Policy and other itemsFrom: Port, David
Sent: Friday, August 17, 2001 5:57 AM
To: Buy, Rick
Subject: RE: Policy and other items

Got it
  -----Original Message-----
  From: Buy, Rick
  Sent: Thursday, August 16, 2001 6:26 PM
  To: Port, David
  Subject: RE: Policy and other items

  OK- here is my view. I believe the Bod approved a policy that had discretionary
var in it even if the one presented did not. We need to modify the policy to include
dis. var and have it be $50MM. I believe we can take extreme liberty here given the
situation. We can clean everything up after next meeting. Poetic license from the
poets. Please confirm to me you got this message as electrons flow a little more
slowly up here (as does everything else). Rick
  -----Original Message-----
  From: Port, David
  Sent: Thu 8/16/2001 1:23 PM
  To: Buy, Rick
  Cc:
  Subject: Policy and other items

  Rick

  1   Limits. Here's how I interpreted the BOD approvals:

  The BOD approved an aggregate of $150MM, with $50MM of discretionary VaR, plus
the new policy which doesn't recognise the concept of discretionary VaR. So here's
what I did:

  Effectively I allocated all the $50MM of discretionary such that Pug's "Big
Buckets" are now as follows:

     US Gas $100MM
     US Elec $100MM
     Europe Gas & Elec $35MM
     Global Products $20MM
     Financials $15MM
     Emerging Businesses $20MM

  If you have a calculator handy you'll see that this aggregates to $149.164MM
(assuming zero correlation).

  At Business Unit level the individual commodity limits are unchanged, and I have
put limits over the Business Units themselves as follows:

     Enron Americas $82MM
     EWS OOC (aka George Martingale) $3MM
     EEL $34MM
     EGM $23MM
     EIM $8MM
     EBS $4MM
     PGE $4MM
     ETS $1MM

  Again I used root-sum-of-squares, and remember the original commodity limits (by
VaR, net open and mat gap) are still in place (e.g. gas = $61MM as before). So that
keeps it screwed down pretty tight and preserves the discretion between the "Big

Buckets" and the Business Units.

 I spoke to Rebecca C who could only remember the decision outlined above, but offered to call Pug and let him know. I said I would come back on that. I think we should do that ourselves, possibly with Lay in the loop (?).

 Cleared it with Whalley today (he laughed), mentioned the dwindling membership of the Risk Management Committee and said "In my current role I think I should be asking for limits, not approving them"

 ...and then...

 2 The gas desk lost $98MM yesterday

 A combination of a very bullish AGA number (3 Bcf injection - not a typo - three Bcf !) plus some hurricane activity in the gulf sent prices up by between 25 and 30c all across the strip. The long and the short of it was we are long Nov - Jan but short (big-time) out beyond that - the rest is arithmetic.

 So we have two flavors of P&L notification, one at the business unit level (Americas) $89MM loss against VaR limit of $82MM; the other as a commodity, losing $126MM (the desk aren't the only ones with a gas position, as usual) against the Big Bucket number of $100MM. Total trading was a loss of $106MM against a VaR limit of $150MM so no calls to Pug required (thank goodness).

 That's it for now, hope you're having fun and remember: pan-fry the big ones and throw back the little ones.

 DP