donato Eassey, Merrill Lynch's energy stock analyst, told Bloomberg News in February 2001. "This isn't a management team to bet against." Eassey resigned from Merrill in December.

Support is Obvious

One of the main reasons for all of the support is obvious, say investors: Until the week before its third-quarter earnings report in October, Enron was a deal machine that enriched dozens of Wall Street firms through lucrative underwriting contracts, mergers and acquisitions assignments and derivatives trades.
"You'd be hard-pressed to find a house on the Street that didn't do business with Enron," says Don Coxe, chairman and chief executive of Harris Investment Management Inc., which in early December held 78,000 Enron shares in the Harris Insight Equity Fund. "They spread a ton of business around the Street, so it's no wonder these analysts were behind the stock."

Enron says it didn't have a quid pro quo relationship with anyone. "At no time has Enron ever required any financial firm to endorse our stock as a prerequisite for doing business with the firm," says spokesman Vance Meyer.

'Taps on Shoulders'

Some Wall Street veterans say they don't find that denial persuasive. "Even if there were no spoken agreements, you can bet analysts often got taps on the shoulders from the investment bankers making sure that they were reminded to keep 'buy' ratings intact," says Phelps. "That's just the way Wall Street works."


Usually, no more than four underwriters are involved in deals that small, investment bankers say.

CSFB advised Enron on a pending $2.9 billion sale of Portland General Electric Co. in October -- one of 41 separate mergers and acquisitions transactions Enron initiated since January 1999, according to Bloomberg data.

Enron Activity Dwarfs Rivals

That dwarfs the number of deals over that span announced by rivals Dynegy Inc., which struck 15 corporate combinations, and Kinder Morgan Inc., which did a dozen deals.

Enron further cemented its relationship with Wall Street by borrowing from banks, obtaining letters of credit and trading in derivatives -- financial instruments such as futures and options whose value is based on other assets.

When Enron filed for bankruptcy in December, its list of creditors was 54 pages long and included Citigroup Inc., CSFB's London branch, J. P. Morgan Chase & Co. and UBS.

Goldman Sachs is a dealer for Enron's $4 billion commercial paper program and has arranged six of the company's 15 preferred share sales.

In June 1999, Merrill Lynch managed the $695 million initial public offering of Azurix Corp., Enron's water business. Run by Enron's former Vice Chairman Rebecca Mark, who resigned in August 2000, Azurix failed in its strategy to buy water companies and win large projects. It lost a bid to acquire a 49 percent stake in Berlin's water utility, for example.

Enron Buys Back Stock

Enron bought back the stock in 2001, after it had fallen more than 55 percent during the company's 18 months as a public entity.

In October, J. P. Morgan and Citigroup's Citibank unit provided Enron with $1 billion in credit lines to help it pay down debt and meet day-to-day costs. Those loans came just in time for the two firms to win the business of advising Enron on its planned acquisition by Dynegy.

J. P. Morgan and Citigroup's Salomon were set to charge $90 million -- $45 million each -- for that advice, according to people familiar with the arrangement.

Dynegy was set to pay $15 million in advisory fees to Lehman Brothers. That would have been Lehman's biggest such transaction in 2001.

Dynegy Deal Falls Through

In December, after the Dynegy deal fell through, Enron obtained as much as $1.5 billion in new financing from J. P. Morgan and Citigroup. On December 11, J. P. Morgan filed a lawsuit in Enron's bankruptcy case, seeking $2.1 billion -- funds the bank said aren't part of the energy trader's assets shielded from creditors by the Chapter 11 filing.
Enron traded derivatives in energy, broadband and weather with a host of investment firms, and at the time it filed for bankruptcy, it owed some of them hundreds of millions of dollars.

According to its bankruptcy filing, Enron owed $185 million to two offices of Chase Manhattan Bank, a subsidiary of J. P. Morgan Chase, $74 million to UBS, and $71 million to CSFB. Bear Stearns Cos. said it stood to lose $69 million from the collapse of the energy trader; Commerzbank AG said it would lose slightly less than $45 million.

Schmoozing Wall Street

Enron's multiple business dealings with Wall Street caused firms to look favorably on the company's new ventures, say investors.

In late January 2001, for example, Enron's senior management hosted a meeting for 170 analysts and investors. Skilling told the crowd that Enron's biggest immediate opportunity was its plan to trade broadband capacity: space on the fiber-optic networks that zip voices, data and images around the planet.

Skilling said that based on his analysis, Enron's broadband business was worth $36 billion, or $40 a share. Enron stock was then trading at $82. The business had lost $60 million on $408 million in revenue in 2000.

"The numbers never added up, but Wall Street didn't challenge them," says Harris Investment's Coxe.

Ronald Barone, an analyst at UBS Warburg, wrote after the January meeting that he was "brain drained, having digested scores of detailed presentations." He also wrote that he was "enamored" with Enron's broadband business, even though it wouldn't generate earnings for at least a year because it would take that long to generate enough trades.

$25 a Share

He estimated the business was worth $25 a share, or $22.5 billion. He kept his "strong buy" rating on the stock and, in a January 25 report, raised his 12-month target on Enron stock to $102 from $100. The stock was trading at $82 at the time. Barone declines to comment on his recommendations.

Lehman's Gross raised his 12-month target price on Enron to $100 from $90 after the company's analysts' conference. He said he viewed Enron's foray into broadband as no different from any of its other endeavors.

"Given the track record that has been displayed over the past 36 months, we have no reason to doubt the success of their efforts," Gross wrote a week after the conference in a report dated Feb. 1. Enron stock was then trading at $78.

"We continue to recommend Enron as a core holding," he wrote. Gross declines to comment.

$180 Million Charge

Enron's fiber-optic business collapsed this past summer. In its third-quarter earnings release, Enron said it had taken a $180 million charge to restructure the business, including severance payments to 500 fired workers and a reduction in the value of its operations.

As Enron's stock was rising on Wall Street, analysts often said they were in the dark about the company: how it made money and booked sales and what was behind dozens of off-balance-sheet partnerships.

Their lack of knowledge didn't stop them from promoting Enron stock. Goldman Sachs analyst David Fleischer said in March that Enron's "lack of disclosure and transparency is a long-standing hallmark."

Enron had been a fixture on Goldman's "recommended list" of a couple hundred favored stocks since 1993, when analyst Fleischer joined the firm.

'Extraordinary Franchises'

"Enron has built unique and, in our view, extraordinary franchises in several business units," Fleischer said in March.

On March 14, Commerzbank Capital Markets analyst Andre Meade raised his long-standing rating on Enron to "accumulate" from "hold" because the stock had dropped 30 percent in the previous three months -- even though, he said, he couldn't construct accurate earnings models. "Enron keeps a lot of facts close to the vest," he said.
"Saying they don't understand it but still recommend it is a slap in the face to remind us how useless analysts are," says Robert Olstein, a 35-year Wall Street veteran who runs the $890 million Olstein Financial Alert Fund.

After the market closed for trading on Aug. 14, Skilling, 48, abruptly resigned, citing personal reasons and raising concerns among investors that dire financial news might be forthcoming.

Falling Stock

Enron stock dropped as much as $6, or 13 percent, the following day, ending the week at $36.67.

Analysts insisted nothing was awry. "There is nothing wrong with the company," UBS's Barone said after meeting with Lay, who had once again become Enron's CEO. "There is no other shoe to fall -- and no charges to be taken." He kept his "buy" rating on the stock.

Lehman's Gross also met with Lay and other senior managers on the night of Aug. 16. "The Enron machine is in top shape and continues to roll along," Gross wrote to investors the next day.

He didn't see a short-term catalyst to boost the stock -- then trading at $36.85 a share -- yet he urged investors to get more shares, maintaining his "strong buy" recommendation and a 12-month price target of $72.

CSFB analyst Curt Launer wrote a brief note to clients after what he described as "intensive meetings" with management. He said there was "no truth to any of the speculations" and kept his 12-month target of $84 and his "buy" recommendation.

Enron a 'Buy'

Of the 22 analysts who covered Enron, 19 rated the stock a "buy" as of mid-October 2001. That's when, one after another, disclosures spilled out of the Houston-based company. Enron's partnerships had hidden billions of dollars in debt; years of profits had been exaggerated, and the U.S. Securities and Exchange Commission was investigating Enron's partnerships with affiliates.

The disclosures dashed Enron's credibility with lenders and drove it to bankruptcy.

On Nov. 21, with Enron stock at less than $7 -- down more than 90 percent from its high in August 2000 -- Goldman's Fleischer downgraded Enron to "market perform," Wall Street parlance for "hold." He didn't respond to several phone calls.

Easier Decision

Investors say Fleischer's decision to downgrade the stock was made easier by his firm's failure to win a role advising Enron on its planned sale to Dynegy. "I wouldn't doubt at all that being dropped from the 'recommended list' had something to do with not winning the advisory business," says Phelps.

Fleischer and Goldman spokespeople didn't return phone calls.

To many investors, there were signals that should have tipped off analysts that something was amiss. In December 2000 and January 2001, 10 top Enron executives sold more than $73 million in stock. Lay and Skilling together sold stock valued at more than $17.6 million, according to the Washington Service, which tracks insider stock sales and purchases.

Insider sales are often a strong sign to investors that something's wrong. Timothy Ghriskey, who at the time was a fund manager at Dreyfus Corp., sold about 1.55 million Enron shares in late 2000. "It wasn't much of an endorsement that they were bailing out too," he says. "I didn't see much upside in the stock and figured that with the valuation so high, there was a lot of downside if they failed to deliver."

Wake-Up Call for Analysts

Coxe and other investors say Enron's failure should provide a wake-up call for analysts, who pay too little attention to company balance sheets. "I pay the Street lots of commission dollars and expect that analysts are reading the footnotes and kicking tires," Coxe says.

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Several Wall Street firms took steps last year to defuse criticism that conflicts of interest taint analysts' research. In July, Merrill Lynch announced that its analysts could no longer own shares in the companies they cover. CSFB soon followed with similar announcements.

As of Dec. 17, with Enron a penny stock, fetching 57 cents a share, 7 of 17 Wall Street analysts rated the stock a "hold" and 5 offered a "sell" recommendation.

Five other analysts advised their clients that the company at the center of the biggest bankruptcy filing in U.S. history was still a "buy."

-----Original Message-----
From: Jon Gross <jgross@projectgrad.org>
To: Mark Wiedman <Mark.Wiedman@do.treas.gov>; Mike Grunwald <grunwaldmr@washpost.com>; Anuj Gupta <agupta@mba1998.hbs.edu>; Eddy Daniels <eddy.daniels@enron.com>
Sent: Mon Dec 17 23:20:54 2001
Subject: FW: ENRON ADMITS IT'S REALLY ARGENTINA

-----Original Message-----
From: jmgross [mailto:jmgross@icademy.com]
Sent: Thursday, December 13, 2001 5:48 PM
To: Robert Vincent; Catherine Markman; Jonathan Gross
Subject: FW: ENRON ADMITS IT'S REALLY ARGENTINA

Too funny, on the slight chance you haven't already received this.

ENRON ADMITS IT'S REALLY ARGENTINA
Now Massive Ineptitude, Corruption Make More Sense, Analysts Say

Houston, Texas - Collapsed due to gross mismanagement and insurmountable debt, energy company Enron today confessed to what many observers had long suspected: it is actually Argentina.

Congressional leaders, who have called for an investigation into the biggest corporate failure in U.S. history, immediately dismissed Enron's claim, but Argentinians weren't so sure. "The shady deals. The crazy debt. I knew there was something familiar about those guys," said Banco del Argentina director Ernesto Caballo.

Enron chairman and CEO Kenneth Lay, speaking through an interpreter via phone from Buenos Aires, apologized for any confusion the subterfuge may have caused, and noted that as a sovereign nation, the company was immune from U.S. prosecution. Lay also insisted that he had not "fled" to Argentina, but had returned home to the capital to visit "mi familia."

While not directly stating it, Lay also hinted that he might in fact be Argentinian President Fernando de la Rua. Reached in Buenos Aires, de

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la Rua admitted he couldn't rule that out. "Things are pretty crazy around here. Who can say?"

But Enron creditors, clients, and shareholders, who stand to lose billions over their exposure to the company, weren't buying any of it. "While they may act like it, they are not a South American country, and Ken Lay is not the President of Argentina," declared J.P. Morgan Chase spokesman Alex Firtitilly. "They are a malevolent U.S. corporation that has potentially caused us to lose $500 million. And Ken Lay is from Missouri."

"¿Como?," Lay replied. "No hablo Ingles."

Recently ranked as high as No. 7 on the Fortune 500 list of the largest U.S. companies, Enron literally ran itself into the ground by fudging its books, making secretive deals that enriched company insiders, and relying too heavily on debt. Though it was formed in 1986 with the merger of Houston Natural Gas and InterNorth, Enron became Argentina only recently, said Lay, "on the advice of our attorneys."

That counsel came none too soon. As a South American state, all pending U.S. and European lawsuits are rendered harmless. And the company escapes what had been a daily fusillade of scorn from its former home.

Indeed, much as the French were baffled by America's obsession with President Clinton's sexual affairs, many South Americans say they don't understand why Enron and its leaders have been vilified. As former Colombian President Ernesto Samper explained: "In the United States, you look at corruption as an abomination We look at it as an art."

**EXTRADITION DENIED**

The U.S. State Department has refused to recognize Enron as Argentina, and a spokesman said the Bush administration has officially requested the extradition of Lay and the officers who allegedly fled with him. Argentina, however, denied the request, explaining that an entire country cannot be extradited. And besides, they added, Lay had pledged to help pay off the nation's $132 billion debt.

Asked where the bankrupt Enron got such a sum, Lay explained that after proclaiming its nationalization status, the company had received an emergency IMF loan. An IMF spokesman later confirmed the payment.

"From what we knew of their fiduciary practices, Enron appeared to have all the hallmarks of a typical IMF fundee," said IMF communications director Nestor Svingen. "At first, we did balk when they asked for $232 billion, but when they explained that some of the money would go to repay overdue IMF loans, we thought, 'Oh, that's all right then.'"

"Not that we actually expect to see any money from anyone," Svingen added. "It's just this little game we all play. Great fun if you like numbers. Do you enjoy quadratic equations? I could do them all day."

Asked what Enron/Argentina had pledged to do with the extra $100 billion it requested, Svingen said the application had specified funding for "civic infrastructure improvements."

"That usually means the president is going to build a palace," Svingen explained.
US banks claim credit for new lending model
By Gary Silverman in New York and Charles Pretzlik in London
Published: December 5 2001 19:48 | Last Updated: December 5 2001 23:03

Citigroup and JP Morgan Chase are sitting on hundreds of millions of dollars in unsecured credit exposure to Enron, the bankrupt energy trader, and yet they are calling their involvement a triumph.

Executives of the US banks are boasting that they were asked to advise Enron on its rescue options because they were willing to extend the company credit.

Goldman Sachs, which has shied away from lending commitments, was noticeable by its absence.

The episode ended in tears as Enron's proposed sale to Dynegy collapsed and the company descended into bankruptcy, leaving thousands of Enron employees without jobs.

But JP Morgan and Citigroup maintain the deal validated their model of the one-stop shop. Enron proved they could parlay a lending relationship into a crack at investment banking fees even if the end result was unfortunate.

"No monoline investment bank could have done what we did," said Michael Carpenter, chief executive of Salomon Smith Barney, Citigroup's investment banking unit. "No monoline investment bank would have had the ability to advise on the merger, advise on the debt financing and provide short-term liquidity at short notice."

The implications of this model for investment banking, though, are grim. Gone, maybe forever, are the days when traditional investment banks such as Goldman and Morgan Stanley simply advised companies, booked fees and enjoyed returns on equity exceeding 30 per cent.

Rather, companies with commercial banking arms are committing capital to win a place at the negotiating table and depressing returns. They can do this because the commercial banks were committing capital anyway and making very little money at all.

The worry about this model goes back to the problem that forced commercial banks into investment banking in the first place returns from lending often fail to justify the risks. Some analysts worry the lure of investment banking fees will make lenders too willing to extend credit to keep relationships with companies that could provide advisory work.

In the case of Enron, Citigroup and JP Morgan developed their unsecured exposures before the crisis, when the energy trader was another highly rated customer.

"There has been a degree of front-loading of revenues and back-ending of credit costs," said Michael Mayo, analyst at Prudential Securities.

Accounting regulators are considering a proposal that could bring more discipline to banks requiring them to mark their loan commitments to a market price.

Investment banks, not surprisingly, like the idea, but banking regulators are opposed because of fears the change
would make earnings more volatile.

New research from Greenwich Associates suggests the debate will become more pressing. A survey of US chief financial officers and treasurers found that for 52 per cent the provision of credit facilities was extremely or very important in determining which bank was awarded valuable merger and acquisitions mandates.

The question for the credit-providing investment banks is how many Enron-like accidents they can absorb. They have the capital, but the impact on earnings is an issue.

JP Morgan’s unsecured exposure to Enron, for example, is $50m more than its third-quarter net earnings of $449m. It could take a lot of M&A fees to make up for that.
TO: Norman Carleton  
Director  
Office of Federal Finance Policy Analysis  
FROM: Heidilyinne Schultheiss  
Financial Economist  
Office of Federal Finance Policy Analysis  
SUBJECT: Dow Jones Newswires and Washington Post Articles on Enron and the  
Commodity Futures Modernization Act of 2000  

BACKGROUND  

[(b)(5)]
 ISSUE AND DISCUSSION

[(b)(5)]


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CONCLUSION

[(b)(5)]
Campaign Gifts, Lobbying Built Enron's Power In Washington

By Dan Morgan and Juliet Eilperin
Washington Post Staff Writers
Tuesday, December 25, 2001; Page A01

During the administration of the first President George Bush, a new party fundraiser named Kenneth L. Lay was invited to spend the night at the White House. The sleepover was an early coup for the chairman of Enron Corp. and a harbinger of things to come.

Over the following decade, Lay and Enron poured millions of dollars into U.S. politics, cultivating unequaled access and using the entree to lobby Congress, the White House and regulatory agencies for action that was critical to the energy company's spectacular growth. Now, with Enron's sudden bankruptcy, public attention has turned not only to the financial practices that brought the company down, but to what its far-flung political operations say about the country's campaign finance system.

Some Democrats in Congress are spoiling for an opportunity to use Lay and Enron to embarrass the Republican Party, which received most of the company's largess over the years. They want to look into such things as Enron's relationship with Phil Gramm (R-Tex.), ranking minority member on the Senate Banking Committee and chairman of the committee at a time when his wife, Wendy L. Gramm, was serving on Enron's board. Last year, Gramm's committee approved legislation that included a key provision exempting parts of Enron's massive energy trading operation from federal oversight.

"I think the Enron story is going to turn out to be an enormous political story," said Rep. Henry A. Waxman (D-Calif.), ranking minority member on the House Energy and Commerce Committee.

The ties of Lay to the White House and GOP leaders, he added, were so multilayered that Republicans are likely to be reluctant to pursue them. But he made clear that he intends to do so and expects the Democratic-controlled Senate to follow suit.

Enron also cultivated relationships with Democrats, however. Lay played golf in Vail, Colo., with President Bill Clinton, and Enron gave hundreds of thousands of dollars to Democratic campaign committees and Democrats in the House and Senate, including Sen. Charles E. Schumer (N.Y.) and Rep. Martin Frost (Tex.), the ranking minority member on the House Rules Committee.

A Routine Cost for Some

Advocates of campaign finance reform say the Enron case vividly illustrates the ties between politics and big money, though it's unclear that the company's political operations were radically different from others for whom political contributions have become a routine cost of doing business.
"There are aspects of [the Enron case] that remind us of the savings and loan scandal, in the sense that a powerful institution used big money to buy influence and protect itself while ordinary citizens ended up losing their life savings," said Fred Wertheimer, president of Democracy 21, a Washington interest group, referring to a banking controversy in the 1980s. Enron's ties to Republicans and the present Bush administration were especially close. Lay raised large sums for George W. Bush's campaign.

Enron, Lay and its employees have contributed $572,350 to him over his career, far more than any other company, according to the Center for Public Integrity in Washington.

Several top administration officials have been Enron advisers or stockholders. Enron, Lay and other senior executives contributed $1.7 million in soft-money donations to politicians in the 2000 election cycle, two-thirds of it to Republicans, according to the Center for Responsive Politics.

Republicans clearly are sensitive to the potential political dangers. The National Republican Senatorial Committee recently returned a $100,000 check collected from Enron in November, after deciding that "it was appropriate to give it back," spokesman Dan Allen said. The Republican Governors Association last week returned an Enron donation of $60,000.

What was unique about Enron, competitors and allies agree, was a brash and sometimes counterproductive political style.

Stories of Enron's hardball style are legion. In October 1999, for example, Jeffrey K. Skilling, then Enron's president, expressed his displeasure at Rep. Joe Barton's position on a deregulation bill pending in the energy subcommittee Barton chairs.

The meeting grew "heated and awful," said one person who was present, until Barton (R-Tex.), a usually mild-mannered man who keeps a Bible on his desk, exploded. "Jeffrey Skilling, I may not have your millions of dollars, but I am not an idiot," one witness recalled Barton saying. The meeting ended without Enron getting the changes it wanted. "Skilling did not get Washington," the source added.

"In their lobbying, they acted like the 800-pound gorilla they were," said Christopher Horner, a Washington lawyer who briefly directed Enron's government relations in 1997. Lay and Skilling declined interview requests, but Enron officials say they have no regrets about their use of money. "It got us name recognition," company spokesman Mark Palmer said. "Given the aggregation of our foes, we had to make sure that people knew what our argument was."

**Jump-Starting Deregulation**

Almost from its start in 1985 as a gas pipeline company, Enron needed help in Washington, and it got it in a series of actions by Congress and the Federal Energy Regulatory Commission (FERC) that undermined the traditional monopoly of utility companies over power plants and transmission lines.

Enron lobbied for several of the initial actions that set the stage for the era of a deregulated wholesale electricity market.
It supported the 1992 Energy Policy Act, which opened the utility companies' wires to electricity merchants such as Enron. It also worked with the Commodity Futures Trading Commission -- then chaired by Wendy Gramm -- for a regulatory exemption for futures trading in energy derivatives, which later became Enron's most lucrative business. Soon after Gramm stepped down in 1993, she was appointed to Enron's board.

Independent sources knowledgeable about these dealings, however, said Enron was not the main interested party. They said the lead was taken by several major oil companies, including British Petroleum Co. and Phillips Petroleum Co., which were concerned about the effect of CFTC regulation on their offshore trading in crude oil contracts. Wendy Gramm, an apostle of free markets, needed little convincing, the sources said.

That same year, Lay served as chairman of the committee organizing the Republican National Convention in Houston. Hedging its bets, Enron made a major contribution to a "street fair" in honor of Sen. John Breaux (D-La.), a key energy policymaker, at the Democratic convention. Key orders by FERC in 1996 also supported Enron's transformation into a freewheeling trader of gas, electricity and more exotic products, such as telecommunications services and sulfur-dioxide emissions credits.

The new rules ensured that Enron and other merchant companies could buy electricity from independent power plants and sell it to distant customers, using transmission lines borrowed from utility companies.

Even Enron's harshest critics credit Lay with putting new issues -- such as electricity deregulation -- on the Washington agenda. Lay, a former Interior Department official with a PhD in economics, became "the ambassador" for deregulation, one former employee said.

Throughout the 1990s, Enron's agenda was opposed by coal-burning utilities, especially ones in the Southeast, which viewed the emerging wholesale electricity market as a threat to their turf. Many of these, such as Atlanta-based Southern Co., had impressive political funding and connections of their own.

But with the explosive growth of Enron and the GOP takeover of Congress in 1995, the company's soft-money donations -- unregulated and unlimited gifts to political parties and organizations -- jumped sharply. They went from about $136,000 in the 1993-94 election cycle, to $687,000 in 1996 and $1.7 million in 2000, according to the Center for Responsive Politics.

**Frustrated by Washington**

For all its connections, sources say, Enron often found Washington frustratingly slow and unreliable.

The company placed a substantial bet on federal support for limits on the greenhouse gases causing global warming. Enron officials hoped to exploit a new market in industry for carbon-emissions credits, similar to the one that developed for sulphur credits after clean-air legislation was enacted in 1990.
Lay joined the Union of Concerned Scientists and environmental groups in calling for curbs on carbon in the atmosphere. The Clinton administration was supportive, but this year the Bush administration reneged on a campaign pledge to impose limits on greenhouse gas emissions from coal-burning power plants.

A multimillion-dollar lobbying campaign in Congress to secure legislation requiring states to institute retail electricity deregulation fared even worse.

Enron hired former New York representative Bill Paxon, a leading conservative, to run Americans for Affordable Electricity, which commissioned studies and recruited business support for deregulation. But the legislation never made it out of a congressional subcommittee. At the same time, Enron was growing restive over the slow pace of deregulation in the wholesale electricity market, the core of its business. Large parts of the country, especially the Southeast, were still monopolized by regulated utilities that limited the opportunity for trading gas, electricity and energy derivatives.

**Political Pragmatism**

Enron's political pragmatism was demonstrated in the 1998 New York Senate election, when it dropped its support of the Republican incumbent, Alfonse M. D'Amato, after Democrat Schumer endorsed Enron's goal of wholesale deregulation, sources said. Lay reciprocated by hosting several fundraisers for Schumer, and Enron's political action committee contributed $7,500 to the Schumer campaign.

The company's lobbying team expanded along with its political spending. It outgrew the two-person operation that existed in 1989 and began to reflect Enron's interest in everything from pipeline safety and derivatives trading to Overseas Private Investment Corp. loan guarantees. By last year, its lobbying expenses exceeded $2 million a year and covered a raft of big-name consultants, such as former Montana governor Marc F. Racicot, the new Republican National Committee chairman, and former top aides to House Majority Leader Richard K. Armey (R-Tex.) and House Majority Whip Tom DeLay (R-Tex.)

The hazards of Enron's efforts to connect with both parties were evident last year, when shortly before the November election, the company picked a Clinton administration Treasury official, Linda Robertson, to run its Washington office.

A perturbed DeLay, whose campaign and related funds had received more than $100,000 from Enron and Lay, briefly "excommunicated" Enron, a House source said. Robertson was not invited to a series of meetings of electricity lobbyists held in DeLay's office last July, though an Enron official did finally attend the sessions.

Enron had more success when Congress overwhelmingly approved legislation last year containing a provision precluding the Commodity Futures Trading Commission (CFTC) from regulating Enron's trading in energy derivatives. These instruments are traded largely between electricity dealers and big wholesale consumers, which use them to hedge against price swings that could adversely affect their businesses.
The exemption, tucked into broader legislation that established the legality of unregulated derivatives trading by banks, was not supported by a Clinton administration working group, largely because of opposition from the CFTC. Since the departure of Wendy Gramm, some in the agency had lobbied for tighter control over the exploding energy derivatives market. The legislation passed through the Senate Banking Committee, then chaired by Phil Gramm, who has received $97,350 from Enron employees and its political action committee since 1989. A Gramm spokesman said the senator does not recall talking to his wife, an Enron director, about the energy provision and played "no role" in negotiating it. Wendy Gramm did not return phone calls seeking comment.

Enron was a primary player, with Koch Industries Inc., a large, privately held oil and gas company based in Wichita, in pushing for the exemption, a source said. But the company's main effort was focused on the House Agriculture Committee, where the legislation originated. Its chairman and ranking Democrat, Texas Reps. Larry Combest (R) and Charles W. Stenholm (D), respectively, were among the top recipients of Enron campaign donations in the House since 1989.

The CFTC objected strenuously to the initial draft marked up by the committee, but the Texas congressmen helped work out a compromise between Enron and the agency. The compromise was then offered by Rep. Jerry Moran (R-Kan.), the home-state congressman of Koch Industries and a recipient of campaign donations from Enron and Koch in the last election cycle. Moran did not return a phone call seeking a comment.

Early this year, Lay seemed to be at the height of his political power, getting a private meeting with Vice President Cheney to discuss the administration's energy policy proposals and weighing in on key nominations to FERC.

Curtis Hebert Jr., FERC's chairman at the time, has reported that Lay called him and implied that Enron would urge the newly installed Bush administration to keep him in the job -- if he changed his views to support Enron's position for faster electricity deregulation. Lay contended that Hebert called him to ask for support.

Hebert was not reappointed. He was replaced by Texas lawyer Pat Wood III, a strong advocate of deregulation who had the backing of Lay and Enron.

Ironically, since Enron's fall, both FERC and Congress seem to be moving in the direction of the deregulated markets Lay and Enron lobbyists had pushed for.
CORRECTION

Wednesday, December 26, 2001; Page A02

A Dec. 25 article incorrectly reported the action taken by the Senate Banking Committee, chaired
by Phil Gramm (R-Tex.), on a bill that exempted much of Enron Corp.'s trading activities from
federal regulation. The legislation was approved by the Senate Agriculture Committee.

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Enron Executives Face Subpoenas

Senate Panel Also Orders Testimony of Directors
By Peter Behr and Dan Morgan
Washington Post Staff Writers
Thursday, January 3, 2002; Page E01

A Senate committee announced yesterday that it is subpoenaing top executives and directors of the bankrupt Enron Corp. to determine their roles in the Houston company's epic collapse.

Three other congressional committees already are digging into the Enron failure, but the subpoenas announced yesterday are believed to be the first of the congressional probes. Among the likely recipients is Wendy Gramm, an Enron director who is the wife of Sen. Phil Gramm (R-Tex.).

Sen. Carl M. Levin (D-Mich.), chairman of the Governmental Affairs Committee's permanent subcommittee on investigations, said the panel also will subpoena financial and trading records from Enron and audit documents from its accountant, Arthur Andersen LLP.

Enron's attorney, Robert Bennett, called the subpoenas "totally unnecessary" and said "we are fully cooperating with Congress."

Although Enron Chairman Kenneth L. Lay did not show up for two earlier congressional hearings on Enron's bankruptcy, he has agreed to testify next month before the Senate Commerce Committee, Bennett said.

Enron has turned over nearly three dozen boxes of documents to the House Energy and Commerce Committee, Bennett said. "I don't question the legitimacy of an inquiry [into Enron's failure], but it's not a measured approach to have a half-dozen different committees doing this at the same time," he said. "It can lead to a circus atmosphere and a lot of wasted time and effort."
The full Governmental Affairs Committee has scheduled a hearing for Jan. 24 on Enron's use of a large number of partnerships that kept billions of dollars of corporate debt off the company's books. The hearing will also examine whether federal regulators missed warning signs of the company's trouble.

Accounting errors involving the private partnerships caused Enron to overstate its earnings by half a billion dollars over the past four years. Enron's disclosure of the overstatement, in November, triggered a final plunge in the company's stock price and the company's bankruptcy filing Dec. 2.

Sen. Joseph I. Lieberman (D-Conn.), chairman of the full committee, said, "The focus is, how did this corporation collapse, and what can we do to make sure that something like this never happens again?"

Lieberman's committee joins an already crowded field of Enron inquiries. The House Energy and Commerce Committee has sent investigators to interview Enron officials in Houston.
Subcommittees of the House Financial Services Committee and the Senate Commerce Committee have already held hearings.

But Lieberman's panel is the top investigative committee of the Senate. Under Republican leadership during the Clinton administration, then-chairman Fred D. Thompson (R-Tenn.) headed an investigation of Bill Clinton's 1996 presidential campaign fundraising.

Lieberman and Lieberman said they intend to look into the close ties between Lay and President Bush, a connection that some Democratic Party officials say they hope to take advantage of in this year's congressional election campaigns.

Lieberman said he wants to know what advice Lay, who was a large contributor to the Bush campaign, gave to officials of the new administration as it formulated energy policy a year ago. Enron "also had close relationships with some Democrats, it's fair to say," Lieberman acknowledged. He said he expected the inquiry to be bipartisan and to have Thompson's support. "We are going to work together," Lieberman said.

Lieberman said the committee also wants to learn whether federal regulators have the authority to adequately oversee the complex commodity trading and financial transactions that were the foundation of Enron's rapid growth over the past three years.

Lieberman noted that much of Enron's trading in energy derivatives was exempt from regulation by the Commodity Futures Trading Commission, and he said a focus of the inquiry would be whether this allowed the company to hide some transactions.

Enron was an active player in lobbying for the exemption beginning in the early 1990s, according to sources. The exclusion was initially approved by the CFTC in 1992, and in 2000 Congress endorsed it as part of the Commodity Futures Modernization Act, despite concerns of some senior regulators.

At a joint hearing on the legislation by the Senate Banking and Agriculture committees in June 2000, then-CFTC chairman William J. Rainer spelled out his "reservations" about the exclusion and said that "the case for it has not been made" with regard to energy derivatives.

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WASHINGTON -- U.S. Senate Commerce Committee Chairman Fritz Hollings, D-S.C., pledged Tuesday to introduce legislation to eliminate the sorts of financial accounting that led to the financial collapse of Enron Corp. (ENE).

At a committee hearing on the Enron debacle, Hollings called for legislation to eliminate the use of special-purpose entities, which are partnerships or trusts through which companies keep their debt off the books and, in Enron's case, overstate earnings.

Hollings said such off-the-balance-sheet transactions should end in order to protect investors. Hollings also was highly critical of the amount of insider stock selling by top Enron officials. He noted that Enron Chairman Kenneth Lay and former Chief Executive Jeffrey Skilling each sold shares in recent months for more than $60 million, while members of Enron's board sold shares worth more than $160 million.

"The selling of Enron was prolific," Hollings said, calling the insider selling "a screaming red flag."

If Enron officials felt the stock was undervalued, as they publicly attested, "why were they cashing in?" Hollings said.

Hollings also said there was plenty of blame for the "shenanigans" associated with Enron's collapse, which he likened to a "cancer." He cited Enron's role in persuading the Commodity Futures Trading Commission against the Clinton administration's call for regulation of energy derivatives, and subsequent congressional action to exempt from regulation the highly complex energy derivatives Enron's special-purpose entities engaged in.

"We are all guilty for letting it happen," Hollings said of Enron's collapse.

Sen. Byron Dorgan, D-N.D., chairman of the committee's consumer affairs panel, described Tuesday's hearings as the first of several that will delve into the roles in Enron's financial collapse played by: Enron officials; Arthur Andersen, Enron's outside auditor; Wall Street analysts, and regulators.

"This is about an energy company that morphed into a trading company involved in hedge funds and derivatives. It took on substantial risks, created secret off-the-books partnerships and, in effect, cooked the books under the nose of their accountants and investors," Dorgan said.
Dorgan noted that Lay, Enron's chairman and chief executive, has agreed to testify at a future hearing. Dorgan also said the committee will invite Skilling, Enron's former chief executive, and Andrew Fastow, Enron's former chief financial officer, to testify at the same hearing.

"Was this just bad luck, incompetence and greed, or were there some criminal or illegal actions, as has been suggested by the accounting firm that reviewed Enron's books?" Dorgan said.
Enron

[(b)(5)]
Jan. 16 speech to ACLI -- outline

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[OUTSIDE SCOPE . (b)(6)]

and on TV regularly. The failure of energy firm Enron has one of my immediate bosses names in the paper
Attached is the Enron PowerPoint presentation for the retail swaps study group. Please note that the information is proprietary.

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Study Regarding Retail Swaps Relating to Section 105(c) of CFMA

R. Scott Gahn
Managing Director

August 2, 2001
Enron—Accelerating Market Development

- Commodity
- Product
- Financial

Freight
Credit
Metals
Bandwidth
Australian Power & Gas
Pulp & Paper
Coal
Weather
Scandinavian Power & Gas
Plastics
Emissions
Financials (interest rate, equity)
UK Power & Gas
Electricity
Currencies

Natural Gas

* Lighter shading indicates a developing market
Darker shading indicates a mature market

Confidential and Proprietary Data

01903
Our Financial Strength

Total Assets (Millions)


Net Income (Recurring, Millions)


Confidential and Proprietary Data

01904
Risk Management Expertise – 2000

ELECTRICITY

U.S. Swaps
#1 El Paso Energy
#2 Enron
#3 BP

U.S. Options
#1 El Paso Energy
#2 Enron
#3 Koch Energy Trading

U.K. Swaps
#1 Enron
#2 TXU Europe
#3 Accord Energy

U.K. Options
#1 Enron
#2 Dynegy
#3 AEP

NATURAL GAS

Basis Swaps
#1 Enron
#2 Koch Energy/El Paso Energy

Basis Options
#1 Enron
#2 Bank of America
#3 El Paso Energy

NYMEX Look-Alike Swaps
#1 Enron
#2 Bank of America
#3 Koch Energy/El Paso Energy

NYMEX Look-Alike Options
#1 Enron
#2 El Paso Energy
#3 Koch Energy

Source: Risk Magazine, February 2001
EES Overview
Electric Restructuring Update

- Restructuring Legislation/Order Enacted
- Restructuring Enacted, Delay Implemented
- Commission and/or Legislative Investigation
- No significant Activity/Restructuring Denied

Status current as of 07/01

01914
What Drives Customer Need for Retail Swaps in Electricity Markets?

- Deregulation
  - Customers are given the ability to choose another supplier other than their native Utility
  - Customers aware of the marketplace and eager to explore their alternatives
- Price Volatility
  - Customers want price certainty
- Need for Risk Management Services
  - Fixed Price for full requirements
  - Variable term
  - Price Caps
Product Example – Power

◆ Customer demands savings and price certainty therefore it:
  - Enters into a requirements contract with a Third Party Supplier at a floating market price
  - Enters into a financially settled swap with a Risk Management Provider that exchanges the floating market price for a fixed price for the Customer’s requirements
Other Commodities

This analysis was specific for power but can be easily translated to natural gas, fuel oil, bandwidth, and other commodities.
Other Matters to Study

- Tax Issues

  - Gains/Losses have to be treated as part of the energy expenditure of the end-use customer to enable the Retail Swap market to grow and allow the Customer to take advantage of price protection.
-----Original Message-----
From: chendrix@enron.com [mailto:chendrix@enron.com]
Sent: Wednesday, August 01, 2001 3:57 PM
To: raislerk@sullcrom.com
Subject: CFTC Presentation -- Final Version

Attached is the final version of the presentation. (See attached file: cftc_final_presentation.ppt)

This e-mail is sent by a law firm and contains information that may be privileged and confidential. If you are not the intended recipient, please delete the e-mail and notify us immediately.
Study Regarding Retail Swaps Relating to Section 105(c) of CFMA

R. Scott Gahn
Managing Director

August 2, 2001
Enron—Accelerating Market Development

- Commodity
- Product
- Financial

- Freight
- Credit
- Metals
- Bandwidth
- Australian Power & Gas
- Pulp & Paper
- Coal
- Weather
- Scandinavian Power & Gas
- Plastics
- Emissions
- Financials (interest rate, equity)
- UK Power & Gas
- Electricity
- Currencies

Natural Gas


* Lighter shading indicates a developing market
Darker shading indicates a mature market
[(b)(4)]
Risk Management Expertise - 2000

NATURAL GAS

- Basis Swaps
- NYMEX Look-Alike Swaps

ELECTRICITY

- U.S. Swaps

Source: Risk Magazine, February 2001

Enron Confidential and Proprietary Data

013000000000917
Electric Restructuring Update

Restructuring Legislation/Order Enacted
Commission and/or Legislative Investigation
No significant Activity/Restructuring Denied

Status current as of 07/01

013000000000926
What Drives Customer Need for Retail Swaps in Electricity Markets?

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Other Commodities
advantage of price protection
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• Tax Issues

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