Interoffice Memorandum

To: Year End 2000 Accounting Files

From: Georganne Hodges

Department: Business Analysis & Reporting

Subject: December 31, 2000 Gas & Power Curve Adjustments for ENA

Date: February 22, 2001

During the third quarter of 2000 US natural gas and power prices began experiencing significant volatility in response to certain market conditions that were present, primarily in the Western half of the United States. This hyper-volatility continued to be present in the fourth quarter, peaking in the month of December. During these extreme periods of volatility (primarily December) ENA held significant fixed price and basis positions, primarily in natural gas. As a result, unprecedented daily swings were noted in ENA's mark to market portfolio valuation. The magnitude of these daily swings led us to question the realizability of many of ENA's positions at the current forward curves. After reviewing the impact of position and price movements on our mark to market portfolio valuation throughout the month of December and consulting with ENA Trading Management (see attachment I), we concluded that the December 29 unadjusted curves when applied to ENA's December 29 fixed price and basis positions would not properly state ENA's total portfolio at a realizable value.

In order to determine the amount of reserve needed to properly state our gas and power portfolio at the estimated realizable value, again were reviewed trends from the month of December (Attachment I) and consulted ENA Trading Management. Management believes that although the Western Power markets have seen significant volatility in late 2000, that the gas markets and related forward curves were where we needed to focus our attention. Specifically, we were pointed to ENA's overall fixed price exposure to natural gas and the Western SoCal and PGE Citygate basis positions. Attachment II shows the impact of the curve movement during the most volatile week of December, the period of December 8 – December 13th, on ENA's positions during that period. Applying the curve movement to ENA's portfolio for the three gas positions shows that ENA's mark to market portfolio value would have declined by $950 Million during that week. The relationship between ENA's significant shortening of its fixed price position during this week and the drop in both the fixed price curves and the basis curves in the west is the relationship that management is concerned about relative to the eventual close out of the positions.

Attachment II simulates the valuation change that could occur again relative to ENA's December 29, 2000 positions for the three locations by applying the curve shift from the single largest day movement from the December period to these positions. This simulation suggests that ENA could experience a valuation decline of $455 Million in one day if that price movement were to occur again.

On December 29, 2000 ENA recorded a curve valuation reserve of $369 Million. This amount represents roughly 80% of the worst-case scenario discussed above. ENA Management believes this is appropriate to properly state ENA's gas and power portfolio at a realizable value.

GOVERNMENT EXHIBIT
4643
Crim No. H 04-0025

CONFIDENTIAL TREATMENT REQUESTED BY ARTHUR ANDERSEN LLP.

ENRON NORTH AMERICA

4th QTR 2000

Attachment 1

	QTD	Mon 11/20	Tues 11/21	Wed 11/22	Mon 11/27	Tues 11/28	Wed 11/29	Thurs 11/30	Fri 12/1	Mon 12/4	Tues 12/5	Wed 12/6	Thurs 12/7	Fri 12/8	Mon 12/11	Tues 12/12	Wed 12/13	Thurs 12/14	Fri 12/15	Mon 12/18	Tues 12/19	Wed 12/20	Thurs 12/21	Fri 12/22	Tues 12/26	Wed 12/27	Thurs 12/28	Fri 12/29	QTD
Trading Margin																													
Gas Trading	$ 121.7	$ 18.0	$ 31.7	$ (32.0)	$ 41.5	$ 88.5	$ 31.7	$ 6.8	$ 3.2	$ 116.3	$ (22.3)	$ 45.8	$ (4.0)	$ 40.0	$ (26.0)	$ (13.1)	$ (6.2)	$ 21.6	$ (12.1)	$ (6.0)	$ (7.0)	$ (6.0)	$ 6.4	$ 6.3	$ 3.5	$ 7.1	$ (8.0)	$ 14.5	$ 121.7
Power Trading	142.8	11.0	3.1	(10.0)	14.6	(7.0)	17.0	7.0	20.1	104.6	(11.0)	14.0	(7.0)	22.0	(8.0)	(13.0)	(6.0)	10.0	24.0	14.4	10.0	21.1	13.9	(5.0)	(10.0)	(5.0)	(8.0)	9.0	142.8
Other Trading	21.0	2.2	0.7	0.4	4.2	0.4	0.3	0.6	0.4	2.3	1.1	0.1	0.4	1.0	2.0	0.0	0.0	0.0	0.0	2.0	0.0	0.0	1.7	0.1	-	3.3	0.1	0.4	21.0
Total Trading Margin	$ 285.5	$ 31.1	$ 35.4	$ (41.5)	$ 60.3	$ 81.9	$ 49.0	$ 13.4	$ 23.7	$ 223.0	$ (32.0)	$ 60.4	$ (11.2)	$ 63.1	$ (32.0)	$ (26.1)	$ (12.2)	$ 31.6	$ 12.7	$ 10.4	$ 3.0	$ 15.7	$ 20.4	$ 1.4	$ 3.5	$ 4.6	$ (57.0)	$ 144.3	$ 285.5
Schedule C																													
Gas	$ 150.0	$ 21.0	$ 14.2	-	$ 30.0	$ 80.0	$ 21.0	$ 24.0	-	$ 126.0	$ 150.0	40.0	-	-	$ (21.0)	$ (600.0)	$ (5.0)	-	$ 130.0	$ 70.0	$ 10.0	$ 30.0	$ 120.0	-	-	$ 40.0	$ 0.7	$ 40.0	$ (171.0)	$ 473.0
Power	312.3	28.0	18.0	-	-	-	-	-	-	107.6	-	-	-	-	-	-	(40.0)	-	-	16.0	-	-	-	-	-	-	-	0.0	-	279.6
Schedule C	$ 462.3	$ 49.0	$ 32.2	-	$ 30.0	$ 80.0	$ 21.0	$ 24.0	-	$ 233.6	$ 150.0	40.0	-	-	$ (21.0)	$ (600.0)	$ (45.0)	-	$ 130.0	$ 86.0	$ 10.0	$ 30.0	$ 120.0	-	-	$ 40.0	$ 0.7	$ 40.0	$ (171.0)	$ 753.6
Total Book Trading Margin		$ 80.1	$ 67.6	$ (41.5)	$ 90.3	$ 161.9	$ 70.0	$ 37.4	$ 23.7	$ 456.6	$ 117.9	100.4	$ (11.2)	$ 63.1	$ (53.0)	$ (626.1)	$ (57.2)	$ 31.6	$ 142.7	$ 96.4	$ 13.0	$ 45.7	$ 140.4	$ 1.4	$ 43.5	$ 4.6	$ (17.0)	$ 144.3	$ 1,039.1
Mark-to-Market Positions																													
Gas		331.3	317.0	275.7	317.4	330.3	311.3	313.0	316.1	343.3	331.1	333.8	324.1	347.7	301.1	317.4	330.0	371.0	380.0	396.0	371.0	331.0	331.0	331.0	331.0	331.0	331.0	331.0	331.0
Power		83.3	83.3	83.3	83.3	83.4	83.3	87.7	83.3	71.4	74.4	74.4	74.5	74.4	74.4	74.5	84.4	84.3	83.0	73.0	73.0	73.4	73.3	73.4	73.3	73.4	73.3	73.4	73.7
Mark & Net																													
Gas		181.1	141.1	141.1	181.4	141.1	141.1	141.1	141.1	173.1	171.1	137.7	130.0	130.0	130.0	131.0	131.0	125.4	145.3	145.3	111.0	145.5	111.0	145.3	145.3	111.0	111.0	111.0	111.0
Power		31.1	32.3	31.0	31.0	32.3	32.0	31.1	31.0	31.2	31.2	41.0	41.0	41.0	31.0	32.0	31.0	41.0	40.0	41.0	32.0	40.0	31.0	32.0	40.0	31.0	32.0	31.0	41.0
Economic Gas & Elec Positions																													
Total NOI Term		116.0	116.0	110.0	110.0	110.0	107.0	110.0	107.0	110.0	103.0	110.0	110.0	100.0	105.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0
Total NOI Mtm		(104.0)	(105.0)	(104.0)	(104.0)	(104.0)	(104.0)	(105.0)	(104.0)	(104.0)	(105.0)	(105.0)	(104.0)	(105.0)	(104.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)	(105.0)
Total Net NOI		(101.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(107.0)	(111.0)	(111.0)	(104.0)	(111.0)	(111.0)	(111.0)	(107.0)	(104.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)
Economic North Gas		114.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1	111.1
Economic Electric		(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)	(111.0)

Note: This schedule represents actual losses vs reported losses given the daily valuation adjustment

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EXH009-00586

Attachment II

Enron North America

Gas Sensitivity Analysis
Volumes in BCF
$ in Millions

	Intra-mo	Prompt mo	Rest of winter	Summer 01	Winter 02	Remainder	Total
Fixed Price Positions							
- 12/8	117	31	(66)	59	132	(2)	269
- 12/11	129	58	(73)	70	134	(1)	317
- 12/12	129	51	(81)	21	130	9	259
- 12/13	114	14	(67)	(6)	139	6	200
Fixed Price Curves							
- 12/8	9.05	8.58	7.78	5.11	5.04	0.00	
- 12/11	10.35	9.41	8.65	5.31	5.16	0.00	
- 12/12	8.30	8.15	7.72	5.01	4.97	0.00	
- 12/13	7.55	7.54	7.36	4.93	4.94	0.00	
MTM Earnings							
- 12/11 MTM on 12/8 pos.	152.10	25.73	(59.16)	11.56	18.48	0.00	148.71
- 12/12 MTM on 12/11 pos.	(264.45)	(73.06)	67.89	(21.00)	(26.14)	0.00	(316.76)
- 12/13 MTM on 12/12 pos.	(96.75)	(31.11)	27.54	(1.68)	(3.90)	0.00	(105.90)
	($209.10)	($78.46)	$36.27	($11.12)	($13.56)	$0.00	($275.97) (1)
Social Basis Positions							
- 12/8	(2)	20	30	109	(2)	(5)	150
- 12/11	(2)	20	29	112	(2)	(4)	153
- 12/12	(2)	22	31	115	(2)	(4)	160
- 12/13	(2)	20	27	117	(2)	(4)	156
Social Basis Curves							
- 12/8	40.00	11.10	4.23	3.39	1.76	0.00	
- 12/11	25.00	6.10	1.95	2.21	1.76	0.00	
- 12/12	16.00	3.50	1.45	1.58	1.76	0.00	
- 12/13	10.00	2.90	1.25	1.59	1.66	0.00	
MTM Earnings							
- 12/11 MTM on 12/8 pos.	30.00	(100.00)	(68.40)	(128.62)	0.00	0.00	(267)
- 12/12 MTM on 12/11 pos.	14.00	(52.00)	(14.50)	(70.56)	0.00	0.00	(123)
- 12/13 MTM on 12/12 pos.	16.00	(13.20)	(6.20)	1.15	0.20	0.00	(2)
	$60.00	($165.20)	($89.10)	($198.03)	$0.20	$0.00	($392.13) (1)
PGE CG Basis Positions							
- 12/8	5	10	17	1	14	13	60
- 12/11	4	10	17	1	14	13	59
- 12/12	4	10	17	(3)	14	13	55
- 12/13	4	10	17	(3)	14	12	54
PGE Basis Curves							
- 12/8	41.25	11.70	4.68	3.45	1.96	0.00	
- 12/11	24.00	6.70	2.40	2.28	1.96	0.00	
- 12/12	17.00	4.10	1.90	1.64	1.96	0.00	
- 12/13	7.50	3.50	1.70	1.65	1.86	0.00	
MTM Earnings							
- 12/11 MTM on 12/8 pos.	(66.25)	(50.00)	(36.66)	(1.17)	0.00	0.00	(176)
- 12/12 MTM on 12/11 pos.	(28.00)	(26.00)	(6.50)	(0.64)	0.00	0.00	(63)
- 12/13 MTM on 12/12 pos	(36.00)	(6.00)	(3.40)	(0.03)	(1.40)	0.00	(49)
	($152.25)	($82.00)	($50.56)	($1.84)	($1.40)	$0.00	($286.07) (1)
Fixed Price Positions - 12/29	22	(57)	43	52	120	(39)	140
12/12 Curve Shift	(2.05)	(1.26)	(0.93)	(0.30)	(0.21)	0.00	
Estimated MTM sensitivity	($44.69)	$72.32	($39.53)	($15.45)	($25.26)	$0.00	($52.60)
Social Basis Positions - 12/29	3	6	13	104	(2)	(6)	116
12/11 Curve Shift	(15.00)	(5.00)	(2.28)	(1.18)	0.00	0.00	
Estimated MTM sensitivity	($45.00)	($40.00)	($29.64)	($122.72)	$0.00	$0.00	($237.36)
PGE CG Basis Positions - 12/29	6	8	9	1	13	13	50
12/11 Curve Shift	(17.25)	(5.00)	(2.28)	(1.17)	0.00	0.00	
Estimated MTM sensitivity	($103.50)	($40.00)	($20.48)	($1.17)	$0.00	$0.00	($165.15)
Total Est. MTM sensitivity	($193.19)	($7.68)	($89.64)	($139.34)	($25.26)	$0.00	2/ ($455.11)

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REQUESTED BY ARTHUR
ANDERSEN LLP

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