JEFFERIES
& COMPANY, INC.

Energy Services Providers

EQUITY RESEARCH

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Enron Corp.

NYSE: ENE - $49 11/16

Rating: Buy

52 Week Range	$53 5/16 - $35
Shares Out - FD (MM)	347.3
Float (MM)	295.0
Institutional Ownership	59.7%
Avg. Daily Vol (Apr)	1,442,100
Equity Market Cap (MM)	$17,256.5
Cash & Equivalents (MM)	$173.0
Total Debt (MM)	$5,998.4
Dividend Yield	1.9%

FY Dec	1997	1998E[1]	1999E[2]	2000E
EPS - FD (ops)	$1.98	$2.20	$2.50	$2.90
P/E	25.1x	22.6x	19.9x	17.1x
CFPS	$3.01	$4.59	$4.85	$5.75
P/CFPS	16.5x	10.8x	10.2x	8.6x
Book Val/Share	$18.73			
Price/Book Value	265%			

1) Core earnings. Inclusive of EES investment expense is $1.97 per share.
2) Core earnings. Inclusive of EES investment expense is $2.33 per share.

THE Way to Play Deregulation

We reiterate our strong* Buy *on Enron Corp. with a new 12-month stock price target of $63 per share. Although in early April we had raised our target to $56 ahead of first quarter results, the upside earnings surprise in power marketing, as well as more detailed progress on the retail effort, has given the industry the first true confirmation that Enron's national strategy to participate in the deregulation of the electric industry could be highly successful. Consequently, we now believe Enron is poised to reestablish its leadership trading premium to the broad market, substantially augmenting the value of this stock.

- **Leadership Counts -** Enron has established itself as the clear leader in pursuing direct access of the $300 billion deregulating retail energy marketplace on a very focused and comprehensive nationwide basis.

- **Retail Gaining Momentum** - The growth in Enron Energy Services (EES) is tangible and is happening today. By nearly any measurement, contracts signed to date have greatly exceeded budgeted targets. Our 12-month target value for EES is over $9 per share net to Enron, a 70% increase in value since January's minority sale.

- **Wholesale Strength Unique** - As North America's largest gas and power marketer, coupled with its extensive risk management and finance capabilities, Enron has created a unique delivery infrastructure to take full advantage of the volatility and increasing complexities of converging and opening energy markets.

- **International Opportunities** - Enron is finding enormous opportunities to develop energy infrastructure in emerging markets. In addition to its significant international operating profile today, Enron has a project backlog of around $20 billion, $6 billion of which is under construction.

- **Accelerating Earnings Leads to Accelerating Multiple -** Although still trading at a slight discount to the broad market, with the growing potential of EES and the acceleration of earnings growth back to 15% per annum, we believe Enron will once again reestablish a 10%-20% valuation premium to the broad market as it had through most of the early to mid 1990's.

Table 1: Comparative Peer Group Valuation

	Rating	Symbol	Price 5/26/98	Price/Earnings 1997	Price/Earnings 1998E	Price/Earnings 1999E	Price/Cash Flow 1997	Price/Cash Flow 1998E	Price/Cash Flow 1999E	TEV/EBITDA 1997	TEV/EBITDA 1998E	TEV/EBITDA 1999E
Pipelines/Marketers												
Coastal Corp.	Buy	CGP	$69.63	19.9	17.2	15.0	8.7	8.0	7.1	8.9	8.0	7.0
Columbia Energy Group	Hold	CG	84.75	18.1	17.7	14.1	9.0	7.8	6.7	9.2	8.0	7.1
Consolidated Natural Gas	Hold	CNG	55.19	16.7	16.7	14.2	8.1	7.7	6.9	7.7	7.5	6.7
El Paso Energy Corporation	Hold	EPG	37.81	23.8	20.6	18.4	9.0	8.1	7.8	9.7	8.8	8.3
KN Energy Inc.	Buy	KNE	54.25	22.1	19.4	14.9	11.6	6.2	5.6	NM	10.5	9.1
Questar Corp.	Hold	STR	40.31	15.9	15.2	13.2	7.3	6.8	6.2	7.0	6.7	6.2
Sonat Inc.	Hold	SNT	39.75	17.2	22.1	16.5	8.7	6.7	6.3	9.7	7.5	6.5
Williams Companies	Hold	WMB	32.75	31.5	28.0	21.8	13.1	11.4	9.5	11.6	10.9	9.3
Group Average				**20.7**	**19.6**	**16.0**	**9.4**	**7.8**	**7.0**	**9.1**	**8.5**	**7.5**
Enron Corp.	**Buy**	**ENE**	**$49.69**	**25.5**	**25.0**	**21.3**	**17.6**	**10.2**	**9.8**	**14.8**	**10.8**	**10.2**

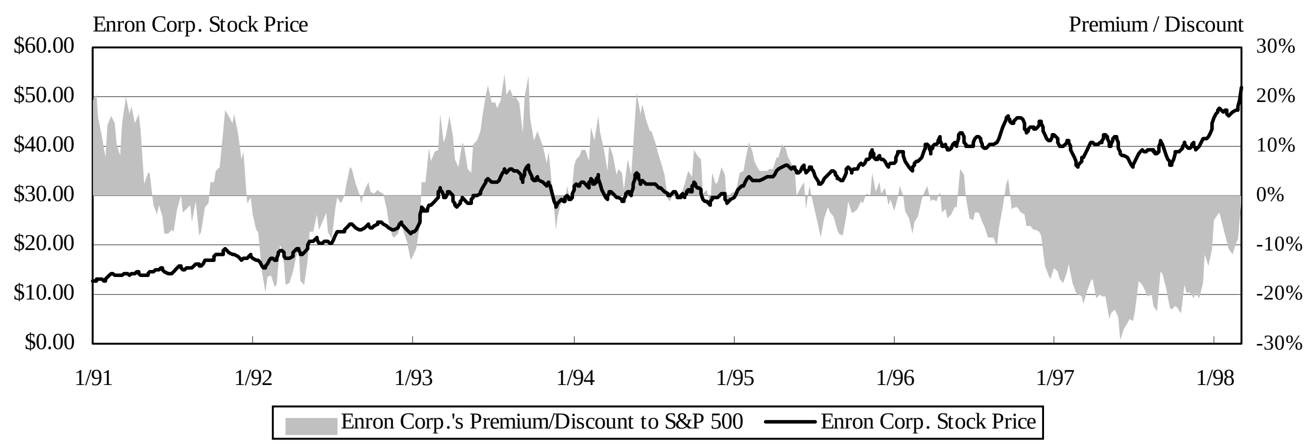
* Earnings shown have been adjusted for non-recurring operations.

Table 2: Enron Corp. Valuation by Segment

	1999E Multiple[1]	Expected Growth	1999E Contribution	1999E Net Income[2]	1999E EPS[3]	1999E $/Share
Regulated Operations:						
Enron Gas Pipeline Group	16.0 x	5%-7%	20%	$173.1	$0.50	$7.93
Electric Dist/Trans	15.0	4%-5%	15%	133.1	0.38	5.72
Wholesale Operations	23.0	15%-20%	52%	450.1	1.29	29.65
Exploration & Production	30.0	12%-15%	14%	125.4	0.36	10.78
Corporate and other[4]	15.0	---	-1%	(8.9)	(0.03)	(0.38)
Segment Value w/o EES:	21.5 x		100%	$872.8	$2.50	$53.70
Add: EES 12-Month Target Value						$9.34
Total ENE 12-Month Valuation Target						**$63.03**

1) Multiples based on continuing core earnings.
2) Net income is earnings before preferred dividends and excludes EES start-up expense, with EES valued separately.
3) EPS is fully diluted earnings per share.
4) Corporate and other includes renewables and telecommunications operations; growth in these businesses could begin offsetting corporate expenses.

Chart 1: ENE Relative Valuation History to the S&P 500



Source: First Call and Jefferies & Company, Inc. estimates.

Investment Summary

The future of Enron's incremental earnings growth lies in the capture of opportunities in two business segments that present exceptional potential over the next five-to-ten years: 1) worldwide development of energy assets and marketing services and 2) growing participation in deregulating energy markets. These two fundamental drivers – ***deregulation and privatization*** – are deeply rooted megatrends that will shape the worldwide energy landscape well into the next century, and we believe Enron will play a critical role.

In what is becoming increasingly analogous to a barrier to entry story, Enron has emerged as the clear leader in wholesale energy marketing with almost unique capabilities. Signaling the first confirmation that wholesale electric marketing could be highly successful, first quarter earnings were, in the face of adverse weather, strongly above last year's and analysts' expectations. ***Although the industry has witnessed many marketing induced surprises, this was the first one on the upside***. Even as competitors are struggling, Enron has achieved a critical mass in power marketing. Enron has created a substantial national presence that, combined with its infrastructure in gas and risk management abilities, is able to take full advantage of the volatility and complexities of the electric grid and the regional disconnects that often occur. In what may be a significant commentary on its future, ***for the first time Enron earned a greater unit margin marketing electricity than marketing natural gas***.

Enron is the only company vigorously pursuing energy deregulation via direct access to the retail customer on a comprehensive nationwide basis. The opportunities to deliver energy to a newly opened end-use market are considerable even today. Even more important, however, is that we believe the introduction of competition and new technologies in previously regulated markets will generate ***a new and substantially higher return service based market that could ultimately be as large as the $300 billion commodity market itself.***

Early results in Enron Energy Services (EES), Enron's direct access to the light industrial and commercial markets, continue to exceed budgeted targets. In the first quarter, Enron reported signed contracts worth $850 million in gross commodity revenues, well above the $500 million target. Without slowing, EES reached its second quarter $500 million target in the first three weeks of April and is currently negotiating $7.4 billion in contracts. ***The growth in EES is tangible and is rapidly gaining visibility. In fact, we believe the primary risk is no longer finding the business but managing the growth with proper execution***.

Valuation

Although recent results were stronger than anticipated, we are leaving our 1998 estimate of $2.20 unchanged considering a slight slowdown expected in wholesale in the second half of the year. Furthermore, dilution may occur from Enron's secondary stock offering until proceeds are better deployed beyond the initial pay down of debt. Reflecting a multitude of dynamics, we have also slightly modified our 1999 earnings estimate down two cents to $2.50 per share. Although we realize this is still an aggressive estimate, recent results have buttressed our confidence in the level of sustainable growth in Enron's wholesale markets. Finally we note these estimates are from core recurring operations and do not reflect the start-up expense of EES; inclusive of this investment expense, earnings estimates are $1.97 and $2.33 in 1998 and 1999, respectively. Our preliminary fiscal 2000 estimate of $2.90 per share, reflects a 12% growth in core earnings with the first full year contribution from EES.

In Table 2, we detail Enron by operation and value each segment according to its competition, growth outlook and risk profile, with 1999 valuation parameters keyed off of current valuation multiples when viewing earnings on a similar core recurring basis. ***On this basis we have set a 12-month stock price target of $63.*** Clearly this target is also predicated on further growth in EES and reflects ***a conservative target value for EES of over $9 per share net to Enron, an increase of 70% from the $5.50 implied from the 7% minority sale in January.***

Our ENE stock price target also encompasses our belief that the Company is poised to reassert its leadership premium after a two year transition period and reestablish at least a 10% valuation premium to the broad market as it had throughout most of the early to mid 1990's. In our comprehensive report dated September 1997 we had predicted a return to a premium valuation with positive progress and visibility in EES as well as rebuilding investor confidence by consistently achieving quarterly earnings targets, both of which are now beginning to occur.

Understanding Enron – The Key Points

From its roots as a pure pipeline company in the mid-1980s, Enron has evolved into a large, dynamic and complex business model with many interrelated drivers to both current operations and future growth. Consequently, analysis of Enron has moved well beyond a simple regulated return or volume-price-margin corporate type earnings model. Understanding these dynamic factors today can be both confusing and frustrating. To better define Enron as in investment concept, we believe several points are key:

Twin Drivers of Growth: Deregulation and privatization are two deeply rooted megatrends that will shape the worldwide energy landscape well into the next century. We believe Enron will play a critical role in the development of each, providing for substantial long term strategic growth for the Company in the years ahead.

Leadership in Deregulation Creates Substantial First Mover Advantage. Enron Corp. is the only company vigorously pursuing energy deregulation via direct access to the retail customer. With the substantial investment in systems and infrastructure undertaken over the past three years, we believe Enron is the ***only*** company fully positioned to exploit the $300 billion deregulating gas and power market on a comprehensive nationwide basis.

Track Record of Success. Enron has a strong track record of success in building new operations. Following deregulation of the wholesale gas business, Enron built Enron Capital & Trade Resources (ECT) from ground zero in the mid-1980s into the largest and most profitable energy marketer. Its underlying strategy in retail deregulation is identical: get in front of change and help shape the industry's evolution to your advantage.

Enron Energy Services. The growth in EES is tangible and is happening today. Experience, year to date, is that the level of signed contracts, related service projects identified and future expected returns are all exceeding budgeted targets. With almost $1.4 billion of signed contracts year to date – $2.6 billion in total – and $7.4 billion in contracts under negotiation, we believe Enron could double its 1998 contract target of $2.4 billion.

EES as Future Earnings Contributor. Although EES is not expected to turn positive until late 1999, EES should generate a solid full year contribution in fiscal 2000. We expect operating income will ramp up substantially to over $500 million by 2003, an order of magnitude greater than expectations in fiscal 2000, with the further potential of becoming the single largest contributor to total earnings.

Wholesale Market Strength. Wholesale strength is key to leveraging Enron's retail effort. Enron has established itself as the leading player in the natural gas and power markets in both physical and financial volumes traded, with about 16% of the physical North American gas market and a 20% share of the power market open today.

Critical Mass is Key. As the largest marketer of energy in North America, Enron has a unique infrastructure to take full advantage of the volatility and complexities of a converging and deregulating energy market. Although many of its competitors are struggling, Enron has achieved a critical mass on a national level by leveraging its economies of scale, alliances, asset base and intellectual capital to provide unsurpassed energy deliverability and optionality in this highly competitive environment.

International Opportunities. Enron is actively involved in developing energy infrastructure worldwide with a current project backlog of approximately $20 billion, notably $6 billion of which is under construction and expected to come in service over the next six-to-eight quarters. In addition to the hard asset development, Enron is attempting to replicate the complete slate of wholesale and retail energy and financial products and services developed for North America to energy-hungry emerging markets.

Resurgence of Long Term Earnings Growth. With a base of core earnings that should continue to expand at low double digit growth rates, we believe the tremendous profit potential from retail should ***reaccelerate growth in total earnings back to at least 15% per annum on average***, as it had been during the evolution of the wholesale gas business. Further, ***new retail services being developed, additional market share in EES' target market or even success in the mass market could prove this outlook as too conservative***. This substantial long term growth potential is the key to Enron's valuation today, as investors now have the ability to get in front of the next evolutionary wave of the $300 billion energy market.

Wholesale Operations & Energy Services

Enron's wholesale energy operations and services business operates in North America, Europe and evolving energy markets in developing countries. Although Wholesale Operations is comprised of two separate operating units, Enron Capital & Trade Resources (ECT) and Enron International (EI), beginning with last year's reorganization these two operations are increasingly being viewed as one entity and in fact are already being reported on a combined operational basis as shown in Table 3 below. We believe this combination stems from, and indeed underscores, the overarching strategy of completely replicating ECT's domestic delivery, marketing and related financial products and services throughout European and emerging markets worldwide.

Effectively operating as "ECT to the World", Enron now offers fully integrated energy-related products and services to wholesale customers worldwide, including the development, construction and operation of power plants, natural gas pipelines and other energy assets, energy commodity sales and delivery, risk management, and energy-related financial services. In addition, last year Enron appropriately moved its engineering and construction operation into wholesale from the pipeline group, given its non-regulated status and direct involvement as turnkey contractor or project manager for Enron's and third party power and pipeline projects.

The outlook for growth in the wholesale markets appears very strong over the next several years. Deregulation throughout North America is expected to significantly increase power marketing volumes, while an opening industrial market is ripe for new innovative financing and risk management services, similar to what was developed for wholesale clients such as exploration and production companies and natural gas and electric utilities. International privatization and emerging markets' needs for new energy infrastructure is giving Enron the opportunity to virtually create, from inception, an integrated energy gas and power delivery grid in such core energy hungry areas as India and South America, ultimately leveraging these hard assets to its marketing, finance and energy management capabilities as these markets mature.

Wholesale Operations combined now make up approximately 50% of Enron's total business, or about $800 million in operating income estimated this year, from an entity that was only conceived about ten years ago. ***Looking forward, considering the enormous wealth of opportunities that are being generated in these markets, we estimate Wholesale has the ability to grow on average 15%-20% per annum if not faster over at least the next several years, and should be valued using a broad market multiple given its long term growth potential, unique infrastructure and capabilities, and strong leadership position.***

Table 3: Wholesale Operations Earnings by Segment ($MM)

	Fiscal Year Ending December 31,										First Quarter			
	1995	%	1996	%	1997	%	1998E	%	1999E	%	1Q97	%	1Q98	%
Asset Development	$37.0	7%	$60.0	10%	$77.0	9%	$90.0	9%	$103.5	9%	$9.0	5%	$15.0	5%
Cash and Physical	206.0	38%	324.0	53%	310.0	38%	418.0	41%	480.7	41%	136.0	70%	153.0	55%
Risk Management	193.0	36%	105.0	17%	143.0	18%	201.0	20%	231.2	19%	34.0	17%	31.0	11%
Finance and Investing	103.0	19%	122.0	20%	284.0	35%	310.0	30%	365.8	31%	16.0	8%	80.0	29%
Unallocated Expenses	(138.0)		(145.0)		(160.0)		(167.0)		(175.4)		(28.0)		(30.0)	
Total	$401.0		$466.0		$654.0		$852.0		$1,005.8		$167.0		$249.0	
Period Growth			16%		40%		30%		18%				49%	

Given the new combined reporting method above, we briefly highlight the characteristics of the four constituent earnings buckets before focusing on the two primary business units of Enron Capital & Trade Resources and Enron International.

Asset Development and Construction. This business includes the development and construction of power plants, pipelines and other energy infrastructure, including the engineering and construction group.

- We estimate this unit will continue to become stronger as Enron not only grows its $20 billion asset development project backlog, but expands the number of projects under construction. Today nine projects representing $6 billion in total investment are under construction, the majority of which come into service over the next six-to-eight quarters.

Cash and Physical. These operations include the purchase, sale, marketing and delivery of gas, electricity, liquids and other commodities under contracts of one year or less and the settlement of all long term physical and notional contracts. This unit also includes the management of operating assets of the wholesale group, including domestic intrastate pipelines and storage facilities as well as international pipelines and power plants.

- Transaction driven, future growth in this segment will in part be dependent on the further opening of the power industry and expected ramp up in electricity volumes marketed. Only 10% of the total domestic power market is freely traded today, of which Enron has a substantial 20% market share. Consequently, as the industry further opens and these "non-traditional" volumes continue to grow, Enron should be well positioned to maintain its industry leading market share position, and both volumes traded and profits earned should expand materially as a result.

Risk Management. This unit consists of all long term energy commodity contracts (transactions greater than one year) and the restructuring of existing long term contracts. This unit also provides risk management products and services to energy customers that hedge movements in price and location differentials among others. The two most volatile commodities in the world are electricity and natural gas, and Enron's Risk Management services are designed to provide stability to customers in markets impacted by such extreme price swings.

- Given the increasing complexity and volatility of a converging and deregulating energy market, we believe the demand for risk management services will only get stronger, especially as large energy-intensive industrials begin to take advantage of energy risk management services never before offered by their electric utilities.

Finance and Investing. This rapidly growing operation primarily aims to provide capital to energy related businesses seeking debt or equity financing, including volumetric production payments, loans and equity investments, either directly or through affiliates and joint-ventures. This segment also includes the management of Enron's wholesale capital and equity investments, both operating and financial. Consequently, earnings results of this segment will also include changes in the composition and market value of these assets and investments.

- In order to further enhance its returns in gas marketing, beginning in the late 1980's Enron established innovative financing around the physical commodity, whereby Enron would provide debt financing to exploration and production companies and in return would secure natural gas supplies. With this strategy established, Enron has vastly expanded its financing services to other wholesale customers, such as independent power producers, and more recently, to large energy-intensive industrials. For example, Enron could build new on-sight gas fired generation, finance those assets, and in addition to making a return on borrowed capital, might secure excess power to market under certain instances, further enhancing its own physical delivery network.

- Activity indicators for finance and investing have moved up sharply. Contracts currently under review are over four times the level of last year, with the total invested portfolio increasing 14% to over $1 billion.

- To better illustrate the type of returns in the finance arena, we note the 23% average annual return reported by the California Public Employees Retirement System (CalPERS) in its first Joint Energy Development Investments (JEDI) fund started in 1993. Further, we would also assert that not only did Enron likely receive an additional return for managing this portfolio, but also likely earned an added return from leveraging its financing activities to the other physical marketing operations.

Enron Capital & Trade Resources (ECT)

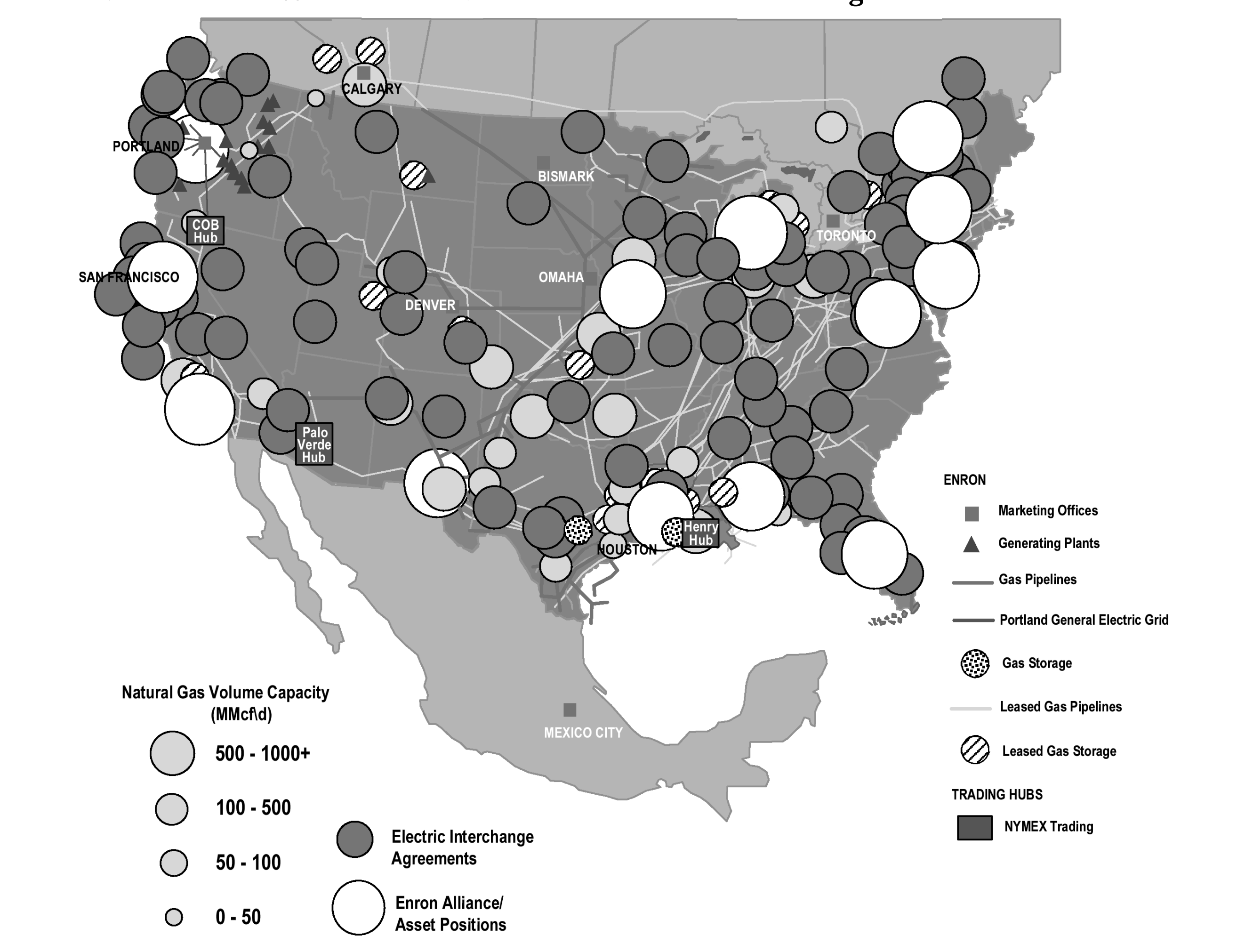
Although Enron reports earnings in Wholesale Operations on a combined basis, Enron Capital & Trade is the primary contributing business unit today. ECT is the largest marketer of natural gas and wholesale power in North America including financial/notional (futures) volumes. The Company developed and manages the largest portfolio of long term, fixed price gas contracts of any company and offers the broadest range of risk management products and services in the industry.

ECT Customer Base

- Independent exploration and production (E&P) companies
- Natural gas and power marketers
- Large energy-intensive industrials
- Public and investor owned natural gas and electric utilities
- Independent power producers (IPPs)

As illustrated in Chart 2 below, ECT is somewhat unique in both its extent and blend of operating assets including pipeline and storage along with significant transmission capacity rights, power generation and gas production assets, contractual interchanges between gas and power, and financial alliances that allow Enron to take advantage of third party assets for use in delivery – all in support of its energy marketing and risk management activities. ***The national breadth of these elements work in conjunction to form a rather unique energy franchise providing unparalleled energy deliverability and flexibility***.

Chart 2: Nationwide Wholesale Natural Gas and Power Marketing Presence



Source: Enron Corp.

It is important to note that ***the Company does not generate its return by taking large open market speculative positions***, but rather is transaction driven, leveraging its optionality capabilities (*i.e.*, offering customers not only different levels of energy delivery, but the ability to hedge price, location, time, fuel source, or any hybrid) into essentially a bundled delivery service, generating a superior return compared with just commodity trading in a highly price-transparent trading environment.

Also as shown in Tables 4 and 5, the Company continues to be the most significant player in both natural gas and electric power. The dominant market shares that it has developed and maintained should allow ECT to continue growing segment earnings at a 20% average annual rate of growth.

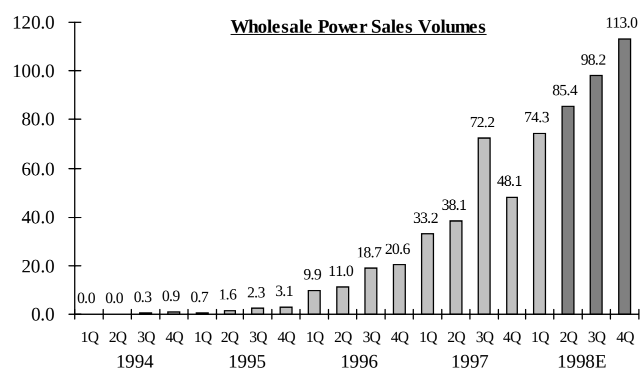
Table 4: Top 10 North American Natural Gas Marketers - 1997 Volumes (Bcf/d)

Enron (1)	***11.0***	**ECT Physical/Notional Quantities**	
NGC	8.0	Gas:	
PG&E Energy Trading	7.2	United States	7.7
El Paso Energy Marketing	7.0	Canada	2.3
Duke Energy Trading	6.7	Europe	0.7
Aquila Energy	6.7	Total Physical Sales	10.6
Engage Energy	6.7	Transportation Volumes	0.5
Coral Energy	6.7	Total Physical Quantities	11.0
Amoco	6.0	Financial Settlements (Notional)	49.1
TransCanada	5.0	Total	60.1

(1) ECT gas volumes includes operations from the United Kingdom and Western Europe estimated at 0.7 Bcf/d.
Source: Corporate filings and Natural Gas Week.

Table 5: Top 10 North American Electric Marketers - 1997 Total Volumes (million MWH)

Enron	***191.7***
NGC	92.9
Duke Energy Trading	81.1
Southern Energy	80.9
Aquila Energy	65.2
LG&E Energy	53.2
PG&E Energy Trading	41.9
Engage Energy	31.0
Consolidated Natural Gas Co.	25.2
Houston Industries	25.0



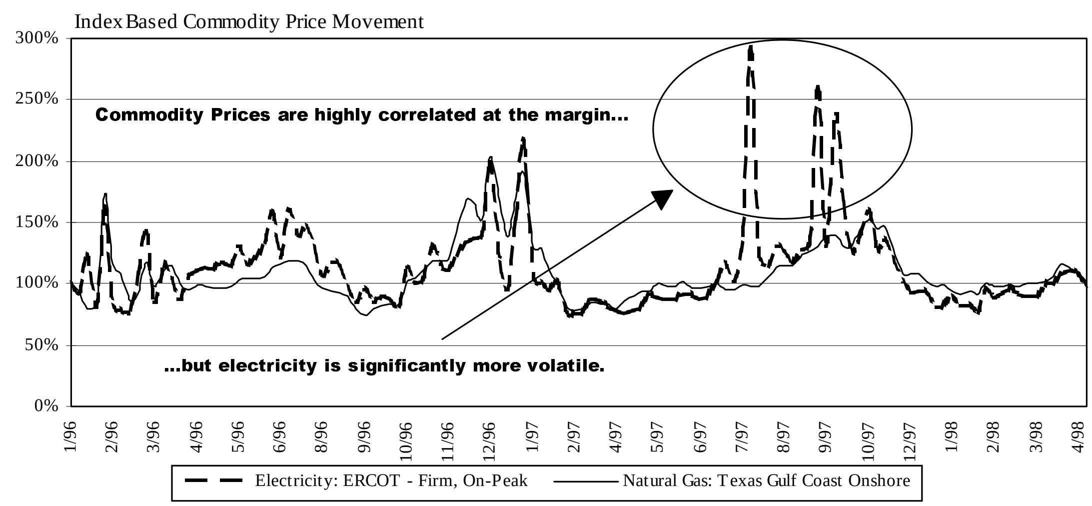
Source: Corporate filings and Natural Gas Week.

Being the largest national player not only creates enormous economies of scale on a per unit, per transaction basis, but provides critical information flow as to how markets are moving. Further, while Chart 2 illustrates the national presence in gas and electricity, Chart 3 better illustrates why being in both gas and power together is necessary. Since natural gas is burned at the margin to generate electricity, there is a substantial arbitrage profit to be captured between the two fuel sources. No longer an isolated market, events in one industry have far reaching ramifications on the other. In today's converging environment it is impossible to operate in marketing without understanding the changing dynamics of each industry.

Besides North America, ECT is also responsible for Enron's wholesale efforts in Mexico and Europe. Each has potential for fairly dramatic growth, and to the extent that ECT can replicate its domestic success in gas and power, it can be a leading player. ECT has already made solid penetration into the U.K. gas and Scandinavian power business. In the U.K., Enron has become the third largest marketer in the spot natural gas market, and is expanding its physical power asset base, primarily the 1875 Mw Teeside power plant, with the addition of the

790 Mw Sutton Bridge power station expected to be in-service early next year. In addition, expanding its presence on the continent, Enron is now the market maker in the Nordic power pool, and is helping to finance the infrastructure linking the oversupplied Russian power market to Finland. Energy deregulation is not just a domestic event, it is also happening throughout Europe, in a market that rivals the U.S. in total size, or about $300 billion of potential opportunity.

Chart 3: Convergence and Volatility in Texas between Electricity and Natural Gas



Finally, the rational exodus which has begun of other smaller, regional or otherwise more system limited competitors only underscores the absolute necessity of having a national scope, extensive scale of physical delivery, risk management and gas/electric arbitrage capabilities – all working as one integrated system – to be profitable; ***consequently the inability to develop from ground zero such a network is becoming increasingly viewed as a barrier to entry***. ***We believe Enron will actually thrive as this converging and deregulating energy market becomes more complex, eventually placing more distance between itself and the rest of the pack.***

Enron International

The second business unit component of Wholesale Operations is Enron International. In this business the Company's strategy is two-fold: to participate in the significant demand growth for energy anticipated in emerging markets over the next 20 years and to replicate the wholesale and retail energy and financial products and services that have been successfully developed for the North American market.

With respect to the future of infrastructure development, according to a recent report by the Department of Energy, worldwide demand for power and natural gas are estimated to grow in excess of 70% by 2015 from current levels. Enron, as the largest greenfield developer of power projects in the world, will clearly play a large role in this expanding market. For example, over the past several years the Company has maintained a gross project backlog of about $20 billion; as some projects were inevitably canceled, others were constantly advancing, always maintaining a high level of future prospects. Currently nine projects representing $6 billion are under construction and expected to come in service over the next six-to-eight quarters (see Table 7).

Also in Table 7 we note other significant projects in financing or otherwise in an advanced stage of development. When assuming certain investment parameters such as average debt finance of 70% and an average net risk adjusted return of nearly 20%, by 2002 we calculate Enron could be receiving incremental annual net income in the range of $375 million, or over $1.00 per share. This net rate of return, however, is, in reality, a compilation of several different stages in the life cycle of the asset. Enron makes its return from these development activities in three primary ways: 1) development, engineering and construction fees, 2) equity selldown, and 3) operational control. Consequently, with $6 billion of projects now under construction, a component of this return will begin to be recognized today, ramping up significantly as the project becomes operational.

Table 6: Operating Highlights of Current Wholesale International Profile

	Project	Country	Pipelines Capacity	Pipelines Miles	Power Plant Megawatts	Commercial Operations Date	Enron's Current Ownership
Assets and Operations:	TGS Pipeline	Argentina	1.9 Bcfd	4,104	-	4Q 1992	35%
Pipelines and Power Plants	Puerto Quetzal Power Plant	Guatemala	-	-	110	1Q 1993	50%
	Teeside Power Plant	U.K.	-	-	1,875	1Q 1993	28%
	Batangas Power Plant	Phillipines	-	-	110	3Q 1993	50%
	Bitterfeld Power Plant	Germany	-	-	125	4Q 1993	50%
	Subic Bay Power Plant	Phillipines	-	-	116	1Q 1994	50%
	Puerto Plata Power Plant	Dominican Republic	-	-	185	3Q 1994 Ph I	50%
						1Q 1996 Ph II	
	Centragas Pipeline	Colombia	110 MMcfd	357	-	1Q 1996	50%
	Hainan Island Power Plant	China	-	-	154	3Q 1996	50%
	Transredes Pipeline	Bolivia	320 MMcfd	3,093	-	2Q 1997	25%
			210 Bcfed	-	-		
	Total			7,554	2,675		
LDCs	CEG LDC	Brazil				3Q 1997	25%
	Riogas LDC	Brazil				3Q 1997	34%
	GasPart (7 LDCs)	Brazil				4Q 1997	42% -6 LDCs
							25% -1 LDC

Source: Enron Corp. as of 3/31/98.

Table 7: Wholesale International Project Development Status

Projects Under Construction	Capacity	Current Ownership	Total Cost	Start-Up	% Complete
Cuiaba Diesel Fired Power Plant (Phase I)	150 MW	53%	$100	3Q98	30%
India Dahbol Power Plant (Phase I)	826 MW	80%	1,078	4Q98	92%
Bolivia / Brazil Pipeline (Phase I)	1180 Miles	30%	1,550	1Q99	Early Stage
Trakya Power Plant	478 MW	50%	606	1Q99	80%
Sutton Bridge	790 MW	25%	540	1Q99	75%
Guam Piti Power Plant	80 MW	50%	154	1Q99	30%
EcoElectrica Power Plant & Related Facilities	507 MW	50%	670	4Q99	35%
Poland Nowa Sarzyna Power Plant	116 MW	97%	132	4Q99	Early Stage
Sarlux Power Plant	551 MW	45%	1,180	1Q00	35%
Total	3498 MW		$6,010		
	1180 Miles				

Other Notable Projects in Backlog	Capacity	Current Ownership	Total Cost	Start-Up	Status
Croatia Power Plant	180 MW	50%	$200	3Q99	Financing
Indonesia Power Plant	500 MW	50%	525	1Q00	Hold
Bolivia / Brazil Pipeline (Brazil - Phase II)	684 Miles	7%	500	2Q00	Financing
Cuiaba Gas Fired Power Plant (Phase II)	330 MW	53%	150	3Q00	Financing
Cuiaba Natural Gas Pipeline (Phase II)[1]	385 Miles	44%	200	3Q00	Financing
India Dahbol Power Plant (Phase II)	1624 MW	NA	1,600	2001	Final Dev.
Qatar LNG Plant[2]	243 Bcfy	NA	5,000	2001	Active Dev.
Total	3141 MW		$8,175		
	684 Miles				
	243 Bcfy				

Average Project Financed Debt	70%
Average Equity Net Return - Construction Projects	20%
Average Equity Net Return - Financing/Final Development	18%

Estimated Annual Net Income from Asset Development in 2002: $377

Source: Enron Corp. as of 3/31/98 and Jefferies & Company, Inc. estimates.
1) India Phase II assume to be completed by 2001 with 50% net Enron ownership.
2) Qatar LNG assume to be completed by 2001 with 50% net Enron ownership.

Ultimately, Enron is looking to utilize the hard assets it develops and acquires to build a complete energy delivery grid in its focus areas of India and South America. On top of this will be layered the potential of wholesale marketing, risk management as well as the significant energy growth expected in end-use demand. Similar to the strategy in North America, Enron's strength is in its ability to leverage a project in a multitude of ways, and not just as an operator of a discrete isolated asset.

The earnings potential from leveraging Enron's marketing capabilities internationally is more difficult to quantify. Conceptually Enron has led the playing field in such a mature, hyper-competitive domestic environment. We believe that operating in a market that is vastly more immature, highly fragmented, underdeveloped, with high demand growth and an opaque price environment should allow Enron to identify exceptional return opportunities throughout the value chain. Although this integrated strategy is only likely to add modestly to next year's bottom line, it may be the basis for future growth in EI throughout the next decade.

Finally, we would also note the risk exposure from nuclear-related U.S. imposed economic sanctions on India, and to a lesser extent the monetary turmoil in Asia. Currently, there is little detail on U.S. sanctions beyond the barring of U.S. banks from granting loans to India as well as the blocking of aid from multilateral agencies such as the World Bank and International Monetary Fund. With the sanctions' focus on financing, Enron's current operations in India should be well insulated from these events, and the only project exposure could be the possible delay of financing and consequently the in-service date of Phase II of the Dabhol power plant. Considering this project is not anticipated to come on line before early 2001, we do not see any related earnings exposure for at least the next two-to-three years.

Although we believe these sanctions will most likely be negotiated away, if the political situation with India were to deteriorate for a sustained period of time, it may make future asset development projects more difficult to execute, lowering the long term growth expected in this key area of focus. Such an event would be somewhat offset, however, as activity and project developers are redirected to other emerging markets.

We also note that Enron has had little exposure to the recent turmoil in Asia. The one notable project, a 500 megawatt $525 million project in East Java, Indonesia has been placed on hold, but is expected to advance with the economic recovery. Going forward, Enron is also beginning to focus more on asset acquisitions and market liberalization in Asia in the wake of the regional economic crisis, which could yield some very attractive assets.

Centralized Risk Control

Risk control is a critical component of Enron's operations and profitability. Everything is done on a centralized portfolio basis, with all manageable market based risk, be it commodity, investment, interest, or currency risk, is run through a central book within ECT, whose operating parameters have been set by Board of Directors. This is monitored daily by a risk control unit that is notably independent of any business segment and reports directly to the Board.

As we have noted earlier, Enron does not attempt to make a return by taking open market positions. As such, Enron's fixed price commodity contract portfolio is typically balanced to within an annual average of 1% of the total notional physical and financial volumes marketed. Although the Company has clearly not eliminated every risk, it has examined every dimension of risk in the marketing segment and designed the business to mitigate that risk, consistent with cost and return. In this light, Enron has also fully hedged its gas commodity exposure from Enron Oil and Gas at the parent level at an average price of $2.35/MMbtu for 1998.

Enron Energy Services (EES)

Clearly the heart of the valuation of Enron Corp., today, lies in the assessment of the profit potential in retail energy marketing. By our estimates the potential of this $300 billion power and gas end-use market truly is staggering. We have written extensively on energy deregulation as a mega-trend (see Energy Services Providers Report dated January 1998) and the new market opportunities that are being created as States, for the first time, begin allowing companies like Enron the ability to provide energy commodities direct to the end-use customer.

Even more important than the delivery of the commodity will be the emergence of an integrated service based industry that in time should grow to equal or exceed the size of the commodity market itself. Such ancillary services already include billing, metering, heating, ventilation and air-conditioning (HVAC) engineering and related services as well as total outsourcing of energy management operations. Enron estimates that returns on capital dollars invested on the services side could yield 15%-20% when using clients' capital, and upwards of 25%-30% on Enron funded projects. Considering the strength of these returns compared with the more typical return on sales earned from delivering the commodity alone***, we believe penetration into the service based market is the real profit driver in EES. Moreover, many of these services* are not *dependent on full deregulation to occur.***

In our comprehensive September 1997 Enron report we detailed the Company's unique retail strategy, its first mover advantage and why EES was likely to succeed as this national market continues to open. Over the past eight months three key events have occurred which have increased visibility, buttressed our prior valuation and solidified our excitement in this operation's future:

- **Successful Minority Sale -** As anticipated, in January Enron sold 7% of EES to two financial partners, which gave an imputed total enterprise value for the operation of nearly $2 billion, or about $5.50 per share net to Enron. This value was on the high end of our September expectations of $2.85-$6.00 per share**.** ***More important, we estimate that value has already grown substantially, and have set a 12-month target value of $9.34 per share net to Enron, indicating over a 70% increase in value from the recent minority sale.***

- **Early Targets Exceeded -** ***Experience year to date on the magnitude of commodity contracts signed, related services identified and rates of return expected are all exceeding plans***. This is the primary reason for the difference in the minority sale's imputed value based on 1998 budget numbers and our $9 EES target value based on the current pace of activity.

  In the first quarter, Enron reported its Total Energy Expenditure (TEE) statistic, or simply gross revenues from future commodity sales under contract, of $850 million, 50% above its budgeted assumption of $550 million. By the first three weeks of April, Enron had achieved its second quarter target of $500 million. Although Enron is not yet raising its $2.4 billion 1998 target, there is no indication this pace of activity is slowing, especially considering the $7.4 billion of contracts currently in negotiation. In fact, we believe EES could sign as much as $5 billion for 1998 in total, and potentially more if it were not personnel constrained. ***Consequently, we would also note the changing risk profile of EES towards growing too fast and being able to manage the business with proper execution***.

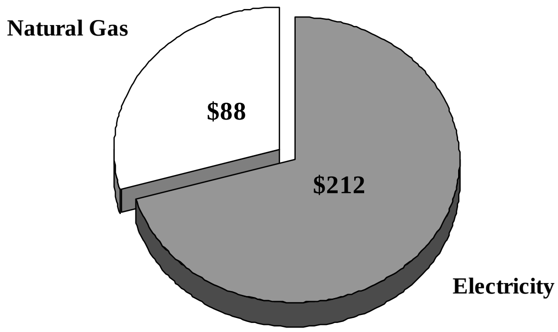
- **Sharpened Focus -** Enron has sharpened its initial target market to almost strictly the $81 billion light industrial and commercial sectors and the $40 billion related services market. And although this $120 billion market is smaller than the $300 billion total energy commodity market, the addition of the higher return services based element have greatly augmented the expected net return on revenues to 5% or greater from the original 1%-2% level (see Table 8).

  Recently, the Company also announced that it was officially exiting the residential business in California. Although the Company still seeks to participate in the emerging residential market on a profitable basis, this was *never* the initial target audience, and as noted in our report last September, we believe a true focused mass market effort is at least three-to-five years away. More important, our valuation models do not assume any penetration into the retail market, and consequently, success in these markets could be the real upside.

Retail Customer Focus

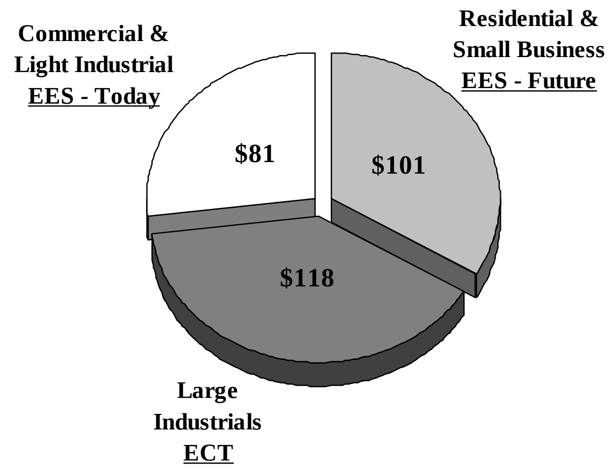
Enron is primarily targeting the $81 billion commodity and $40 billion services markets for commercial and light industrial customers. This is basically comprised of national and regional businesses that have multiple locations, large combined energy requirements and often decentralized energy purchasing practices, not to mention multiple tariffs; deal with several utilities, possibly hundreds of different contractors; and likely have a large internal layer of administrative expense to handle these operations.

Chart 4: Total Energy Market - Commodity Mix ($ Billions)



Source: Department of Energy, 1996 data latest available.

Chart 5: Total Energy Market – Customer Mix ($ Billions)



Source: Enron Corp.

EES Target Customer Base

Energy-Intensive Commercial and Light Industrials

- ♦ Hospitals, Restaurants, Hotels
- ♦ Universities
- ♦ Manufacturing Business
- ♦ Food Processing
- ♦ High Technology

In serving this initial market, providing lower energy prices is only one facet. Enron's goal is ultimately to provide total energy management outsourcing. Enron not only handles the procurement of energy, but becomes essentially an energy consultant, 1) creating programs to reduce energy consumption, delivery and billing costs, 2) providing ongoing energy audits, cost analysis, risk management services, capital deployment strategies and 3) applying new technologies such as real-time feedback on energy usage. In fact, Enron could even move to outsourcing in its purest form by outright purchase of a client's asset system and fully integrating it into its nationwide energy delivery grid. Through better energy procurement, management and asset optimization, Enron could essentially share in the total cost savings created.

In the commercial and light industrial segment, energy has never been a core operation. Consequently, most companies have not focused on these operations, supplying either the attention or capital necessary for efficiency projects. In addition, outsourcing in today's market is not a foreign concept; many companies already outsource their technology and computer systems as well as property management.

Finally, as noted above, we do not believe the development of this service based component is dependent on further commodity deregulation. Although direct access with the commodity has made for an inroad to the client, the opening of key states (*i.e.*, California which represents 10% of the domestic energy market) an increasing level of national discussion has already raised corporate awareness. ***With these services, Enron has the ability to now position itself even before deregulation occurs. Consequently, a key indicator of the early success of EES may be in its ability to sign new service based contracts on a full nationwide scale, moving the scale of operation truly beyond the deregulated California boundary***.

Deregulation Timing

Although with penetration into the service based market, timing is not as critical a factor as earlier thought, it still remains a fundamental issue. We would note that as detailed in the deregulation maps on page 27, 16 states with over $60 billion in combined annual electric revenues have firm plans to open their electric markets, while 19 other states have legislation or final commission orders pending. The pace in retail gas deregulation has been somewhat slower, at least six states have either passed legislation or a comprehensive order has been issued from the public utility commission (PUC). Commercial access is already available to some extent in at least 14 other states. Finally, there are five bills in the U.S. Congress as well as recent guidelines put forth by the Clinton Administration that support full open electric access by January 1, 2003.

Near Term Outlook
Over the past three years Enron has been investing heavily to position itself in front of this changing market. After recording $107 million in net expense last year and close to $120 million estimated this year, EES is anticipated to turn break even by late 1999, with a full year positive contribution in fiscal 2000 of approximately $50 million. Based on realistic if not conservative assumptions, we estimate EES will reach an earnings level an order of magnitude greater by 2003 of an estimated $525 million in operating income.

5 Year Outlook and Valuation
In Table 8 we illustrate our base case five year outlook with income estimates and relative valuation. Although at this point, the model is somewhat simplistic, it does highlight the overwhelming potential that is inherent in this market as it evolves. Based on just the size of the target market today, market share and yield, we estimate operating income in 2003, the resultant total enterprise value for EES, and then discounts that value to 1999 – our 12-month segment target value.

In our base case, we assume 100% of the commercial and light industrial commodity market is open within the next five years, again, in line with the recent Administration guidelines which suggests a January 2003 opening. Further, Enron has initially assumed that for every dollar of commodity contracts signed, $0.30 of service based capital projects will be identified. As earlier noted, this service based element is likely to move well ahead of deregulation, making the timing of commodity markets less of a determinant to future earnings potential.

In addition, recent experience also suggests that the service based component could be much larger than currently assumed. For instance, after reviewing the largest 16 out of 37 campuses of the University of California and California State University system (the largest user of energy in the state), Enron has already identified over $57 million of service based projects, or a very significant $0.76 per commodity revenue dollar contracted.

Assuming a 10% market penetration, $0.30 of services per commodity dollar, a 2% commodity margin and a conservative 15% return on services, we estimate an EES base case in 2003 of $10 billion in revenue, $527 million in operating income and about $320 million in net income to Enron's shareholders.

Because of its substantial growth prospects and unique positioning, EES should trade at least at its expected annual growth rate at that time, approximately 25%. Further, this future growth could be conservative if Enron retains its significant head start advantage from early market development and penetration.

We discount the future value of EES using the cost of capital, effectively ENE's cost of equity or 15% (given a 100% equity valuation and operating income stream), plus a fairly conservative risk premium of 10% for a total 25% discount rate. Using these valuation parameters, we derive a future total enterprise value of $8 billion; discounted, ***our base case 12-month target value for EES is over $9 per Enron share.*** In addition, as EES moves forward and this strategy proves profitable, clearly that risk premium should significantly decline, making our discounted valuation calculation quite conservative.

Similarly, we also assess a low and high case scenario. Our low case assumes that Enron achieves a marginal 5% market penetration of a commodity market that itself is only 50% open, effectively driven only from those state initiatives in place today, and that service-projects identified are slightly lower at $0.25 to the commodity dollar. As a result, our low case EES target drops to $2.00 per Enron share. In our opinion, we believe this outlook is overly conservative given our own industry outlook along with recent experience and trends to date.

Table 8: EES Base Case 5-Year Outlook and Valuation

Retail Energy Commodity Market				
Large Energy-Intensive Industrials	$101	ECT		
Commercial/Light Industrial	81	EES - Target		
Residential/Small Business	118	EES - Future Potential		
Total Retail Energy Market ($B)	$300			
EES - Retail Operations Target Market				
Energy Commodity Market	$81			
Anciallary Services Market	40			
Total EES Market Potential ($B)	$121			
Assumptions:				
Target Commodity Market Open	100%			
Market Penetration	10%			
Ancillary services per $ of commodity	$0.30			
	2003E ($ Millions)			
	Annual Revenues	**Gross Yield**	**Annual IBIT**	
Energy Commodity	8,100	2%	$162	
Ancillary Services	2,430	15%	365	
	$10,530	5%	$527	
Expected IBIT 2003E ($mm)	$527			
Incremental Net Income 2003E ($mm)[1]	$318			
EES Valuation Multiple	25x			
Implied EES Valuation in 2003E ($mm)	$7,957			
Cost of Capital[2]	15%			
Add: Risk premium	10%			
Discount Rate	25%			
EES Valuation discounted to 1999	**$3,259**			
EES 12-Month Target Value Per Share	**$9.34**			

1) Net income assumes marginal tax rate of 35% and Enron Corp.'s 93% ownership position.
2) Assuming 100% equity financing, cost of capital is cost of Enron Equity, or expected growth rate.

On the other hand, we view our high case assumptions as quite possible. As in our base case, we assume the target market is fully open, but that Enron achieves a 15% market share due to its first mover advantage, and is more in line with its current wholesale gas and power domestic market share. We also assume the service component is stronger than anticipated, about $0.50 to the commodity dollar closer to the $0.76 in the University of California system. ***Consequently, the high case shows operating income in five years near $1.2 billion, propelling EES to becoming the single largest contributor to the bottom line. This case also results in a TEV for EES in 2003 upwards of $17 billion, yielding a 12-month target of over $20 per share net to Enron.***

Further Minority Sale Unlikely

Although last year Enron indicated it was evaluating a 10%-15% minority sale of EES to fund start-up costs in 1997 and 1998, only 7% was sold in January to two pension funds to cover 1997 expenses. With the confirmation of the substantial value being created, we believe Enron was reluctant to sell any more of the future potential of this operation than was necessary to cover its first year start-up costs and establish a benchmark value for investors. With visibility growing and experience to date running well above initial expectations, we believe the Company is no longer willing to sacrifice any more long term potential for a near term gain.

Gas Pipeline Group

The Gas Pipeline Group now accounts for about 20% of operating income and should continue to be the bedrock of earnings while providing modest growth opportunities going forward. Each one of the major pipelines has an expansion either underway or under serious consideration. Northern Natural Gas, the largest pipeline system, has the “Peak Day 2000” expansion underway, designed to increase market area volumes by about 10%. Enron completed the first phase of this 347 MMcfd expansion with the balance to be completed in 2002. Total cost is $113 million. In the northern tier, Northern Border Pipeline (9% owned by Enron and the largest transporter of natural gas from Canada to the United States) has begun construction on its 700 MMcfd $837 million expansion due for completion in November 1998. The 38% capacity expansion to move more Canadian gas to Midwest markets is already fully subscribed by 21 shippers with 10 year minimum transportation contracts.

Transwestern Pipeline, the Texas to California pipeline is also finding opportunities to expand by moving more gas out of the San Juan Basin both east and west. Early this year, Enron completed its San Juan Phase II expansion which increased incremental capacity by 200 MMcfd and 130 MMcfd in two separate segments; the system is now capable of transporting up to 930 MMcfd of natural gas. Finally, Florida Gas (50% owned by Enron) has filed an open season for indications of interest to add about 200 MMcfd of capacity into Florida representing a 15% capacity addition, and is expected to be in service 1999.

Spurred by these expansion opportunities, we believe the Gas Pipeline Group will continue to show steady growth potential of about 5%-7% annually over the next three years and will continue to be a high quality source of underlying earnings on a consolidated basis. More important, the pipelines are self supporting and generate excess cash to help fund non-regulated higher return growth projects.

Portland General

Enron entered the regulated electric power business last July through its merger with Portland General Electric. Portland is a leading supplier of electricity in the Pacific northwest, servicing 685,000 customers in more than 3,000 square miles of territory. Portland’s position as a low cost supplier of electricity in the region, its wholesale power marketing expertise on the western grid and its physical delivery into the California-Oregon Border (COB) power futures trading hub are strengths that are blending nicely with Enron’s objectives in its broader electric marketing plan as it moves aggressively into retail electric marketing on a nationwide basis. Comprising approximately 17% of current earnings, Portland operates in an area undergoing substantial population growth and anticipates earnings to grow in the range of 4%-5% annually.

In late 1997, Portland filed a customer choice plan with the Oregon Public Utility Commission to offer customers full choice of electric supplier on a non regulated basis as early as December 1998. Under the proposal, Portland will become a regulated transmission and distribution company, fully divesting of its generation business to an Enron affiliate or third party, and in the process is helping to create a model for other electric utilities to follow in the move towards retail open access.

Enron Oil and Gas

Enron Oil & Gas (EOG - $20, Accumulate), a 60% owned subsidiary of Enron Corp., is one of several growth vehicles expected to drive operating earnings over the next several years. Approximately 86% of the Company’s total reserve base is in North America, of which 90% is natural gas. After emerging from a five year track record of 13% average annual production growth, the Company’s five year goal going forward is as ambitious, with an expectation of approximately 8%-10% from North America with the remainder coming from international, estimated at 25%-30% year over year. In 1998, EOG is forecasted to produce double digit growth in volumes, but will primarily be back loaded in the last six months of the year. Overall, expected production gains should grow earnings at 12%-15% annually over the next three years.

Table 9: EOG Production Growth (Bcfe)

	Total Estimated Production					
	1997	**1998E**	**1999E**	**2000E**	**2001E**	**2002E**
North America	317	339	374	404	436	470
India	12	33	40	40	60	96
Trinidad	49	49	53	74	74	85
China	0	1	4	10+	12+	15+
Venezuela	0	0	0	11	26	31
Total	377	423	471	540	609	697

Source: Enron and Jefferies & Company, Inc. estimates.

In India, gas production is expected to ramp up significantly over the next several years as EOG continues to aggressively drill and complete wells in the Tapti, Panna and Mukta offshore blocks. To date, the Company has invested a total of $172 million and recovered total reserves of 652 Bcfe, an impressive $0.26 per Mcfe. Current production estimates from India are in the range of approximately 60-70 MMcfed. If proposed expansion plans are approved by the Indian government, a significantly expanded offshore pipeline system could add incremental gross production volumes of roughly 600-800 MMcfed by late 2001, or about 180-240 MMcfed net to Enron.

In addition to India, EOG continues to actively pursue other international opportunities that have high potential. The Company expects to drill one to two additional wells in Trinidad during the third quarter of 1998, and by 2000, gas volumes should ramp up significantly as production from the U(a) block comes online. In Venezuela, 3-D data is being interpreted and wells are already being drilled in EOG's Gulf of Paria East Block acreage. The area is extremely crude rich and initial crude production is expected in late 1999. Other potential international plays are in various stages of negotiation or development including the Sichuan basin in China, two gas reserve plays in Uzbekistan and Mozambique as well as upstream opportunities in Qatar, Bangladesh and Mexico.
Domestically EOG has refocused on the Gulf of Mexico shelf area where it has been active in the past. More important, it has developed an inventory of about 14 deepwater prospects, several of which will be drilled in the 1998 time frame. Annually, EOG expects to drill three to five wells in the GOM and up to two in the deepwater. EOG also has significant interests in South Texas, West Texas, New Mexico, East Texas, Mississippi, Mid-Continent, Rocky Mountains and California. (For more details on EOG please reference Jefferies research from the Independent Producers Group.)

Secondary Equity Offering

Enron recently completed a secondary equity stock offering of 17.25 million shares generating proceeds of nearly $840 million. Although the use of proceeds goes immediately to paying down floating rate debt, the offering was clearly geared towards the funding of Enron's aggressive $2.3 billion capital expenditure program, and not to merely lower the debt ratio.

As Enron attempts to capitalize on the privatization trends underway in many countries, projects being identified are large and are almost exclusively done for cash. For example, had Enron opted to place a final bid on Brazilian's Eletropaulo, the former Sau Paulo state owned electricity distributor, Enron would have needed over $1.8 billion in equity. Further, the $5 billion Qatari LNG development project continues to move forward; equity needs for this fund could top $1.5 billion over the next three years.

We would also note the $500 million in charges to equity taken in the second quarter last year to remove several large overhangs which consequently stretched the balance sheet thin. This issuance of equity effectively returns a fair amount of financial strength and flexibility necessary to pursue the level of opportunities being identified.

Pro forma for the offering the total debt to capital ratio strengthens nicely to 40.5% from 46.2% at year end. We expect this ratio to move back up, however, as the capital expenditure program is executed through the year.

Table 10: Pro Forma Balance Sheet Impact

	March 31, 1998			
	Actual		Pro Forma[1]	
	($MM)	%	($MM)	%
<u>Long-Term Debt</u>				
Total Long-Term Debt	**$6,835**	**46.2%**	**$5,998**	**40.5%**
<u>Minority Interest</u>				
Minority Interest	**$1,153**	**7.8%**	**$1,153**	**7.8%**
<u>Stockholders' Equity</u>				
Preferred Stock [2]	1,126	7.6%	1,126	7.6%
Common Stock	4,230	28.6%	5,093	34.4%
Retained Earnings	1,989	13.4%	1,963	13.3%
T-Stock and Other	-538	-3.6%	-538	-3.6%
Total Stockholders' Equity	**6,807**	**46.0%**	**7,644**	**51.7%**
Total Capitalization	**$14,795**	**100.0%**	**$14,795**	**100.0%**

1) Reflects a $863 million offering with $26 million in fees and expenses
2) Includes $134 million of Second Preferred and $993 million of Company-obligated Preferred of Subsidiaries.

Looking forward, while 1998 should be considered peak spending, we still consider a $1.8-$2.0 billion per year capital expenditure program in the following two years to be somewhat aggressive, and expect Enron to continue to be a net user of cash. Future capital programs will be funded primarily by internally generated cash, sale of non-strategic assets, preferred stock and short and long term debt. Although we do not believe Enron will need to access the equity markets any time in the foreseeable future, the Company will continue to be opportunity driven. Consequently, any future offering would likely be to fund a specific acquisition, and we believe that any such deal would only be done on an anti-dilutive basis.

Resurgence of Earnings Growth

The equity offering would be dilutive to earnings by about one cent this year and three cents next year if we just assumed the pay down of floating 6% debt. However, given that these proceeds are ultimately going to fund projects with significantly higher returns, we do not believe the offering will have any negative impact to our earnings estimates. As such we are keeping unchanged our 1998 earnings estimate from core operations of $2.20 per share.

As noted earlier, considering the increasing improbability of any additional minority sale of EES, we believe Enron's near term bottom line will likely bear the brunt of these start-up investment costs going forward. Offsetting the investment expense in EES this year, however, is an anticipated $75 million after tax non-recurring gain from the conversion of $225 million of convertible notes (ACES) in the fourth quarter. Excluding the notes conversion and including the EES investment expense, net earnings are estimated at $1.97 per share, compared with $1.74 per share last year on the same basis, or approximately 13% growth.

Looking forward, we have slightly modified our 1999 earnings estimate (excluding EES investment expenses) down two cents to $2.50 per share reflecting a multitude of dynamics. We also recognize that this 13%-14% growth in core earnings continues to be somewhat aggressive, especially as the Company has recently stated its comfort with current estimates from core operations in the range of $2.40-$2.45 per share. However, primarily due to our bullish outlook for continued growth in the wholesale markets, we believe the recent upside surprise in first quarter earnings is more indicative of the future direction of this company. Finally, we also expect further investment in EES until the segment's transition to profitability anticipated late next year; inclusive of this start-up expense, 1999 earnings are estimated at $2.33 per share.

As shown in Table 11, the real earnings kick comes in fiscal 2000 with the first full year contribution from EES. Driven by the swing from investment expense to realization, we have set a preliminary $2.90 per share earnings estimate, a 16% increase from the 1999 core estimate, and an even more dramatic 24% increase over our 1999 reported net earnings estimate.

As core earnings continue to expand at low double digit growth rates, ***we believe the tremendous profit potential from retail should accelerate growth in total earnings to at least 15% per annum on average over the next five years. Further, new retail services being developed, additional market share in EES' target markets or success in the mass market could prove this outlook conservative. This substantial long term growth potential is the key to Enron's valuation. Investors now have a vehicle to participate in the next evolutionary wave of the $300 billion energy market.***

Table 11: 5-Year Enron Corp. EPS Outlook

	Current Estimates			**Trend Projections**			
	1998E	**1999E**	**2000E**	**2001E**	**2002E**	**2003E**	**5-Year Avg Annual Growth**
Net Income ($mm)							
Core Operations	$752	$872	$987	$1,095	$1,205	$1,326	
EES (expense)	(78)	(59)	33	75	150	318	
Total ENE Net Income	$674	$814	$1,019	$1,170	$1,355	$1,644	
Estimated Share Base	342	350	352	357	362	367	
EPS							
Core Operations	$2.20	$2.50	$2.81	$3.07	$3.33	$3.62	
EES	(0.23)	(0.17)	0.09	0.21	0.41	0.87	
Total ENE EPS	$1.97	$2.33	$2.90	$3.28	$3.75	$4.48	
Annual Growth							
Core Operations	11%	13%	12%	9%	8%	8%	**10%**
EES	NM	NM	NM	128%	97%	109%	**NM**
Total ENE EPS Growth	**13%**	**18%**	**25%**	**13%**	**14%**	**20%**	**18%**

Table 12: Annual Income Statement ($MM, except per share data)

	Fiscal Year Ending December 31,					
	1995	1996	1997	1998E	1999E	2000P
Revenues	$9,189.0	$13,289.0	$20,273.0	$23,447.0	$27,101.0	$32,136.3
Expenses:						
Cost of Sales	6,733.5	10,478.0	17,311.0	19,526.0	22,760.6	27,286.2
Operating	1,218.3	1,421.0	1,406.0	1,632.0	1,795.2	1,885.0
Other	187.5	226.0	941.0	272.0	290.0	325.0
Total Operating Expenses	8,139.3	12,125.0	19,658.0	21,430.0	24,845.8	29,496.1
EBITDA	1,049.7	1,164.0	615.0	2,017.0	2,255.2	2,640.1
Depreciation, Depletion and Amortization	431.7	474.0	600.0	753.5	805.0	850.0
Operating Income (EBIT)	618.0	690.0	15.0	1,263.5	1,450.2	1,790.1
Interest Expense, net	(257.2)	(274.0)	(401.0)	(540.0)	(560.0)	(585.0)
Equity in Earnings	86.0	215.0	216.0	236.5	260.2	286.2
Other Income	434.2	333.0	334.0	239.0	150.0	175.0
Minority Interest	(44.1)	(75.0)	(80.0)	(100.0)	(113.0)	(125.0)
Dividends on preferred	(31.9)	(34.0)	(69.0)	(78.0)	(80.0)	(85.0)
Total Other Income	187.1	165.0	0.0	(242.5)	(342.9)	(333.8)
Income Before Taxes	805.1	855.0	15.0	1,021.0	1,107.4	1,456.3
Current	69.4	64.0	84.0	140.3	146.7	262.1
Deferred	216.1	207.0	(174.0)	130.2	146.7	174.8
Total Income Taxes	285.4	271.0	(90.0)	270.5	293.5	436.9
Effective Tax Rate	35%	32%	20%	26%	27%	30%
Net Income From Continuing Operations	519.7	584.0	105.0	750.5	813.9	1,019.4
Preferred Dividends	15.4	16.0	17.0	17.0	17.0	22.0
Net Income Available for Common	$504.3	$568.0	$88.0	$733.5	$796.9	$997.4
Earnings Per Primary Share (EPS)	$2.07	$2.31	$0.32	$2.31	$2.45	$3.05
Earnings Per Share (Fully Diluted)	$1.94	$2.16	$0.32	$2.20	$2.33	$2.90
Core OPS (excludes EES expense/income)	1.50	1.74	1.98	2.20	2.50	2.81
Primary Weighted Avg. Shares Outstanding	243.7	246.1	272.0	317.0	325.0	327.0
Fully Diluted Weighted Shares Outstanding	268.0	270.1	277.0	341.6	349.6	351.6
Common Dividends	$197.4	$209.2	$248.2	$310.7	$331.5	$346.6
Common Dividends Paid Per Primary Share	$0.81	$0.85	$0.91	$0.98	$1.02	$1.06

1) 1997 earnings results includes after-tax charges of $450 million for J-Block settlement and $74 million for MTBE reserve.
2) 1998 earnings includes $75 million after-tax gain from conversion of convertible notes in fourth quarter; excluding this gain EPS is estimated $1.97.

Table 13: Quarterly Income Statement ($MM, except per share data)

	1998 Quarterly Income Statements				
	Q1	Q2E	Q3E	Q4E	1998E
	(Dollars in millions, except per share data)				
Revenues	$5,682.0	$5,580.0	$5,920.0	$6,265.0	$23,447.0
Expenses:					
Cost of Sales	4,559.0	4,713.8	4,992.7	5,260.5	19,526.0
Operating	437.0	350.0	400.0	445.0	1,632.0
Other	92.0	60.0	60.0	60.0	272.0
Total Operating Expenses	5,088.0	5,123.8	5,452.7	5,765.5	21,430.0
EBITDA	594.0	456.2	467.3	499.5	2,017.0
Depreciation, Depletion and Amortization	182.0	186.2	190.0	195.3	753.5
Operating Income (EBIT)	412.0	270.0	277.3	304.2	1,263.5
Interest Expense, net	(133.0)	(132.0)	(130.0)	(145.0)	(540.0)
Equity in Earnings	44.0	44.0	62.7	85.8	236.5
Other Income	15.0	33.0	36.0	155.0	239.0
Minority Interest	(25.0)	(17.0)	(23.0)	(35.0)	(100.0)
Dividends on preferred	(19.0)	(19.0)	(20.0)	(20.0)	(78.0)
Total Other Income	(118.0)	(91.0)	(74.3)	40.8	(242.5)
Income Before Taxes	294.0	179.0	203.0	345.0	1,021.0
Current	26.0	26.3	30.5	57.5	140.3
Deferred	54.0	17.5	20.3	38.4	130.2
Total Income Taxes	80.0	43.9	50.8	95.9	270.5
Effective Tax Rate	27%	25%	25%	28%	26%
Net Income From Continuing Operations	214.0	135.1	152.3	249.1	750.5
Preferred Dividends	4.0	4.0	5.0	4.0	17.0
Net Income Available for Common	$210.0	$131.1	$147.3	$245.1	$733.5
Earnings Per Primary Share (EPS)	$0.69	$0.42	$0.46	$0.76	$2.31
Earnings Per Share (Fully Diluted)	$0.65	$0.40	$0.44	$0.72	$2.20
Core OPS (excludes EES expense/income)	0.71	0.45	0.49	0.55	2.20
Primary Weighted Avg. Shares Outstanding	305.0	316.0	323.5	323.5	317.0
Fully Diluted Weighted Shares Outstanding	330.0	340.6	348.1	348.1	341.6
Common Dividends	$68.6	$71.1	$79.3	$79.3	$298.0
Common Dividends Paid Per Primary Share	$0.23	$0.23	$0.25	$0.25	$0.94

1) 1998 earnings includes $75 million after-tax gain from conversion of convertible notes in fourth quarter; excluding this gai n (and including the investment expense from EES) fully diluted EPS is estimated at $0.49 and $1.97 for fourth quarter and full year 1998, respectively.

Table 14: Annual Cash Flow From Operations ($MM, except per share data)

	Fiscal Year Ending December 31,					
	1995	**1996**	**1997**	**1998E**	**1999E**	**2000P**
	(Dollars in millions, except per share data)					
Operating Activities:						
Net Income From Continuing Operations	519.7	584.0	105.0	750.5	813.9	1,019.4
Depreciation & Amortization	431.7	474.0	600.0	753.5	805.0	850.0
Deferred Taxes	216.1	207.0	(174.0)	130.2	146.7	174.8
Equity Less Cash Received	(18.0)	(131.0)	(99.0)	(96.5)	(95.2)	(96.2)
Other [1]	(476.7)	(97.0)	(37.0)	31.1	0.0	0.0
Basic Operating Cash Flow	$672.8	$1,037.0	$395.0	$1,568.8	$1,670.5	$1,948.0
Operating Cash Flow Per FD Share	$2.51	$3.84	$1.43	$4.59	$4.78	$5.54
Changes in Working Capital [2]	(833.6)	142.0	(65.0)	235.0	0.0	0.0
Other [3]	145.8	(139.0)	171.0	0.0	200.0	200.0
Cash Flow from Operations (CFO)	($15.0)	$1,040.0	$501.0	$1,803.8	$1,870.5	$2,148.0

1) 1997 CFO results includes cash impact of approximately $440 million for J-Block settlement.
2) Sources of cash include an anticipated non-recurring $300 million benefit in 1998 from a reduction in working capital due to reengineering efforts.
3) Sources of cash include the expected monetization of price risk management activities that occurs through the ongoing normal course of business.

Table 15: Annual Free Cash Flow ($MM, except per share data)

	Fiscal Year Ending December 31,					
	1995	**1996**	**1997**	**1998E**	**1999E**	**2000P**
Total Cash from Operations	($15.0)	$1,040.0	$501.0	$1,803.8	$1,870.5	$2,148.0
Capital Expenditures[1]:						
Exploration & Production	$464.0	$540.0	$626.0	$660.0	$726.0	$798.6
Transportation & Distribution	127.0	175.0	337.0	483.0	450.0	425.0
Wholesale	152.0	150.0	339.0	660.0	500.0	600.0
Enron Energy Services	---	---	36.0	70.0	75.0	75.0
Corporate and Other	34.0	13.0	75.0	420.0	150.0	150.0
Total Capital Expenditures	$777.0	$878.0	$1,413.0	$2,293.0	$1,896.0	$2,043.6
Common Dividends Paid	197.4	209.2	248.2	310.7	331.5	346.6
Sinking Debt Payments	447.7	286.5	26.7	0.0	0.0	0.0
Total Uses of Cash	$1,422.1	$1,373.7	$1,687.9	$2,603.7	$2,227.5	$2,390.2
Total Free Cash Flow (shortfall)	($1,437.1)	($333.7)	($1,186.9)	($799.8)	($357.0)	($242.2)

1) Capital expenditures above include equity investments in related segments.

Table 16: Selected Annual Operational Earnings * ($MM, except per share data)

	Fiscal Year Ending December 31,					
	1995	1996	1997	1998E	1999E	2000P
Exploration & Production	$241.0	$200.0	$183.0	$248.0	$280.2	$316.7
Transportation & Distribution						
Gas Pipeline Group	375.0	416.0	364.0	365.0	386.9	410.1
Portland General	---	---	114.0	286.0	297.4	309.3
Total Regulated	$375.0	$416.0	$478.0	$651.0	$684.3	$719.5
Wholesale Operations & Energy Services [1]						
Asset Development and Construction	37.0	60.0	77.0	90.0	103.5	119.0
Cash and Physical	206.0	324.0	310.0	418.0	480.7	552.8
Risk Management	193.0	105.0	143.0	201.0	231.2	265.8
Finance and Investing	103.0	122.0	284.0	310.0	365.8	431.6
Unallocated Expenses	(138.0)	(145.0)	(160.0)	(167.0)	(175.4)	(184.1)
Total Wholesale	$401.0	$466.0	$654.0	$852.0	$1,005.8	$1,185.2
Corporate & Other [2]	(35.0)	(22.0)	(31.0)	(10.0)	(20.0)	(20.0)
IBIT - Core Businesses	$982.0	$1,060.0	$1,284.0	$1,741.0	$1,950.4	$2,201.3
Retail Energy Services						
Results	---	---	(107.0)	(117.0)	(90.0)	50.0
Gain on Sale of 7% Interest	---	---	61.0	---	---	---
Non Recurring Items	183.0	178.0	(673.0)	115.0	---	---
Total IBIT	$1,165.0	$1,238.0	$565.0	$1,739.0	$1,860.4	$2,251.3
% Non Regulated/Total Core	65.4%	62.8%	65.2%	56.5%	64.3%	68.9%

* Includes equity in earnings and related other income before interest, minority interest and taxes.
1) Wholesale now includes engineering and construction activities previously reported in pipelines.
2) Corporate and other includes renewables and telecommunications operations.

Table 17: Annual Growth Rate by Segments

	Fiscal Year Ending December 31,				
	1996	1997	1998E	1999E	2000P
Exploration & Production	-17.0%	-8.5%	35.5%	13.0%	13.0%
Transportation & Distribution					
Gas Pipeline Group	10.9%	-12.5%	0.3%	6.0%	6.0%
Portland General	NA	NA	NA	4.0%	4.0%
Total Regulated	10.9%	14.9%	36.2%	5.1%	5.1%
Wholesale Operations & Energy Services					
Asset Development and Construction	62.2%	28.3%	16.9%	15.0%	15.0%
Cash and Physical	57.3%	-4.3%	34.8%	15.0%	15.0%
Risk Management	-45.6%	36.2%	40.6%	15.0%	15.0%
Finance and Investing	18.4%	132.8%	9.2%	18.0%	18.0%
Unallocated Expenses	5.1%	10.3%	4.4%	5.0%	5.0%
Total Wholesale	16.2%	40.3%	30.3%	18.1%	17.8%
Corporate & Other					
IBIT Growth - Core Businesses	7.9%	21.1%	35.6%	12.0%	12.9%
IBIT Growth - w/EES	7.9%	16.8%	40.5%	7.0%	21.0%

Table 18: Balance Sheet ($MM, except per share data)

	Fiscal Year Ending December 31,					March 31,		Pro forma*
	1993	1994	1995	1996	1997	1Q97	1Q98	1Q98
Current Assets:								
Cash & Equivalents	$140.2	$132.3	$114.9	$256.0	$170.0	$255.0	$173.0	$173.0
Accounts Receivable	1,092.4	937.0	1,576.2	2,255.0	2,151.0	1,802.0	2,205.0	2,205.0
Inventories	197.7	138.4	111.5	164.0	190.0	111.0	200.0	200.0
Other	588.2	701.3	924.4	1,304.0	2,158.0	1,105.0	2,810.0	2,810.0
Total Current Assets	2,018.6	1,909.0	2,726.9	3,979.0	4,669.0	3,273.0	5,388.0	5,388.0
Property, Plant & Equipment	10,886.9	10,964.4	11,107.2	11,348.0	13,742.0	11,324.0	13,942.0	13,942.0
Less: D, D, & A	4,164.1	4,225.7	4,238.7	4,236.0	4,572.0	4,245.0	4,695.0	4,695.0
Total P, P & E	6,722.8	6,738.7	6,868.4	7,112.0	9,170.0	7,079.0	9,247.0	9,247.0
Other Assets	2,762.9	3,318.4	3,643.6	5,046.0	9,583.0	4,796.0	10,085.0	10,085.0
Total Assets	$11,504.3	$11,966.0	$13,238.9	$16,137.0	$23,422.0	$15,148.0	$24,720.0	$24,720.0
Total Current Liabilities	2,675.6	2,297.4	2,432.0	3,708.0	4,412.0	2,782.0	4,902.0	4,902.0
Long-Term Debt	2,661.2	2,805.1	3,064.8	3,349.0	6,254.0	3,564.0	6,835.0	5,998.4
Other Liabilities	3,134.1	3,316.3	3,651.5	4,010.0	4,998.0	3,370.0	5,023.0	5,023.0
Minority Interest	196.3	290.1	548.6	755.0	1,147.0	754.0	1,153.0	1,153.0
Stockholder's Equity								
Preferred Equity	363.4	517.2	514.3	729.0	1,127.0	764.0	1,126.0	1,126.0
Common Equity	2,473.7	2,739.8	3,027.7	3,586.0	5,484.0	3,914.0	5,681.0	6,517.6
Total Stockholders' Equity	2,837.1	3,257.1	3,542.0	4,315.0	6,611.0	4,678.0	6,807.0	7,643.6
Total Liabilities & Stockholders' Equity	$11,504.3	$11,966.0	$13,238.9	$16,137.0	$23,422.0	$15,148.0	$24,720.0	$24,720.0
Long-Term Debt / Capital	46.7%	44.2%	42.8%	39.8%	44.6%	39.6%	46.2%	40.5%
Total Debt / Capital	46.7%	44.2%	42.8%	39.8%	44.6%	39.6%	46.2%	40.5%
Book Value Per Primary Share	$10.35	$11.26	$12.43	$14.57	$20.16	$15.75	$18.63	$21.37

* Pro forma for the recent secondary common stock offering of 17.25 million shares with use of proceeds paying down floating debt.

Table 19: Projected Capitalization ($MM)

	Fiscal Year Ending December 31,					
	1995	1996	1997	1998E	1999E	2000E
Long-Term Debt						
Total Debt	**$3,065**	**$3,349**	**$6,254**	**$7,035**	**$7,609**	**$8,073**
Minority Interest						
Minority Interest	**$549**	**$755**	**$1,147**	**$1,153**	**$1,153**	**$1,153**
Stockholders' Equity						
Preferred Stock [2]	515	729	1,127	1,127	1,127	1,227
Common Stock	1,816	1,896	4,224	5,118	5,178	5,290
Retained Earnings	1,651	2,007	1,852	2,283	2,748	3,399
T-Stock and Other	-440	-317	-592	-538	-550	-550
Total Stockholders' Equity	**3,542**	**4,315**	**6,611**	**7,989**	**8,503**	**9,366**
Total Capitalization	**$7,155**	**$8,419**	**$14,012**	**$16,177**	**$17,265**	**$18,592**
Total Debt to Capital	43%	40%	45%	43%	44%	43%

Table 20: 1998E Power Commodity Market, by Segment and State ($MM)

	Residential	Commercial	Industrial	Other	All Sectors
Alabama	$1,560	$814	$1,158	$36	$3,567
Alaska	183	197	46	24	449
Arizona	1,630	1,264	606	113	3,612
Arkansas	932	461	614	38	2,045
California	7,479	7,393	3,787	342	19,001
Colorado	833	798	406	80	2,116
Connecticut	1,219	1,062	430	50	2,761
Delaware	274	189	150	6	619
District of Columbia	116	541	10	21	689
Florida	6,552	3,781	839	344	11,517
Georgia	2,688	1,930	1,286	99	6,004
Hawaii	351	330	356	6	1,044
Idaho	318	231	206	16	771
Illinois	3,609	2,772	2,037	549	8,967
Indiana	1,711	1,007	1,580	48	4,345
Iowa	872	428	543	73	1,915
Kansas	775	659	413	40	1,886
Kentucky	1,117	516	1,079	132	2,844
Louisiana	1,716	1,051	1,305	178	4,250
Maine	430	309	274	14	1,026
Maryland	1,795	1,476	404	64	3,739
Massachusetts	1,690	1,929	776	92	4,486
Michigan	2,284	2,391	1,637	89	6,402
Minnesota	1,146	560	1,065	49	2,820
Mississippi	973	528	626	53	2,178
Missouri	1,728	1,243	627	63	3,660
Montana	226	171	165	18	579
Nebraska	450	312	214	71	1,048
Nevada	479	313	402	36	1,230
New Hampshire	428	340	199	21	988
New Jersey	2,522	2,859	1,057	85	6,522
New Mexico	361	386	231	78	1,054
New York	5,237	6,046	1,203	1,039	13,523
North Carolina	3,088	1,805	1,504	118	6,515
North Dakota	205	118	87	19	431
Ohio	3,529	2,561	2,837	265	9,194
Oklahoma	1,061	619	412	104	2,198
Oregon	925	637	505	36	2,103
Pennsylvania	3,920	2,702	2,539	142	9,304
Rhode Island	271	245	106	18	640
South Carolina	1,563	869	1,026	46	3,504
South Dakota	222	129	76	15	442
Tennessee	1,886	647	1,571	78	4,181
Texas	7,003	4,292	3,442	735	15,472
Utah	352	329	251	37	969
Vermont	206	155	107	6	473
Virgina	2,440	1,344	697	453	4,935
Washington	1,471	962	819	129	3,380
West Virginia	546	313	391	7	1,258
Wisconsin	1,186	810	813	42	2,850
Wyoming	114	118	214	13	459
U.S. Total	**$83,670**	**$62,937**	**$43,127**	**$6,230**	**$195,964**

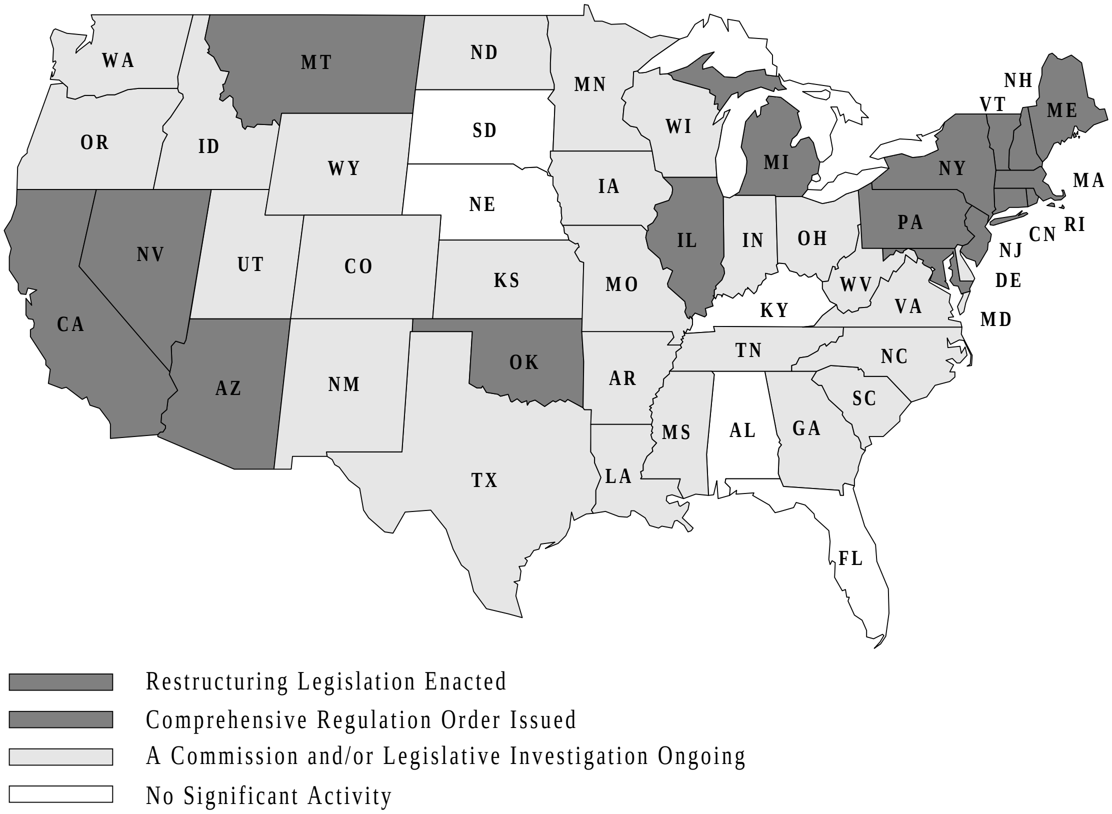
Source: Department of Energy and Jefferies & Company, Inc. estimates.

Table 21: 1998E Natural Gas Commodity Market, by Segment and State ($MM)

	Residential	Commercial	Industrial	Electric Utility	All Sectors
Alabama	$441	$194	$793	$20	$1,448
Alaska	60	69	115	50	294
Arizona	225	158	111	63	557
Arkansas	296	157	501	93	1,047
California	3,297	1,518	2,828	946	8,589
Colorado	527	274	263	12	1,076
Connecticut	477	319	168	31	996
Delaware	75	42	66	79	263
District of Columbia	172	130	---	---	302
Florida	189	292	623	957	2,061
Georgia	919	391	865	15	2,190
Hawaii	12	33	---	---	45
Idaho	84	57	104	---	245
Illinois	3,077	1,161	1,436	73	5,747
Indiana	1,078	442	1,132	16	2,669
Iowa	523	271	448	12	1,254
Kansas	516	285	369	55	1,225
Kentucky	421	226	395	7	1,049
Louisiana	414	169	3,221	802	4,606
Maine	8	20	12	---	40
Maryland	703	301	290	28	1,323
Massachusetts	1,098	701	581	150	2,530
Michigan	2,143	1,035	1,453	26	4,657
Minnesota	840	494	329	12	1,676
Mississippi	187	126	300	250	862
Missouri	886	421	337	15	1,659
Montana	117	74	96	1	288
Nebraska	259	197	129	5	590
Nevada	151	108	173	107	540
New Hampshire	56	52	25	---	133
New Jersey	1,724	999	830	83	3,636
New Mexico	163	96	72	75	406
New York	3,882	1,884	1,759	457	7,981
North Carolina	483	270	492	8	1,253
North Dakota	62	51	26	0	139
Ohio	2,392	1,107	1,539	11	5,049
Oklahoma	467	235	709	440	1,851
Oregon	227	134	308	20	689
Pennsylvania	2,224	1,077	1,085	22	4,409
Rhode Island	173	100	130	62	465
South Carolina	236	138	389	6	769
South Dakota	80	53	27	2	162
Tennessee	477	362	537	2	1,377
Texas	1,461	825	5,967	2,821	11,073
Utah	263	108	96	7	474
Vermont	17	16	7	0	41
Virgina	655	380	371	33	1,439
Washington	383	251	330	35	999
West Virginia	284	183	149	1	617
Wisconsin	966	490	563	24	2,043
Wyoming	62	39	171	1	273
U.S. Total	**$35,933**	**$18,517**	**$32,720**	**$7,936**	**$95,106**

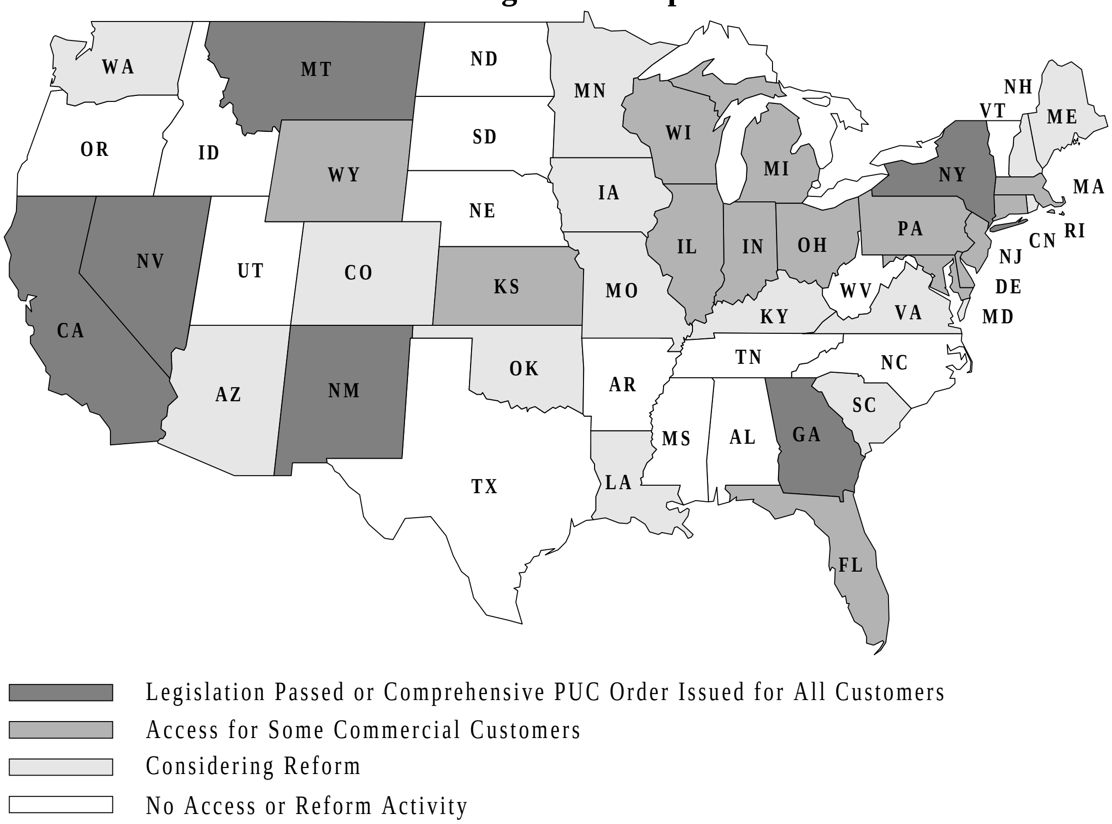
Source: Department of Energy and Jefferies & Company, Inc. estimates.

Chart 6: Lower 48 States Electric Deregulation Map



Source: Enron, DOE and Jefferies & Company, Inc. estimates.

Chart 7: Lower 48 States Natural Gas Deregulation Map



Source: Enron, DOE and Jefferies & Company, Inc. estimates.

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