

20010813 RE Net Variable Power Cost.txt

FW: Net Variable Power Cost  
From: Buy, Rick  
Sent: Monday, August 13, 2001 11:04 AM  
To: Gorny, Vladimir  
Subject: RE: Net Variable Power Cost

tx, rick

-----Original Message-----  
From: Gorny, Vladimir  
Sent: Monday, August 13, 2001 1:03 PM  
To: Buy, Rick; Port, David  
Subject: RE: Net Variable Power Cost

I am planning a trip to Portland for 8/14-8/17 (after the Board meeting). Minal will help me out of Portland office.

Vlady.

-----Original Message-----  
From: Buy, Rick  
Sent: Mon 8/13/2001 12:51 PM  
To: Port, David; Gorny, Vladimir  
Cc:  
Subject: FW: Net Variable Power Cost

Any news here? Rick

-----Original Message-----  
From: Horton, Stanley  
Sent: Thursday, August 02, 2001 11:38 AM  
To: FOWLER, PEGGY  
Cc: Skilling, Jeff; Buy, Rick  
Subject: Net Variable Power Cost

Someone from Rick Buy's Risk Management group will be calling you to schedule a visit to discuss with your team the procedures and strategy PGE has in place to manage the variability of our net variable power costs. Since Rick's group is a corporate Risk Management group there should be no market affiliate issues. The visit will enable us Houstonians to get even a better handle on the risk profile of your business given the tremendous volatility we have experienced in power prices.

Let me know if you have any questions. Thanks in advance for your cooperation.

20010817 RE Policy and other items.txt

Policy and other items  
From: 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 approval:

The BOD approved an aggregate of \$150MM, with \$50MM of discretionary VaR, plus the new policy which doesn't recognize 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

**tFrom:** Gorny, Vladimir  
**Sent:** Monday, August 20, 2001 12:02 PM  
**To:** Hayslett, Rod; Horton, Stanley; Buy, Rick  
**Cc:** Port, David; Gorny, Vladimir; Schultz, Cassandra  
**Subject:** PGE Summary  
Rod, Stan and Rick,

Pursuant to your request, I have visited PGE last week and had conversations with the respective PGE employees. Below are my conclusions and analysis.

### **In Retrospect (Jan-01 - Sep-01)**

#### Background

During this period PGE has negotiated a Power Cost Adjustment (PCA) mechanism that limits PGE risks and rewards. According to this mechanism, PGE is responsible for only 10% of the costs in excess of \$232.5 MM. Earlier in the year, PGE has accumulated the length for the 2001-2002 period that appreciated in value significantly as prices were increasing. Since liquidations on the hedges are included in the power costs, this value has offset the company's power costs and pushed the total cost of power in the deadband, where PGE wears 100% of risks and rewards.

#### Earnings Impact

As prices continued to decline against the long position, PGE incurred significant power costs from its hedge liquidations and moved through the deadband, where the Company wears 100% of the downside.

Other items that impacted earning included:

- reduced load during the period
- reserves for CA receivables
- losses in spec trading

For the remainder of the PCA, through the end of Sep-01, PGE is only responsible for 10% of the incurred power costs.

#### Analysis

In my opinion, the following factors have affected PGE's decision to maintain the length in a bearish market:

- bullish or not as bearish sentiment among traders
- reliability issues: PGE has significant political and financial repercussions for being caught short in a blackout
- psychological fears of tight power supplies and potential blackouts/brownouts, mainly because of recent situation in CA

### **Next 15 Months (Oct-01 - Dec-02)**

PGE has agreed to implement a similar PCA mechanism for the next 15 months. Below are the highlights:

- PGE is currently negotiating the base cost level with the PUC. This is a critical step to ensure that PGE's estimate of the 15-months baseline power costs, as agreed with the PUC, is equal to or greater than the actual costs for the period (~\$984 MM)
- the new PCA provides for tighter bands (+/- \$28 MM for 100% exposure)
- transmission costs, resulting from load variations are not factored into the PCA mechanism
- Given tighter bands, PGE will begin to place greater emphasis on the spec book - MTM earnings

## Beyond 2002

PGE is naturally short beyond 2002 (load exceeds generation and hedges). PGE could begin discussions with the PUC on the structure of a new PCA mechanism to limit their risk and rewards; or move towards greater deregulation. There is a possibility that PGE will lose some of its industrial commercial load during this time period, with an obligation to take them back at a standard offer.

In the meantime, the Company began purchasing power for the 2003-2004 time period to cover residential load.

## Recommendations/Action Steps

1. Design decision authority process for significant business decisions. In retrospect, it would be helpful to analyze the value of the long position against the cost of reliability and make a decision accordingly. Other examples: should PGE apply for a PCA mechanism past 2002, should PGE be purchasing power for 2003-2004. Also, participate regularly in the PGE Risk Management Committee meetings.

2. Continue to improve trading controls (missed a deal earlier in the year resulting in a \$10 MM loss in the spec book). Significant improvements have been made since then.

- move settlements function under middle office to ensure segregation of duties - currently reports through the commercial function
- capture option exposure ASAP or prohibit option trading: PGE has an option trade in the books that is not captured in the risk management and reporting framework (position, P&L and VaR)

- develop processes for capturing other exposures:

- Interest rates, embedded in commodity cash flows and assets

- Foreign currency, resulting from transactions with Canadian counterparties in

CAD\$

- Heating Oil #2, PGE has ~ 1 MM Bbls in storage at the Beaver Plant

- Coal, two-year contract for supply of coal to the Boardman Plant

3. Daily reporting of PGE risks: VaR, Positions and P&L, notifications of limit violations; as well as, notification of important transactions (purchase of 2003-2004 power)

4. Input/coordination with EWS on important trading decisions. Insights from the West Desk could help PGE make better trading decisions.

5. Periodic review of trading controls - add PGE to the list of Doorstep projects.

I would be glad to provide additional details. Vlady.

**From:** Foster, Chris H.  
**Sent:** Wednesday, September 12, 2001 10:36 AM  
**To:** Choi, Paul; Cocke Jr., Stanley; Gang, Lisa; Malowney, John; Mehrer, Anna; Rawson, Lester; Rosman, Stewart  
**Cc:** Belden, Tim  
**Subject:** FW: End of quarter Funds Flow Targets

Any deals that require EPMI paying cash out in a loan structure need to be flagged. Any normal purchases and sales should not be affected. I believe Stewart's EWEB structure is an example of the type of deal we are talking about. Please let me know if you are working on any of these.

C

-----Original Message-----

**From:** Belden, Tim  
**Sent:** Wednesday, September 12, 2001 10:19 AM  
**To:** Foster, Chris H.; Choi, Paul; Rosman, Stewart; Malowney, John; Swerzbin, Mike; Motley, Matt; Badeer, Robert  
**Subject:** FW: End of quarter Funds Flow Targets

fyi. you need to be aware of this and report to me any relevant transactions. thanks.

-----Original Message-----

**From:** Kitchen, Louise  
**Sent:** Wednesday, September 12, 2001 10:06 AM  
**To:** Allen, Phillip K.; Arnold, John; Arora, Harry; Baughman, Edward D.; Belden, Tim; Black, Don; Breslau, Craig; Calger, Christopher F.; Collonges, Remi; Colwell, Wes; Davies, Derek; Davis, Mark Dana; Dayao, Anthony; Deffner, Joseph; Devries, Paul; Duran, W. David; Dutt, Ranabir; Forster, David; Foster, Chris H.; Gonzalez, Orlando; Grigsby, Mike; Haedicke, Mark E.; Herndon, Rogers; Josey, Scott; Keel, Allan; Kishkill, Joe; Kitagawa, Kyle; Kitchen, Louise; Lagrasta, Fred; Luce, Laura; Martin, Thomas A.; Mcdonald, Michael; McMichael Jr., Ed; Miller, Don (Asset Mktg); Milnthorp, Rob; Mrha, Jean; Neal, Scott; Parquet, David; Presto, Kevin M.; Redmond, Brian; Shively, Hunter S.; Sturm, Fletcher J.; Swerzbin, Mike; Thomas, Jake; Thompson, John; Tricoli, Carl; Tycholiz, Barry; Vickers, Frank W.; Whitt, Mark; Wiggs, Brett; Wolfe, Greg; Zipper, Andy; Zufferli, John  
**Cc:** Deffner, Joseph; Lavorato, John  
**Subject:** End of quarter Funds Flow Targets

As we approach the end of the quarter we are closely monitoring our funds flow targets for Enron Americas. We would like you to let us know if you are planning to enter into any transactions within your groups which will impact those targets, either positively or negatively. We would like information on all deals which impact significantly our funds flow targets prior to you entering into them. Please note that this is not just structured transactions but even a storage transaction where we would be injecting would involve cash going out of Enron.

Enron's cash liquidity position is very strong and there is not an issue of whether or not we enter into a transaction but we must ensure we correctly price any transactions and indeed send clear signals to the originators and traders with regards to our funds flow targets.

Please let John or Louise know if you have any transactions which may occur with funds flow implications. Should you need any indications of pricing, please contact Joe Deffner.

Louise & John

20010914 RE funds flow.txt

From: Wi nowit ch, Carolyn  
Sent: Friday, September 14, 2001 10:22 AM  
To: Geaccone, Tracy; Giles, Valerie  
Subject: RE: funds flow

Tracy, it looks like it is because of the estimate we used for the July cash flow. I will keep looking at this and see if I can come up with a specific item that caused this.

Carolyn Wi nowit ch  
PGE Accounting  
503-464-8191

>>> Geaccone, Tracy 09/09/01 08:44AM >>>  
Please let me know when you guys have an answer.

Thanks

-----Original Message-----

From: Giles, Valerie  
Sent: Friday, August 31, 2001 1:27 PM  
To: Geaccone, Tracy  
Subject: Re: funds flow

Sorry Tracy, I can't come up with the reason behind the July change of \$11 million in "Other, Net". Carolyn who completes the schedules had surgery yesterday so will be out until Sept. 11. I can't find the source of the amount that is hardcoded in the spreadsheet - she must have combined something. One thought was TOLI, but it was flat in July. I have two other people who might be able to help me on vacation this week as well.

>>> Geaccone, Tracy 08/30/01 04:24PM >>>  
There was a big change in the Funds Flow number you submitted for the 3Q in August from the 3Q you submitted last month. Can you tell me what the change is due to?

Thanks

Tracy

20011018 RE 3rd curr est.txt

From: Geaccone, Tracy  
Sent: Thursday, October 18, 2001 8:35 AM  
To: 'Carolyn Wi nowit ch'  
Subject: RE: 3rd curr est

What are the Goodwill and FAS 133 adj?

-----Original Message-----

From: Carolyn Wi nowit ch [mailto:Carolyn\_Wi nowit ch@pgn.com]  
Sent: Thursday, October 18, 2001 10:28 AM  
To: Geaccone, Tracy  
Subject: RE: 3rd curr est

Thanks, Tracy. The reclass turned out to be 43.3 mill, which is what I adjusted 3rd ce for. Is this the only adjustment you want us to make? We have a couple of other large items (goodwill, FAS 133), maybe at this point we should just include them in the current cash flow forecast. Let me know, thanks.

Carolyn Wi nowit ch  
PGE Accounting  
503-464-8191

>>> "Geaccone, Tracy" <Tracy.Geaccone@ENRON.com> 10/18/01 08:25AM >>>

It is actually \$45 million. I would need I revised 3rd CE and also reflect the change in the cash flow forecast. I am sorry I did not get back to you sooner on this.

Tracy

-----Original Message-----

From: Carolyn Wi nowit ch [mailto:Carolyn\_Wi nowit ch@pgn.com]  
Sent: Wednesday, October 17, 2001 9:37 AM  
To: Geaccone, Tracy  
Subject: 3rd curr est

Do you still need a revision of the 3rd current estimate? If so, should we update it for September actuals? Or should we revise the 3rd ce for the 43 mill revenue deferral to 2002 only, and report September actuals in the October monthly cash flow forecast? Let me know what you need, thanks.

Carolyn Wi nowit ch  
PGE Accounting  
503-464-8191

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