

risk assessment & control
RAC

From: Rick L Carson

11/14/2000 04:58 PM

To: Steve W Young/LON/ECT@ECT, Ted Murphy/HOU/ECT@ECT, Cassandra Schultz/NA/Enron@Enron, Bradford Larson/HOU/ECT@ECT, Randy Petersen/HOU/ECT@ECT, Michael Tribolet/Corp/Enron@Enron, Chip Schneider/NA/Enron@Enron, Connie F Estrems/NA/Enron@Enron, William S Bradford/HOU/ECT@ECT, Mark Ruane/HOU/ECT@ECT
cc: Rick Buy/HOU/ECT@ECT, David Gorte/HOU/ECT@ECT
Subject: Lessons Learned

Attached is a draft of the presentation that Rick Buy will be reviewing with Jeff Skilling concerning "lessons learned" from some of our unfavorable merchant investment experiences. Until Rick and Jeff decide how the presentation will be distributed, please keep the report confidential. Call me at x 3-3905 if you have questions. Regards! Rick C.

----- Forwarded by Rick L Carson/HOU/ECT on 11/14/2000 05:48 PM -----

risk assessment & control
RAC

From: Stephanie McGinnis
PM

11/14/2000 05:37

To: Rick L Carson/HOU/ECT@ECT
cc:
Subject: Lessons Learned



Lessons Learned Handouts SKM rev 111400.j

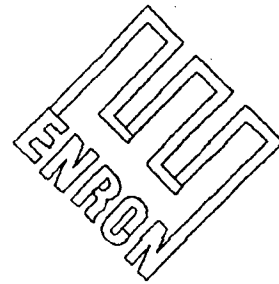
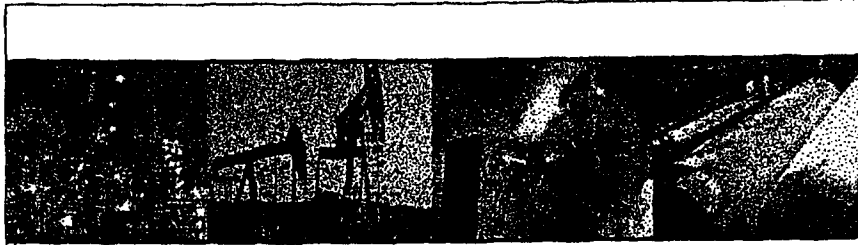
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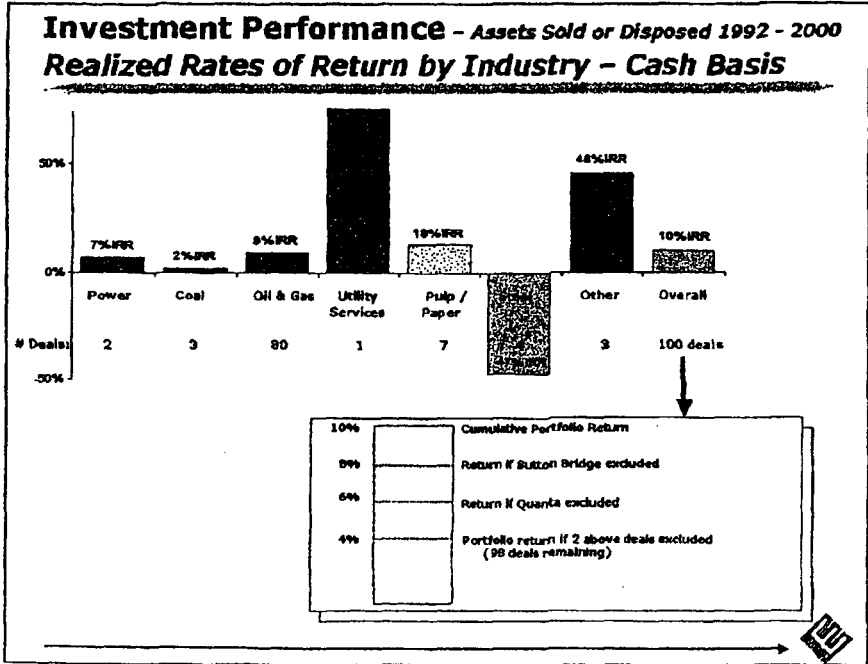
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**Investment Portfolio
Lessons Learned
November 2000**



**Enron North America
 Merchant Portfolio Rate of Return Matrix**

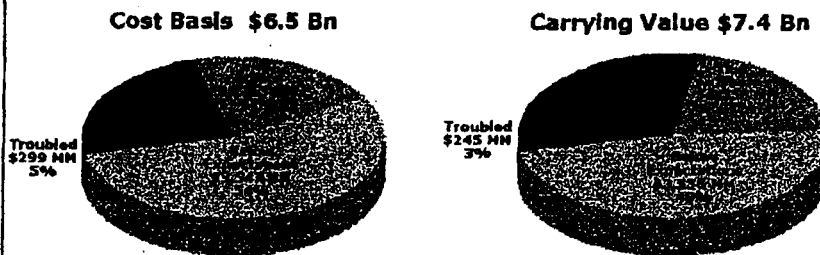
REALIZED

| Industry | Investment Type | | | | Grand Total |
|------------------|-----------------|----------------|---------------|-----------|-------------|
| | Debt | Private Equity | Public Equity | ENE Stock | |
| Power | | 7 | | | 7 |
| Coal | 2 | | | | 2 |
| Oil & Gas | 6 | 10 | 34 | | 9 |
| ENE Stock | | | | (5) | (5) |
| Energy Subtotal | 6 | 8 | 34 | (5) | 8 |
| Utility Services | | 243 | | | 243 |
| Paper & Pulp | 13 | | | | 13 |
| Steel | (47) | | | | (47) |
| Other | | 46 | | | 46 |
| Grand Total | 2 | 15 | 34 | (5) | 10 |

RETURNS BY INVESTMENT ON FOLLOWING PAGE

Note that included in these cash flows are sales of assets to Merlin. Any cost of credit derivatives or any additional support has not been included to date and would only reduce returns.

Investment Performance - Current Equity Portfolio
Actual Performance vs. Expectations



CONCLUSIONS

- ➔ 59% of originally expended capital is not meeting expectations.
- ➔ Enron has \$3.8 Bn of earnings exposure on assets performing below expectations.
- ➔ 81 out of 167 equity transactions are underperforming!

SUPPORT FOR EQUITY PERFORMANCE

| | COST | CARRY |
|-----------------------|------------------|------------------|
| TROUBLED | | |
| North America | 275,079 | 225,520 |
| EGM | - | - |
| EIM | - | - |
| EBS | 5,000 | - |
| International regions | 19,000 | 19,000 |
| TOTAL | 299,079 | 244,520 |
| | 4.57% | 3.31% |
| BELOW | | |
| North America | 203,019 | 195,663 |
| EGM | 24,342 | 27,153 |
| EIM | 5,000 | 4,105 |
| EBS | 7,000 | 3,000 |
| International regions | 3,308,000 | 3,308,000 |
| TOTAL | 3,547,361 | 3,537,921 |
| | 94.23% | 47.88% |
| MEETS | | |
| North America | 266,774 | 458,806 |
| EGM | 22,500 | 18,906 |
| EIM | - | 2,853 |
| EBS | 55,530 | 56,960 |
| International regions | 1,018,000 | 1,018,000 |
| TOTAL | 1,362,804 | 1,555,525 |
| | 20.84% | 21.05% |
| EXCEEDS | | |
| North America | 88,880 | 630,846 |
| EGM | - | - |
| EIM | 12,690 | 23,898 |
| EBS | 20,000 | 186,010 |
| International regions | 1,210,000 | 1,210,000 |
| TOTAL | 1,331,570 | 2,050,754 |
| | 26.36% | 27.76% |
| TOTAL | | |
| North America | 833,752 | 1,510,835 |
| EGM | 46,942 | 46,059 |
| EIM | 17,690 | 30,856 |
| EBS | 87,530 | 245,070 |
| International region | 5,555,000 | 5,555,000 |
| TOTAL | 6,540,914 | 7,388,720 |

**LISTING OF
 DEALS ON
 FOLLOWING
 PAGE**