

196C-HO-59147

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07/24/2000

9:00 a.m. CT

KLH:cts - revised 1/11/2006

JS: JEFFREY SKILLING  
DF: DAVID FLEISCHER  
CC: CAROL COALE  
BH: BARRY HAIMES  
DE: DONATO EASSEY  
AM: ANDRE MEADE  
BK: BRUCE KNUITSEN  
MB: MICHAEL BOONYONNER  
MK: MARK KOENIG  
RN: RAYMOND NILES (PH)  
AF: ANATOL FEYGIN  
JR: JOHN REDSTONE (PH)  
BW: BART WEAR  
JY: JAY YANELLO (PH)  
WF: WINFRED FRUEHOFF (PH)  
AT: ANNIE TSAO  
SP: STEVEN PARLA  
UF: UNKNOWN FEMALE  
UI: UNINTELLIGIBLE

1 UF: This is a recording of an ENRON CORPORATION conference call, taking place  
2 Monday the 24th of July, 2000, at 9:00 a.m. Central Time. Today's moderator is  
3 Mr. MARK KOENIG and the conference title is Second Quarter Earnings  
4 Release.  
5 UF: Please stand by.  
6 UF: Good day everyone and welcome to the ENRON CORPORATION Second  
7 Quarter Earnings Release conference call. This conference is being recorded. At  
8 this time, I'd like to turn the call over to the President and Chief Operating Officer  
9 Mr. JEFF SKILLING. Please go ahead sir.

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1 JS: Uh thank you very much and good morning to everyone. This is JEFF  
2 SKILLING. I'm President and Chief Operating Officer of ENRON CORP. Uh,  
3 with me here in Houston I've got MARK KOENIG, who is Executive Vice  
4 President of Investor Relations, and PAULA RIEKER, who is Managing Director  
5 of Investor Relations. Uh, thank you very much for joining us on a call and our  
6 web broadcast this morning. Uh earlier today, we reported our Second Quarter  
7 2000 results and we hope that you've seen the release. Uh we had another  
8 outstanding quarter in each of our business units and continue to be very excited  
9 about the developments across the company. Uh this quarter's results, in our  
10 opinion, clearly demonstrate ENRON's leading market positions in wholesale  
11 energy marketing, retail energy services, and in broadband services. Uh for the  
12 quarter, the numbers look great. Twenty six percent increase in earnings to 34  
13 cents per diluted share, compared to 27 cents a year ago. Thirty percent increase  
14 in net income to 289 million dollars versus 222 million dollars last year. Seventy  
15 five percent increase in revenues to 16.9 billion from 9.7 billion a year ago. And a  
16 39 percent increase in physical volumes delivered to 46.7 BCF equivalents per  
17 day. Uh I'll go through each of our individual businesses and uh give you an  
18 overview. Let me start first with our wholesale energy operations and services. In  
19 the second quarter, the wholesale energy business reported income before interest,

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1 minority interest, and taxes of 437 million dollars, a 23 percent increase over last  
2 year. Uh, as you know, we report our wholesale business in two categories. The  
3 first is commodity sales and services, and that's where we market energy  
4 commodities and services and manage the associated contract portfolios. And  
5 then the second area is assets and investments, where we invest in, develop,  
6 construct, and operate energy and other assets worldwide. Uh let me start first  
7 with the commodity sales and services side. Uh second quarter IBIT for the  
8 commodity sales and services business was a record 442 million dollars.  
9 Volumes delivered total 46.7 BCF equivalents uh per day, compared to 33.7 BCF  
10 equivalents per day a year ago. As you all know, our wholesale energy business is  
11 large, extremely well-established and global. Our earnings growth has been very  
12 consistent and is sustainable. We have the ability to package more complex,  
13 customized natural gas and power products and services uh than any of our  
14 competitors. Also important, ENRON ON-LINE, our e-commerce platform, has  
15 been an enormous success. ENRON ON-LINE offers a more efficient channel for  
16 customers to transact with ENRON. Uh, it is user-friendly and is the transaction  
17 method most preferred by our customers. In June, almost 60 percent of total  
18 wholesale transactions and 45 percent of our volumes were executed on-line. And  
19 that's a 92 percent increase over the first quarter of this year. Uh we've been able,

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1 very cost effectively, to execute and deliver on a significantly greater number of  
2 transactions. Uh this increase in transactions and volume provides us with  
3 significant additional liquidity which I'll be mentioning later, information and  
4 further insight into energy opportunities. So let me go through uh within the  
5 commodity sales and services number....uh some of the components. And let me  
6 start first with natural gas. Our total natural gas volumes increased 87 percent in  
7 the second quarter to a record 26.6 BCF per day uh from 14.2 BCF per day in  
8 1999. The increase was lead by a 92 percent increase in the U.S., or an increase  
9 of approximately 8 BCF per day in the U.S. In North America, we experienced  
10 volume increases in every region where we operate. Uh the liquidity provided by  
11 ENRON ON-LINE is increasing our activity at many established market hubs and  
12 attracting many new customers. Uh to just give you some examples uh in  
13 regions....in the west, our volumes uh doubled uh to 2 BCF a day from a year ago;  
14 in Texas volumes increased to 2.7 BCF a day; in the Central Region, volumes  
15 total 4.7 BCF a day - almost three times the volumes marketed during the Second  
16 Quarter of 1999; in the East volumes marketed were the largest at 7 BCF a day, a  
17 100 percent increase over last year; and in Canada, volumes increased by almost  
18 50 percent to 6.6 BCF a day, compared to the same period last year. Across all  
19 areas, ENRON conducts business with a very large, rapidly increasing number of

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1 customers and counterparties. Uh it kind of surprised us, but for example in the  
2 East, we experienced the largest increase in the number of customers and  
3 counterparties uh to over 330 this quarter, from 230 the same period of 1999.  
4 And in the Central Region, the number increased 15 percent to 230. I think these  
5 statistics are clear indicators of a very large scope of operation in North America.  
6 Uh there's not just North American natural gas, our European physical natural gas  
7 volumes increased to 3.6 BCF a day in the Second Quarter of 2000, almost triple  
8 the volume contracted the same period a year ago. Uh the majority of this  
9 increase related to the United Kingdom with physical natural gas deliveries total  
10 3.1 BCF a day. Uh during the quarter, the UK natural gas market experienced  
11 similar price volatility to the U.S. Uh our well-established, mature UK  
12 organization, uh with its depth of capabilities and our ENRON ON-LINE  
13 platform, provided a tremendous competitive advantage over there during the  
14 quarter. Uh in addition, natural gas activity on the European continent is ramping  
15 up very quickly. We executed over 1,000 natural gas transactions during the  
16 Second Quarter. Uh with natural gas prices on the continent linked to the oil  
17 index, there's been a significant increase in imports of natural gas from the UK.  
18 The majority of ENRON's transactions occurred at the Zabruga (ph) hub, which  
19 connects the UK to the continent, but also included an increase in physical

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1 location swaps and activity at the German, Dutch, and Belgian borders.

2 Transactions executed have terms as long as five years and counterparties are

3 comprised mainly of European producers and marketers and the incumbent

4 European utilities. So the natural gas business, uh supposedly our most mature

5 business, as you can see is showing stunning growth. Let me move to power very

6 quickly. Uh power physical volumes marketed increased 42 percent during the

7 quarter to 137 million megawatt hours from 97 million megawatt hours a year

8 ago. In the U.S., power volumes increased 31 percent to 124 million megawatt

9 hours. Our volumes increased in both the West and East regions of the U.S. The

10 number of customers and counterparties also increased to almost 200. Our

11 European power business continues to grow very rapidly. During the second

12 quarter, our total European power volumes increased to 12 million megawatt

13 hours, more than six times the volumes delivered in the Second Quarter of 1999.

14 Uh the proposed structural changes to the UK power market due to be

15 implemented in late 2000 are attracting many new entrants and resulting in an

16 increase in overall market activity. Uh the new marketing arrangements should

17 not only level the playing field between generators and marketers, but convert a

18 primarily financial market uh to a physical market. Uh but the price transparency

19 provided by ENRON ON-LINE has significantly increased counterparties

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1 willingness to transact. Contract term over there is generally between six and 18  
2 months, although some five year business has been executed. Uh our European  
3 continental power activity continues to mature, and volumes delivered this quarter  
4 totaled over 11 million megawatt hours - more than 10 times greater than the  
5 volumes delivered last year in the same period. Uh the term of transactions is  
6 extending to two to three years and we're increasing our portfolio of products to  
7 offer more structured transactions uh similar to what we do in the U.S. Uh, for  
8 example, we're extending our scale across Europe at a low capital cost through  
9 partnering with strategic generation owners. We gain access to megawatts in  
10 return for optimizing the utilization of their power plants. So the whole  
11 commodity side of our business was just uh stunning uh during the Quarter. I  
12 think it really reflect....reflects a...an incredibly strong market position, a lot of  
13 very, very good people, and strong technology in the form of ENRON ON-LINE.  
14 Uh the other portion of our wholesale business uh IBIT attributable to our assets  
15 and investments business for the Second Quarter was 55 million dollars. Uh the  
16 quarter's results were down substantially from last year, primarily reflecting  
17 decreased earnings from ENRON's portfolio of energy-related and other  
18 investments and reduced sales of interests in world-wide energy assets. Uh this  
19 portfolio of merchant assets and investments generates income primarily from

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1 equity earnings in both realized and un-realized gains and losses. Uh the way we  
2 manage the size of these assets and investments with regard to timing of sales or  
3 acquisitions is very dependent on market conditions and our expectations for the  
4 investment's prospects. During the Second Quarter, activity in this area was  
5 minimal, uh with significantly less asset sales. Uh the size of the merchant  
6 portfolio is now approximately uh one and-a-half billion dollars. Also related to  
7 our wholesale business, let me uh just mention ENRON ON-LINE. Uh I'd like to  
8 underscore the importance of ENRON ON-LINE. As of this morning, uh actually  
9 as of Friday afternoon, we surpassed notional transaction value of 100 billion  
10 dollars and passed 200,000 transactions. A tremendous accomplishment for a  
11 platform that's only been in operation for eight months. You may have also seen  
12 that we recently announced a memorandum of understanding to extend ENRON  
13 ON-LINE pricing to bulletin boards TRUEQUOTE.COM and HOUSTON  
14 STREET EXCHANGE. Uh we recognize the value of liquidity. And by making  
15 our prices more widely available, we will transact with more buyers and sellers.  
16 So we're looking for a range of distribution options to get ENRON ON-LINE  
17 prices out into the marketplace. But at the wholesale level, just a, a tremendous  
18 quarter. Uh we feel very good about it. Very positive and optimistic about the  
19 outlook for the future. Our market position uh has never been better. Let me



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1           move now to our retail energy business. Uh ENRON ENERGY SERVICES  
2           continues to move forward right on track with the plans we shared with you  
3           earlier this year. Uh, ENRON's ability to provide comprehensive energy  
4           outsourcing on a national scale continues to be a key competitive advantage. And  
5           now particularly with rising gas and electric prices and the volatility that's  
6           associated with them, ENRON is uniquely positioned to assist customers in  
7           managing their price and energy consumption uh through risk management  
8           services. In the Second Quarter, we reported an IBIT of 24 million dollars,  
9           compared to a loss of 26 million dollars a year ago. And just in case you can't add  
10          those up, that's a 50 million dollar positive swing in earnings between last year  
11          and this year, uh, which I think just confirms the momentum in this business.  
12          Profitability continues to escalate and our very rapid growth in contracting has  
13          resulted in a significant revenue increase. Uh for the Second Quarter, retail  
14          revenues were up 147 percent to 840 million dollars. Uh, the strong financial  
15          results are attributable to the significant scale achieved in the U.S. and a continued  
16          shift in our contract mix to longer term, outsourced, contracts. New contracts  
17          total 3.8 billion dollars for the quarter, including a very large ten-year agreement  
18          with QUEBECOR (ph) to service 66 facilities in 28 states. Other contracting  
19          activity during the quarter included SUNOCO, PRUDENTIAL, and SAFEWAY

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1 STORES. In addition during the quarter we fully integrated the PG&E contracts  
2 that we acquired in May into our operation and are focused on extending many of  
3 these commodity-only contracts to long-term outsourcing relationships. Uh also,  
4 our European retail operation is progressing well and we're receiving excellent  
5 response to our products and services. We're actively targeting large commercial  
6 customers and expanding our U.S. customer relations to their operations in  
7 Europe. Uh, kind of an interesting twist in Europe, which is different than what  
8 we have in North America, we have a pretty sizeable mid-market uh commodity  
9 business at the retail level and it continues to experience huge growth. Uh they're  
10 signing up approximately 3,000 customers a week in the UK, which has been  
11 a...just a big success for us there. And we believe that that business probably has  
12 application on the continent and probably back to the U.S. as well. Uh so that's  
13 the retail business. Transportation and distribution, uh which includes our gas  
14 pipeline group and PORTLAND GENERAL ELECTRIC uh IBIT increased uh to  
15 139 million dollars in the quarter, a nine percent increase over last year. Uh the  
16 gas pipeline group, all our major pipelines posted strong results for the recent  
17 quarter. FLORIDA GAS TRANSMISSION remains very competitively  
18 positioned as the only major pipeline serving peninsula Florida, a region with a  
19 rapid growth in demand for energy. Plant expansions are progressing as

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1 scheduled, with significant increases in capacity to be added in each of the next  
2 three years. Our Transwestern pipeline expansion which came into service as  
3 scheduled in May, uh increased our capacity on Transwestern by 15 percent. So  
4 GPG is just uh continuing....uh its, its strong performance. Uh PORTLAND  
5 GENERAL, PORTLAND GENERAL reported strong results for the quarter of uh  
6 62 million dollars IBIT, up 11 percent from the same period last year. Uh  
7 PORTLAND GENERAL continues to expand its customer base and now serves  
8 uh 726,000 retail customers. The sale for PORTLAND GENERAL remains on  
9 schedule, uh, we believe to close uh near the end of the year. So that's our  
10 transportation and distribution business. Uh and then uh let me move now to our  
11 broadband business. Uh I know this is a little bit long and I...I'm doing  
12 this....doing it as fast as I can but just a lot happening during the quarter. But  
13 broadband services....ENRON BROADBAND SERVICES reported an IBIT loss  
14 of 8 million dollars and revenues of 151 million for the quarter. Uh the financial  
15 results included planned sales of dark fiber. During the quarter, ENRON  
16 continued to rapidly advance its network development. At June 30th, we had  
17 5,325 miles of fiber complete and an additional 9,175 route miles under  
18 construction for completion by year end. We had 525 servers deployed and we  
19 have 4 pooling points in operation, including three in the U.S. and one in London.

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1 We have pooling points, and these are the switches that allow us to switch  
2 between fiber networks, we have pooling points in 15 additional cities being  
3 installed for completion over the next two quarters, which uh, just uh to remind  
4 you uh brings us to a target of 19 cities uh to have pooling points for this year.  
5 And that's uh clearly gonna exceed our year-end target that we shared with you of  
6 13, so we're making good progress in getting those deployed. Uh we also recently  
7 announced our operating presence in Europe. We've established network  
8 connectivity between London, Amsterdam, Frankfurt and Paris. We're now in the  
9 core central cities in uh in Europe and we can begin to uh build off of that. Uh  
10 during the quarter we made enormous advances in executing agreements with new  
11 broadband distribution partners. We now reach end-users in all U.S. markets and  
12 in major cities in Canada and the UK. During the quarter we continued to  
13 progress on the development of our Bandwidth Operating System. The bandwidth  
14 trading component is in operation. We're working with SUN and others to enable  
15 third parties to...to uh reserve network capacity and we're integrating our meta  
16 router to be able to process 10,000 connection requests per minute. Also, during  
17 the quarter, we delivered 985 DS3 months of bandwidth capacity to our customers  
18 and have now scheduled a total of 5,170 DS3 months for delivery in the remainder  
19 of the year 2000. We're actively quoting prices for bandwidth between 28 cities in

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1 the U.S., Europe, and Asia. Year-to-date transactions on the bandwidth  
2 intermediation side total more than 50, with 17 counterparties including  
3 marketers, network service providers, and U.S. carriers. Uh, activity continues to  
4 escalate as more players participate in this newly developed market. In fact I  
5 think we have 60 counterparties currently working up the paperwork uh to uh be  
6 approved for uh transactions. Uh, in May, we introduced the sale of bandwidth on  
7 ENRON ON-LINE and today over 30 bandwidth products are offered on ENRON  
8 ON-LINE.

9 Content services. We recently uh have seen breakout performance in the content  
10 services business. The quarter's total contract value was 19 million dollars,  
11 primarily executed with new companies positioning themselves in the broadband  
12 market. The recently announced agreement between ENRON and  
13 BLOCKBUSTER evidences what we believe is a fundamental shift...established  
14 companies extending their core business to broadband distributions with a huge,  
15 established core base. We executed an exclusive 20-year contract with  
16 BLOCKBUSTER to deliver movies on demand over the ENRON Intelligent  
17 Network. Uh this is a first of a kind contract and we believe the largest broadband  
18 agreement ever signed. We will provide all the wholesale connectivity and  
19 deliver content to last mile providers at 1.5 megabits per second, greatly

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1 exceeding standard broadband speeds. We've signed major distribution  
2 agreements with leading DSL providers, SBC, QWEST, VERIZON, TELUS (ph),  
3 COVAD (ph) and REFLEX, to guarantee the quality of service over the last mile.  
4 ENRON will receive a fee for each movie delivered. The potential long-term  
5 contract value or revenues over the life of the contract is expected to exceed well  
6 over one billion dollars, but that's obviously not included in this quarter's report of  
7 TCV. The contribution to revenues and IBIT during the first four years is  
8 expected to be immaterial, but ramps up significantly as the entertainment on  
9 demand product is deployed. So, uh in summary, uh we're pleased with another  
10 very strong quarter. Our established networks worldwide together with our  
11 unique strategy and broad capabilities will provide for continued strong  
12 performance and increase shareholder value. Uh but before I, I take any  
13 questions, I'd like to do one other thing. I'd like to briefly describe the plan and  
14 activities of our newest business, uh ENRON NETWORKS. I know we've  
15 mentioned this to a, to a number of you, but uh we believe that ENRON's  
16 capabilities and skills include logistics and settlement services related to reliably  
17 delivering commodities, providing price risk management and successfully  
18 deploying technology. Uh, for all intents and purposes, we believe we're good at  
19 creating markets for commodities. Uh, as demonstrated in the breadth of products

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1 that we market in our wholesale operation a core strength is a replication of these  
2 skills from one commodity to another. Uh following careful analysis, we're  
3 pursuing opportunities at some of the more traditionally structured commodity  
4 industries. There's little price transparency in many of these markets and, as a  
5 consequence, enormous pricing inefficiencies exist. Uh it's uh our belief  
6 that....our ability to both identify and enter new markets and quickly win market  
7 share through accelerating our proven business model uh leverages significant  
8 shareholder value. During the quarter, ENRON NETWORKS announced its  
9 acquisition of MG PLC, the leading international merchant of copper and  
10 aluminum based in the UK. MG buys as principal, sells, stores, and shifts non-  
11 ferrous metals and manages warehouse operations across the globe. We are in the  
12 process of fully integrating MG into our European business. We will use our  
13 wholesale expertise to offer MG's customers new products and solutions to  
14 address their business needs. Uh, these new products include structured bundled  
15 products combining ENRON's expertise in energy, finance, and origination, with  
16 MG's global position in non-ferrous metals and longer term contracts backed by  
17 ENRON's financial strength and the ability to increase liquidity and transact more  
18 simply by introducing these metals to ENRON ON-LINE. Uh, heading this new  
19 business are experienced members of our executive operating committee. GREG

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1           WHALLEY, who was formerly President and Chief Operating Officer of ENRON  
2           NORTH AMERICA is now the CEO of the business. Uh, JEFF MCMAHON,  
3           who was formerly Executive Vice President of Finance and Treasurer of ENRON  
4           CORP is uh Vice Chairman and MIKE McCONNELL, uh formerly CEO of  
5           ENRON's GLOBAL TECHNOLOGY group is, is the Chief Operating Officer.  
6           So we've put a really strong team uh in to start looking at this opportunity. But  
7           we'll continue to evaluate other markets which could benefit from our business  
8           model and our e-commerce services. Examples might include steel, paper,  
9           lumber, data storage and shipping, and all of these we believe provide some huge  
10          opportunities for ENRON to expand its global position in the wholesale market.  
11          So overall, and I've said this before but I'm afraid it just continues to be true,  
12          I've....I've been with the company in one....uh form or another for uh 18 years and  
13          uh I've never seen the company in better shape. Our core markets are in just  
14          absolutely uh move from strength to strength. We have very very good growth  
15          opportunities across the board and uh we're real excited about the uh prospects for  
16          the future. So with that, I'll shut up and open it up for uh any questions uh from  
17          the audience.

18        UF:        Thank you sir. The question and answer session will be conducted electronically.  
19        If you have a question, please press the star key followed by the digit one on your



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1 touch tone telephone at this time. We'll take as many questions as time permits,  
2 and we'll take you in the order that you signal us. Once again, if you have a  
3 question today, please press star one. And our first question comes from DAVID  
4 FLEISCHER with GOLDMAN SACHS.

5 DF: Great quarter, JEFF. Uh don't slow up though. Uh couple of things here, uh you,  
6 you, you started showing some real interesting numbers from Europe uh and and,  
7 you know, if we go back to what you said a year ago and six months ago, it  
8 sounds like uh Europe is just, you know, starting to take off. I guess that's the  
9 question here. If you can help us understand, you know, what the slope and  
10 timing of all this is gonna be and you know, is this a business that's gonna be a  
11 significant driver overall in 2001? Can we, can we continue this type of growth  
12 rate uh or is it gonna take a little longer than that?

13 JS: Uh DAVE I think uh uh 2001 Europe is gonna be a significant contributor. A  
14 very significant contributor. The thing that's actually interesting in Europe is that  
15 uh it's a much more fractured market than North America so the...the  
16 opportunities for someone like ENRON are actually better than they are in North  
17 America. We're seeing for example in those, those core central European areas,  
18 Germany and all the contiguous countries, and the UK and Scandinavia, that's  
19 gonna turn into a very deep liquid traded market for both gas and electricity. At

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1 the extremities of Europe, you go to uh Spain, Italy, Greece, Turkey, uh there are  
2 opportunities for asset development to begin building uh some of those merchant  
3 activities. So just, overall I think it's a, it's a great market. Uh, to be quite honest,  
4 we're ahead of where I thought we'd be uh over there. Things are moving much  
5 more quickly than I expected. And I'm...I would expect to see some very good  
6 things in the year 2001 out of Europe.

7 DF: Can you go on with, uh you had indicated the structural changes that are taking  
8 place, I'm aware of some of those. But maybe you can help us understand what's  
9 gonna happen by when and...and...therefore, you know, understand a little better  
10 what your strategy can be in terms of physical assets versus, you know, the trading  
11 side.

12 JS: Well the uh...I think at this point, the regulatory changes are pretty much in place,  
13 with the exception of France, which, you know, it's just the way the French are.  
14 But uh I think at this point, it's just development of the market. The reason why  
15 we're seeing the difference between the central European countries and the  
16 extremities really has more to do with just the interconnectiveness of the grid. Uh  
17 there's not real good uh connectivity uh between the, the core European countries  
18 and the extremities in either gas or electricity. So, those tend to be different kinds  
19 of markets. The biggest structural change that's going on right now really is the

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1 rework of the UK power pool. Uh....uh....as you know, there's a lot of concern  
2 that the structure of the power pool was disadvantaging uh certain kinds of  
3 generators. We....you know....quite frankly don't think that's....that was a big deal.  
4 But uh the restructuring is a big deal. They're moving to a marketplace that is a  
5 more bilateral uh marketplace. It looks more like what we've got in North  
6 America and Scandinavia and that's uh a market structure that we've been a big  
7 advocate of so we feel real good about the change in the market over there.

8 DF: Okay, great. And the second question here uh....on retail uh you had uh, you  
9 know, indicated uh uh that the price spike uh had, you know, was was  
10 highlighting the value that you could bring to customers and uh I wanted you to go  
11 on with that thought process and just....uh, you know, clearly you've told us in the  
12 past that uh, you know, you you are unique and we know that you are in so many  
13 ways in what you can bring to the national customers. Are you finding, in  
14 particular, you know more of the big customers that you haven't signed uh, you  
15 know, like an IBM, are more willing to, to talk about, you know, contracts and  
16 therefore are we likely to see you substantially exceed, you know, these....these uh  
17 revenue or, or contract signing targets this year and maybe next year.

18 JS: Well everything that's happened in the marketplace uh this summer has been good  
19 for us. Uh, you know, you've seen the battles in the press uh with San Diego and

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1           some of the other utilities in the west and some of the sensitivity to what's  
2           happened with price increases, you're seeing that in private companies as well  
3           DAVID. So, we've got a lot more interest in what we can bring to the table and  
4           quite frankly when energy prices are higher, uh the savings that we can offer a  
5           customer uh loom larger in their planning. So I think uh this is...this is very  
6           positive. It's a positive environment for the development of the retail business.

7   DF:           Can you give us a sense for contracts under negotiation. The figure that we've  
8           gotten periodically from you?

9   JS:           You know, DAVID, I don't have that off-hand but uh....I'll get back to you on it.

10   DF:           Okay. Thank you very much. Great quarter.

11   JS:           Thanks.

12   UF:           Thank you sir. I'd like to also inform participants if they'd like to remove  
13           themselves from the queue because they have found that their question has been  
14           answered, press the pound key. We'll now here from JAY YANELLO (phonetic)  
15           from PAINE WEBBER.

16   JY:           Good morning JEFF. You guys are known for having a fairly uh deep  
17           management team. You have strong heads in most of your divisions but you're  
18           growing rapidly. Can you give us a little update on staffing, how many people  
19           you're hiring, or uh just overall if you still have a challenge going forward at

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1 staffing some of the more medium or lower end management positions throughout  
2 the company.

3 JS: Well actually I've been a little surprised at our recruiting this year. I was....I was  
4 concerned because we heard so much out of the investment banks and consulting  
5 firms about the problems they were having hiring people out of the business  
6 schools. But uh we're ahead of target so far this year. Uh and we'll bring in  
7 probably our typical 200 MBAs and about the same number of undergraduate  
8 students. Uh, so that....that side of our recruiting is going real well. We're also  
9 seeing a lot of interest uh or more success on experienced uh person hires. Uh,  
10 you know, I think at this point it's becoming pretty clear to most of the people in  
11 our industry that this is the place to be. And we're....we're seeing uh improved  
12 ability to bring in people from any of our competitive companies uh and so I'm  
13 feeling very good there. The one...the one place that we're having uh some pretty  
14 severe shortages of folks, which I think probably everybody is, is in the software  
15 engineering side. And, you know, just given uh the demands we have for  
16 ENRON ON-LINE, uh we're....we're extending ENRON ON-LINE to the back  
17 office for a more integrated, lower cost processing system. Uh this just takes an  
18 incredible number of very highly qualified uh systems engineers and programmers  
19 and they're just.....they're hard to come by. Although I think, being in Houston, I

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1 think we're in pretty good shape because uh, you know, if you wanna live in  
2 Houston for whatever reason uh, we're kinda the place to be. And...and so I think  
3 we get to see most of the people. It's just there aren't a whole lot of them out  
4 there.

5 JY: Okay, just a quick followup, the BLOCKBUSTER contract uh appears immense.  
6 And, my guess is you'll, you'll spend a great deal of resources fulfilling that. Can  
7 you handle that and work on other big content delivery contracts at the same time?

8 JS: Yeah, the thing that's great about it is the BLOCKBUSTER deal is exactly what  
9 we uh are targeting. So it is....it is exactly consistent with the network that we're  
10 putting in place. It's exactly consistent with the products and service offering that  
11 we're putting in place. So if we can get BLOCKBUSTER done, we can get the  
12 other ones done. So this is not in any way uh a diversion or tangent off of the core  
13 direction. This is like center of what we're trying to accomplish. So, if we can get  
14 BLOCKBUSTER done and get all the mechanics and the technology in place to  
15 make it happen, uh that platform can be extended to all sorts of other video  
16 applications. So it's, it's a great contract. Uh, it's a great contract on its own, but  
17 just in terms of developing the business and the direction of the business, it's  
18 great.

19 JY: Okay thanks.

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1 UF: Thank you sir. We'll now hear from BARRY HAIMES with SAGE ASSET  
2 MANAGEMENT.

3 BH: Uh good morning. Uh had a couple questions. Uh one is uh....why not talk a little  
4 bit more about the uh assets and investment section uh where uh, you know, it  
5 was amazing the uh....the delta there compared to a year ago. I mean your....your  
6 IBIT would have been 44 percent higher if you'd uh had the same number as a  
7 year ago. Uh, you know, which speaks to the great quality of earnings. But could  
8 you just talk about uh uh that line assets and investments uh through the balance  
9 of the year and uh, you know, it's always gonna vary but what would you see as  
10 normal or do you have any guidance uh for the balance of the year there? Uh,  
11 second question is, you didn't talk about South America at all. Uh just an update  
12 comment there would be appreciated. Uh and third comment uh, just tax rate....uh  
13 what you're looking for for tax rates for the year? Thanks.

14 JS: Uh sure BARRY. Uh....the asset and investment uh category uh involves you  
15 know sale of assets primarily. And uh as you can imagine there's some discretion  
16 in the timing of when we actually transact some of those so....uh...just given the  
17 strength we have in the commodities side, to be quite honest, we've probably uh  
18 slowed down or kinda eased off some of the aggressiveness on, on some of the  
19 sales or monetization of some of our assets. So, my guess is as you look to the

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1 rest of the year and in subsequent years, I think the asset and investment line is  
2 gonna look kinda the way it has historically looked. Uh....uh....that's great  
3 business for us and it's something that uh uh is is part and parcel of what we  
4 provide to customers. So I guess it would look pretty similar going forward. Uh I  
5 would guess that the commodity uh side of the business probably is gonna....is  
6 gonna tone down. I mean the....the uh market environment in the second quarter  
7 was just awesome. Uh so you'll probably see a little tone down there and you'll  
8 see a pickup on the asset and investment side. But overall the wholesale numbers  
9 uh are, are doing just what we expected them to do. Uh actually doing a little  
10 better than we expected them to do. Uh and I...I just think uh....uh....more of the  
11 same going forward. On South America....in South America, uh....you know we  
12 don't....don't talk about it a lot but uh uh a large portion of our position in South  
13 America is in Brazil and for those of you that have been following the economy in  
14 Brazil, the news is unbelievably positive. Uh so I, you know, I'm feeling real  
15 good about our position in South America. I am....I'm a little disappointed at the  
16 speed uh of adoption of the merchant services and I think a large portion of that is  
17 a function of the regulatory system uh....I think uh it's, it's just harder to create the  
18 sort of markets that we create in North America and in Europe in South America.  
19 It's been a little harder than we expected it to be. But I think the underlying



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1 dynamics of the economy are better than we expected. So overall it's  
2 doing....doing pretty good.. Uh on the tax rate....tax rate uh we expect it to just  
3 continue in kind of the 18 to 20 percent range and we feel real good about that  
4 looking out over the next couple of years. So uh, I think you can just keep  
5 factoring that same number in going forward.

6 BH: Great thanks.

7 UF: Thank you. Hearing next from DONATO EASSEY (phonetic) with MERRILL  
8 LYNCH.

9 DE: Good morning and congratulations as well on a very nice continued growth rate  
10 there JEFF. And, with respect to broadband, I've got two questions here  
11 predominantly. One is...why ENRON with uh BLOCKBUSTER at all given the  
12 limited capacity that you have today versus others that have much more out there.  
13 That's one...the other is...you know, you mentioned on here that you've got uh  
14 executed more than 50 on and off network transactions with uh 17 counterparties  
15 this year. Is that in line with your growth or, you know, below your...your  
16 projected estimates or, you know, on par or better? Thanks.

17 JS: Okay on the...on the second question first, it's ahead of where I expected to be.  
18 Uh there's a lot of interest in this....the uh...the number of -  
19 counterparties...when...when we start off on these markets we typically spend

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1 some time looking at just the counterparties and how quickly they're growing.  
2 We're seeing very, very strong growth. Uh...that uh...uh...has frankly surprised  
3 me. I mean I'm all...as you know I've always been a big, been very bullish on the  
4 growth in the intermediation side of this business but we're ahead of...ahead of  
5 where I expected to be. On the uh uh BLOCKBUSTER deal....why ENRON? Uh  
6 DONATO, we just have a different business model. You know this thing that we  
7 talked about which was...which is on-demand bandwidth with uh....uh television  
8 quality video capability is something that our entire network is devoted to. Uh...it  
9 is an end-to-end system with our software that can control the signal and ensure  
10 the signal is delivered with quality from the content provider all the way to the  
11 end user. We believe at this point we're the only people that can provide this  
12 comprehensive service to BLOCKBUSTER or anybody for that matter that has a  
13 technically sophisticated video application. Uh we believe that that's kind of our  
14 space and that's the one that we want to dominate. And we think at this point  
15 we've got capabilities that no one else in the marketplace has.

16 DE: Great. And if I could trouble you for one more. There was....there was some  
17 discussion about a master agreement on the trading of uh broadband and I was  
18 wondering what the status of that was between the parties or....or where we stand.

19 JS: Well there....there are a couple of committees working on the standards and I

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1 think that's moving forward. Uh as you know, we've gone ahead and put a stake  
2 in the sand and we've said...here...here are our standards. (Laughs) Here's what  
3 we're transacting on. Now if...if those committees come up with a standard that's  
4 better, or one that's more accepted by the industry, we'll offer that as well. So,  
5 we're not waiting on it but it is making progress. Everybody knows we need it  
6 and uh....people are working real hard to do that.

7 DE: Thanks a lot JEFF.

8 UF: Thank you sir. Hearing next from NATIONAL BANK FINANCIALS WINFRED  
9 FRUEHOFF (ph).

10 WF: I have a couple of questions one relates to uh your broadband business and I'm  
11 wondering uh what contribution towards revenues and IBIT the sale of dark fiber  
12 made in the second quarter. And what your outlook is for the sale of more dark  
13 fiber for the balance of this year.

14 JS: Uh....WINFRED the uh....the uh total for the second quarter was about 50 million  
15 dollars of dark fiber sales and that was right in line with our plan uh....I don't  
16 know off-hand....for the rest of the year MARK?

17 MK: Well, for the rest of the year there's likely to be uh some others but bottom line in  
18 terms of earnings expectations or IBIT for the broadband group, we're still on  
19 track with a....a likely loss or IBIT loss of 60 to 65 million for the group. So these

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- 1 fiber sales that you saw in the second quarter and some more in the third and  
2 fourth are really consistent with the plan we laid out in uh January.
- 3 WF: Yeah. And what did they contribute in the second quarter towards IBIT?
- 4 JS: Well about 50 million.
- 5 WF: Oh that....I thought it was revenue. Okay.
- 6 JS: Well this is....it's the same thing.
- 7 WF: Okay fine. Uh the other question relates to uh assets and investments and I was  
8 wondering if you had a breakdown between the uh reduction and the contribution  
9 between decreases in sales of interests in power projects and the decline in the  
10 value of your merchant investments.
- 11 JS: Uh....well horseshoes and hand grenades. We've kinda got an even split  
12 uh...climbing a little bit more and just uh uh the uh reduction in the asset values  
13 but it kinda....kinda about the same.
- 14 WF: There are any significant reason uh why the uh value of some of your merchant  
15 investments has changed?
- 16 JS: Uh no just market conditions in the markets that we're in and....we feel that the the  
17 uh current portfolio's marked very well and should offer opportunities for the  
18 future.
- 19 WF: What do you expect for the balance of the year? Do you expect a reversal or uh

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1 more of the same?

2 JS: Uh we'd expect the performance going forward in time to look pretty much like  
3 the performance has been the last couple of years.

4 WF: Okay. Thanks very much.

5 JS: Thank you.

6 UF: Thank you. Moving on to ANATOL FEYGIN with J.P. MORGAN.

7 AF: Good morning JEFF. Uh a quick question. It uh came across the tape that you uh  
8 were basically saying that you would look to monetize certain....certain assets and  
9 investments. Obviously that's kind of core to ENRON's strategy uh overall but  
10 more particularly we've talked often about uh getting the return capital up and  
11 getting out of the more asset intensive businesses just uh....wanted to hear  
12 some....some comments on the direction you're heading in....whether there's  
13 anything to....to be read into that comment or if that's just uh kind of reiteration of  
14 this uh strategy.

15 JS: Well ANATOL, (stutters) a couple of....I think the comment you're referring to is  
16 something came out of the uh....uh I think on Bloomberg this morning based on an  
17 interview with CNBC this morning, where I think it said something like ENRON  
18 anticipates selling its broadband....bus. I....I haven't seen the exact quote.  
19 Uh....what I said is exactly consistent. We have always said related to our

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1 broadband business that we believe that there are linkages between that business  
2 and our other businesses uh because we're creating markets and we think it's  
3 important to have that....that skill base transferred from ENRON into the  
4 broadband business uh....but that if we are not getting the value from that business  
5 in ENRON stock price we will do what....whatever's necessary to get that value in  
6 the stock price. And if that involves a spin-off or a sale, uh we will do that. Now,  
7 to date, uh we think that we've got the value in the stock price and that's the best  
8 of all worlds 'cause we're getting the value for our shareholders and we're also  
9 able to capture what we think are some pretty important linkages uh between the  
10 two businesses. Now on a more general basis, I have spoken in the past a lot  
11 about the importance that we ascribe to increasing our return on invested capital  
12 and I can tell you I am spending an incredible amount of time on that. Probably  
13 more time on that than anything else that we do around this place. (Laughs).

14 AF: Right.

15 JS: Uh...and it is critical and I can tell you that on the margin, we have already made  
16 tremendous progress. On the margin, our return on uh incremental invested  
17 capital is....is stunning right now. And uh what we're doing right now is just  
18 making sure that we go through our portfolio of investments to uh....uh figure out  
19 exactly what we can....what we can monetize and liquidate uh so that we can bring

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1 more cash home and uh have that cash available for reinvestment in these very  
2 high return sorts of businesses. So I can....I can absolutely guarantee you it is a  
3 key priority around this place and we're spending a lot of time on it.

4 AF: JEFF, but nothing....nothing definite. And this....this uh quote was kind of taken  
5 out of context uh with regards to the bandwidth....to the broadband side that  
6 you've discussed before and not to be uh....not to be confused with kind of a uh  
7 large shift in terms of the energy side of the house.

8 JS: That's....that's exactly right.

9 AF: Thanks JEFF.

10 UF: Thank you sir. We'll now hear from ALLIANCE CAPITAL's ANNIE TSAO .

11 AT: Good morning JEFF. Hello?

12 JS: Hi ANNIE, how are you?

13 AT: I'm fine thanks. I just have a couple questions. Uh....can you explain a little bit  
14 more detail in terms of your corporate and other why it's changed from a negative  
15 nine million to a positive for 17 million? What's in it?

16 MK: ANNIE, this is MARK. Uh....part of that is we always have a little bit of  
17 fluctuation in corporate and other. This quarter we also had some positive  
18 contribution from some of our clean fuels business which uh, you know, includes  
19 some methanol and MTB, which is a very small business for us and it's in the

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1 corporate and other category. Last year that uh....that activity as it has been for a  
2 while was uh....uh was close to zero. So that was uh....that was probably the  
3 biggest portion of that.

4 JS: Yeah you get lucky every once in a while ANNIE. (Laughs.)

5 AT: Uh....your AZURIX is in there too, right? The water.

6 MK: Yes AZURIX has not announced their earnings yet so we uh....

7 AT: But it's....it's in there.

8 MK: But that is a small part uh....and you can look at their expectations. It's a small  
9 part of our overall uh contribution.

10 AT: Okay. Next question I...I just uh....uh.....JEFF, can you explain why your stocks  
11 since the last analysts' meeting has been trading at a very narrow range between I  
12 think 68 to 78?

13 JS: Uh....gee ANNIE, I don't know. You tell me. (Laughs). Uh....well I....you know I  
14 guess my feeling is that uh, you know, we....we had a lot of things underway. And  
15 we....we dumped a lot on you all in a very short period of time. And I think uh it's  
16 taken a little while to digest it and I think people want to see us put points on the  
17 board. I think this earnings release shows we are putting the points on the board.  
18 And I'm hoping that we break out of that trading range because uh....I think we  
19 deserve to break out of the trading range.



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1 AT: Thank you.

2 UF: Thank you. Hearing now from STEVEN PARLA of CS FIRST BOSTON.

3 SP: Uh good morning JEFF. My sympathies for having had to deal with the press this

4 morning. Uh....I have two questions and they have to do first with uh

5 sustainability in the wholesale business on the commodity side. I think a lot of

6 people were just standing in the right place during the second quarter. Could you

7 talk about sustainability for you and maybe other industry people or other types of

8 players without being too specific? And then second on the margin issue....uh we

9 talked in the past about ENRON ON-LINE coming on and big, big increases in

10 volume and less of an increase in margin. You had talked about how that activity,

11 much like a brokerage business, will translate into higher margin business like our

12 trading does to investment banking. Could you address those issues for us?

13 JS: Uh....STEVE, I really don't know what the other players have seen about

14 sustainability. I mean my guess is that uh second quarter is about as good as it

15 gets. I mean, there was just a lot of volatility in the marketplace. Uh....and

16 and....virtually everybody in the industry is...is long volatility. I mean

17 that...uh....we have the ability through liquidity and assets to provide dampening

18 services to the industry. So effectively we're long volatility. So high volatility is

19 good for everybody. Uh....in our particular case and when I look at the overall

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1 wholesale numbers, uh...I mean I....I feel extremely good about the sustainability  
2 of the performance that we posted in the uh...in the wholesale business over the  
3 last ten years. And I think that that....that is likely to continue. Uh....now if you  
4 look at....in the....kind of relates to your second part of your question on the  
5 margin on ENRON ON-LINE, uh, there is no doubt in my mind that the liquidity  
6 and capabilities in terms of information and the ability to app.....

7 (Tape goes blank for several seconds)

8 JS: ....on line has had a very significant positive impact on our business development  
9 activities. I don't think there's anyone in the industry that can provide the level of  
10 service to customers that ENRON can. And a big piece of that is ENRON ON-  
11 LINE. So I think we're already seeing maybe even earlier than I would have  
12 expected, we're starting to see high value opportunities coming out of uh the uh  
13 ENRON ON-LINE volumes. Uh so what....I would encourage you to look at the  
14 volume numbers because the volume numbers....the physical....growth in physical  
15 volume numbers has historically been a pretty good predictor of profitability in  
16 the wholesale business and uh my sense just looking at the numbers and seeing  
17 how it's playing out is that that ought to be a pretty good indicator going forward  
18 in time.

19 SP: Thanks JEFF. And the increase in U.S. gas, is that physically possible at this

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1 point for you?

2 JS: (Laughs). We did it. Yeah, I'll tell you.....it's.... it's.... it's amazing. It is really  
3 amazing. Uh....yep, we did it.

4 SP: Thanks JEFF.

5 UF: Thank you. We'll now take a question from ANDRE MEADE with  
6 COMMERZBANK.

7 AM: Hi JEFF. Actually, all my questions have been answered except.....you mentioned  
8 uh effective tax rate and I missed it so if you'd just repeat that, it would be great.  
9 Uh going forward for the year.

10 JS: Yeah we're....we're projecting 18 to 20 percent tax rate and we're feeling real good  
11 about that for the next couple of years.

12 AM: Okay. Okay. Thanks.

13 UF: Thank you. Once again if you find that your questions have been answered today,  
14 press the pound key to remove yourself from the queue. We'll now hear from  
15 BART WEAR with WINSLOW CAPITAL (ph).

16 BW: Yeah, I just wanted to follow up a little bit more on the broadband side. Uh....you  
17 talked about loss of 65 million for the year but, you know, uh the first quarter was  
18 fl....was zero and this quarter's eight million. You know, why....why the step up  
19 so much substantially in the back half because it would seem as you complete the

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1 network data that would continue to sell more uh dark fiber there. And then can  
2 you also follow up with what....what's the CAPX in looking out on that business?

3 JS: Yeah BART, uh in our original plans we had a higher uh portion of uh fiber sales  
4 in the early part of the year. And the reason for that is....when we put in the fiber,  
5 uh in a lot of cases we have more than we need in certain routes and so we're  
6 going through a process uh which happens particularly earlier this year....going  
7 through a process of figuring out exactly what capacity we need at each portion of  
8 the network and that leads to sales of some that we don't need. And I'd expect that  
9 those dark fiber sales will decline as the year goes on. So that....I think that's the  
10 reason....I mean we're right on plan. We're doing everything that we expected  
11 right now. Uh so I....I think we're just kind of....it's playing out the way we  
12 expected it to play out. Uh also, as far as CAPX is concerned, we've....we told  
13 everyone we'd be in the kind of the 600....650 million a year range and that's  
14 where we are. So we feel pretty good about that number too.

15 BW: Okay. And obviously on the retail side you've been very successful in signing up  
16 contracts and it looks like...your....you know, your momentum if anything there is  
17 accelerating. So is the 16 uh billion number that you talked about....is that a....a  
18 low number now or what....what's the update on that?

19 JS: Well we're gonna stick with the 16 number but uh....uh we're feeling....feeling real

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1 good about it right now.

2 BW: Okay. Congratulations.

3 JS: Thank you.

4 UF: Thank you. Moving on to CAROL COALE with PRUDENTIAL SECURITIES.

5 CC: Hi. Believe it or not I do still have some questions after all these questions have

6 been asked. Uh....a few clarifications. First of all uh....and I have three questions

7 and I'll....I'll make these brief. Your agreement with uh BLOCKBUSTER....is that

8 proprietary or can BLOCKBUSTER sign up another agreement like what they've

9 signed with you with some other uh internet provider? That's one question. Uh

10 second question is on your asset portfolio. Your international asset portfolio.

11 With the decline....I know that you hedge that portfolio to the market. I was

12 wondering if the decline was related to the uh relatively flat performance in the

13 S&P 500 in addition to the decline in the telecom sector. And if tracking those

14 two uh factors would give us a little bit....a little bit of visibility going forward as

15 to how that portfolio will perform. And then third, I want....I was....I'd like for

16 you to clarify a little bit more of DAVID FLEISCHER's question. In the UK uh

17 we follow a company called INDEPENDENT ENERGY which is a re....a very

18 small retail power and gas provider over there that has been growing at a rate

19 that's twice your rate and they've been experiencing billing issues. I wondered if

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1           you had sensed any billing issues where you're getting uh behind on collecting  
2           versus paying in the pool and then to see restructuring of the market over there.  
3           Does that provide an advantage of the incumbent regional electric companies  
4           versus ENRON? And so does that actually create competition or how is it a  
5           benefit to you. I really wasn't clear on that. So there's three questions please.

6    JS:       Okay uh let me start with BLOCKBUSTER. Uh we have an exclusive  
7           relationship with BLOCKBUSTER on movies on demand. Uh so any movie on  
8           demand that BLOCKBUSTER does, it'll go across the ENRON network. Uh....on  
9           the uh....decline in the uh assets and investments and the...related to the hedging,  
10          uh....we did have uh....uh....kind of some inefficient hedges because the market  
11          was kinda trading sideways and so that....that had a little bit to do with it CAROL.  
12          But I....I don't think it's significant enough that it could be tracked uh using  
13          external numbers. It was....it was not a big deal. Uh....and the last one, the  
14          UK....uh INDEPENDENT ENERGY uh....I believe has lost their certification due  
15          to some of those billing problems and it....it's kind of interesting....the way we got  
16          in this business is we....we actually originally purchased a billing system. That  
17          was kind of the (UI)....the entry point that we used to create that business over  
18          there. So that's probably our stran....strongest uh....uh....tool. Or strongest  
19          weapon in...in the business. Uh we are certified. That system is certified. And

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1 right now we're picking up customers that INDEPENDENT ENERGY lost.

2 Uh....so it's uh....I think it's a pretty good story. It's a small business, but uh....I

3 think it....it's kind of opened our eyes to some opportunities in this mid market uh

4 and uh there are other places.....for example, we're trying to roll this out right now

5 in Spain. And I think that could be a....a real good opportunity in Spain. So it's

6 just one more add-on that, I guess, uh, to be quite honest, I wasn't really expecting.

7 Just....it....it's just kind of a nice business.

8 CC: And.....and the deregulation or the restructuring I guess is a better word for

9 it....Does that create more competition from the RECs or does it....does it benefit

10 you? I just am not really clear on...on exactly how that works.

11 JS: Well the....the thing that allows you to do....We....we've always been opposed to

12 power pool structures. You know in California we led the battle against putting in

13 a pool structure and....and originally the pool that they were putting in was almost

14 identical to the UK pool. We had some real big problems with that. Because it's

15 not a very good pool. It....it....it limits significantly the ability to differentiate the

16 product that you're offering to customers, which we think has reduced the

17 attractiveness of the market for a lot of players. As they restructure the pool in the

18 UK and move toward a more bilateral market, it allows buyers and sellers to get

19 together and structure their own custom designed transactions. And

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1 uh....that's....that's good for us. That's....that's a positive because....that's where the  
2 marketplace that we uh....uh....we grew up with in North America and uh....and  
3 we're very comfortable with it. So we're looking forward to that restructuring as it  
4 occurs.

5 CC: Okay. And on your return on invested capital, it's my understanding that your  
6 goal is to improve that by a hundred basis points a year. And is your target....just  
7 to clarify....is it 13 percent for year end 2000? As a kind of an ROE benchmark?  
8 Or are you disclosing that at this point.

9 JS: Well, we're not....you know....it's all dependent on....I think on what we can do to  
10 uh....uh....monetize uh some of our assets. I....I....I sure hope we can do better than  
11 a hundred basis points a year, CAROL.

12 CC: Okay. All right. Well uh let me also join the others in congratulating you. Great  
13 quarter.

14 JS: Thanks.

15 CC: Uh huh.

16 UF: Thank you. SOLOMON SMITH BARNEY'S RAY NILES will take our next  
17 question.

18 RN: Yes uh....Good morning. Uh....couple questions uh....lot of mine have been  
19 answered as well but uh....I'm wondering if you can give us uh....some flavor on



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1 what's going on with San Diego. Uh....is there a real commercial opportunity  
2 there? SAN DIEGO GAS AND ELECTRIC or is this uh....Well maybe you can  
3 just describe it. And maybe give a sense of how important that is....uh the energy  
4 outsourcing or hedging services for utilities. Especially as they sell off their  
5 generating assets and they still have a supply obligation to their customers. And,  
6 then I have two other questions uh after that. Well, I'll just mention, one is uh  
7 Japan....if you can give an update on that. How that market is opening up and  
8 how it looks too. And the third is just the timing on ENRON NET  
9 WORKS....when you think uh....you know we could see that heat up. And what  
10 you're sort of....sort of uh dream expectation is for that business compared to the  
11 other uh businesses. Thank you.

12 JS: Okay let....I'll start first with SAN DIEGO GAS AND ELECTRIC. What RAY is  
13 referring to here is that uh power prices in the west have really shot up and it's  
14 created kind of a political uh brouhaha, uh, in California because San Diego is  
15 totally unhedged in all of that uh price increase is being transferred to the  
16 customers. And....and RAY's question is that a commercial opportunity? It is a  
17 huge commercial opportunity. Uh....we made the points in California early on  
18 that the way the structure was set up there was zero incentive for the utilities to  
19 hedge a power cost and I think they've seen where that's gotten them. And so

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1           there's a move afoot to make it possible for the utilities to begin hedging power  
2           costs. That's a huge market. I think it will also make clear to all the other states  
3           in the United States that uh hedging is an important function that the utility can  
4           provide for their customers and they better get on with it. Which, I think is gonna  
5           lead to a....a significant increase in the marketplace for hedge structures for power.  
6           Uh....all across the country. So it's a great market opportunity. Uh Japan, we  
7           actually uh opened the office uh this quarter in Tokyo. Uh we have people on the  
8           ground and they're working and....and RAY, I just don't know offhand uh if there  
9           are any uh tangible indicators of performance but I'm expecting good things out of  
10          Japan in the future. Uh timing on networks uh....I'm hoping that each of these  
11          verticals that we get into offers us the opportunity to create market value. And  
12          then, we'll have to figure out how we monetize or get that market value to our  
13          shareholders but uh if we can create uh one or two verticals every year, and if we  
14          can create two or three billion dollars of value for each of those verticals every  
15          year, I think that's kinda hitting a grand slam home run for our customer....or for  
16          our shareholders and that's kinda how I'm thinking about it. I'm not....no promises  
17          at this point but....but it has that kind of potential for us.

18        RN:        I see. Well it sounds pretty promising. Just one last thing on the utilities hedging.  
19        I mean, are....I mean what percentage of them do you think are act....actively

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1 hedging uh right now or is it pretty much untapped at this point?

2 JS: Uh the percentage is extremely low. I...I think about the only real hedging  
3 activity that's going on in the utility sector right now is when they were uh....uh  
4 contracting for power from assets that they were selling. But those were typically  
5 relatively short-term contracts. They'll be rolling off uh in three to five years.  
6 And uh....beyond that, there's almost no hedging going on.

7 RN: Okay, thank you.

8 UF: Thank you sir. We'll now hear from JOHN REDSTONE with ASCOSTIA  
9 CAPITAL.

10 JR: Yes. Good morning gentlemen. I wonder if you could tell us a little bit more  
11 about your holding in MG, specifically going forward. Where you see your  
12 relationship with the LONDON METAL EXCHANGE.

13 JS: Uh well we're....we're still in discussion but uh....uh MG is....is being fully  
14 integrated into our....uh our systems. We will offer an on-line uh metals  
15 transaction service. In fact, we're in the process right now of moving the people  
16 into the ENRON uh building in London. Uh so it will be uh....it will be fully  
17 integrated within the next uh couple of months. Uh....as far as the exchange is  
18 concerned, uh we see enormous value in having a liquid exchange available.  
19 Uh....but we also believe that uh there are services that can be provided that are

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1 complementary to exchange-based services. We've always believed that and  
2 we've worked with the exchanges closely. But there are things the exchanges can't  
3 do uh in terms of customized transactions that we believe that ENRON could  
4 provide uh....or ENRON has a role in providing to the customer. So, we see it as  
5 kind of a symbiotic relationship and....and uh we expect to have good relationship  
6 with them as time goes on.

7 JR: Thanks very much.

8 UF: Thank you sir. We'll now hear from BRUCE KNUTSEN with FIRST  
9 AMERICAN ASSETS.

10 BK: Good morning. Looks like a great operational quarter. I just wanted to get a  
11 little....if you could give me some color on maybe uh....the...the volatility....I'm  
12 assuming you had to uh....hold back some because of the risk management  
13 uh....and.....I...I am also looking for guidance in the working capital and maybe the  
14 interest expense line. Thanks.

15 JS: Okay uh....yeah, the way the system works uh....when there's a high volatility  
16 number there's a uh....there's a calculation that's done that creates something called  
17 a prudence uh reserve and, essentially what it's doing is it's saying when you have  
18 such high volatility, it's difficult to exactly determine what the current market  
19 price is for marking your portfolio of uh contracts. And so what you do is

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1           you....you....uh based on how much volatility there is, you create a reserve uh for  
2           uh inaccuracies that occur in determining what the market price is. So, yes,  
3           uh....in periods of high volatility our prudence reserve grows and then as that  
4           volatility goes away that....that prudence reserve shrinks. Uh....

5    MK:       BRUCE, on working capital, we don't have a balance sheet and cash flow  
6           statement, it's....it's not done yet. But uh....and then lastly on interest expense, I  
7           would uh....I'd use maybe 185 or 190 million dollars a quarter uh going forward.  
8           So roughly the level that we uh....that prevailed during the third quarter.

9    BK:       Thanks.

10   JS:       Uh....why don't we take just one more question and then we'll....we'll call it quits.

11   UF:       And that question will come from MICHAEL BOONYONNER (PH) with SAGE  
12           ASSET MANAGEMENT.

13   MB:       Yes, good morning. Uh....in your presentation you mentioned that your  
14           incremental return on capital has been uh extremely satisfying. Uh....are you  
15           ready to quantify what that is or uh just give us any....any additional color on that?

16   JS:       Uh....no I don't think we're.....I don't think we're ready to...to publish that number.  
17           But I can tell you that...that uh if you....if you look at kinda the uh portfol....or the  
18           uh....uh....the business as it existed three or four years ago, we were making some  
19           very significant investments in uh acquisitions and development of assets uh to

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1 support our business and today uh that that number has dropped very very  
2 significantly at a....at the same time that our net income has increased significantly  
3 from those activities so....uh....I mean the number is becoming very good.  
4 Uh....yeah, I....I would like to sit down at some point. I don't think we're ready to  
5 right now. But I would like to sit down and show you uh uh pretty....pretty  
6 tangibly and quantifiably uh what our traditional return on equity has been and  
7 what our incremental return on equity looks like it's going to be in the future  
8 because it's a.....it's pretty....pretty startling.

9 MB: That's terrific. Congratulations on uh great results.

10 JS: Thank you very much. Well with that, I think we'll call it uh quits for the  
11 morning. Thank you very much for calling in. Again, we believe uh great quarter  
12 for the company. Uh....very very pleased by uh what we're seeing in the  
13 marketplace and the performance of all of our businesses and uh we certainly  
14 thank you for spending the time with us today. Uh...I look forward to seeing y'all  
15 individually as time goes on.

16 UF: And that concludes today's conference call. Thank you for your participation.

17 (End of Recording)