



July 21, 2000

To the Limited Partners:

This correspondence from the General Partner summarizes the investment activities of LJM2 Co-Investment, L.P. ("LJM2") during the month of June as well as provides an update of other activities at LJM2.

### Investment Portfolio

June was a very busy month for LJM2 with the closing and funding of seven new investments. In order to fund these investments, the General Partner made two capital calls, totaling \$167.1 million. The funds were applied as follows:

<u>Source (\$ millions)</u>	<u>Uses (\$ millions)</u>
Capital Calls 167.1	Investments 145.3
	Partnership Exp. 3.5
	Mgmt Fees 3.6
	Excess <u>14.7</u>
Total <u>167.1</u>	167.1

The excess of \$14.7 million is being retained and invested by the Partnership and will be used to fund investments in August. LJM2 now has \$220.5 million of investments, with \$202.7 million of undrawn limited partners' capital available. A summary of the current portfolio is as follows:

<u>Investment</u>	<u>Cost (\$ millions)</u>
ENA CLO: debt and equity	\$32.5
Resco	0.7
Rawhide	12.5
Raptor I	29.5
GECC Turbine	3.8
EBARGE	7.5
Backbone	30.0
Raptor II	30.0
Margaux	10.0
TNPC	38.0
Osprey	<u>26.0</u>
Total	\$220.5

### New Investments

The **GECC Turbine** investment was completed on May 12, 2000. LJM2 purchased two Frame 7EA gas combustion turbines from General Electric and entered into an option agreement to allow Enron Engineering & Construction Company ("EE&CC") to purchase the turbines in six months. The purpose of this transaction was to secure the purchase of the turbines for EE&CC and to keep the assets off of Enron's balance sheet until EE&CC determines a specific project for the turbines. LJM2 received an option premium of \$820,078 at closing and will be required to fund \$9.76 million over the next six months for the turbines. We expect EE&CC to purchase the turbines at the end of the option period.

LJM2 purchased \$7.5 million of equity in **EBARGE, LLC**, a special purpose entity set up to own 9 power barges with a combined capacity of 276 MW. LJM2 expects to exit this equity investment within 7 months through a sale to a strategic equity investor.

The **Backbone** investment consists of the purchase of 40 fiber optic strands and 86,760 fiber route miles from Salt Lake City, Utah to Houston, Texas. LJM2 purchased the strands for \$30.0 million. LJM2 and Enron Broadband Services (EBS) also entered into a marketing agreement whereby EBS originators will market the fiber to third parties on behalf of LJM2.

**Raptor II** is a replication of the Raptor I investment, which is a structured finance transaction designed to allow Enron to hedge its mark-to-market exposure from publicly traded and private equity investments. LJM2 funded \$30 million for Raptor II and expects to receive a distribution of \$41 million in December 2000. LJM2 will continue to own an interest in Raptor with additional upside possible in three years.

The **Margaux** investment is a purchase of \$10 million of equity certificates in a monetization of Enron's equity interest in three European power plants. LJM2 purchased 33% of the Class A certificates, which will yield 16% per annum and are subordinated in payment to \$95 million of Trust Notes.

**TNPC** is "The New Power Company", formed to provide electricity and other energy services to the residential and small commercial market. LJM2 purchased \$38 million of special warrants as part of a \$100 million private equity offering. TNPC has filed an S-1 for a \$400 million IPO, which is expected to occur in September 2000. LJM2 has demand registration rights six months after the IPO.

LJM2 purchased 18% of the equity in **Osprey Trust**, which is an indirect owner of approximately \$920 million of Enron's merchant assets. The \$26 million investment in Osprey equity will earn a current yield of 12.75%, and repayment of capital is primarily dependent on the sale of Enron stock and the sale of the assets in the merchant portfolio.

As part of its return on this investment, the Osprey equity holders are entitled to a 1.5% upside sharing in the value of the Trust. The current value of this sharing is \$1.85 million.

Additionally, LJM2 entered into a put obligation with a partnership owned by Avista Power, which required no cash investment from LJM2. The put gives Avista the right to sell a GE7FA turbine to LJM2 on July 22, 2000 if Avista does not complete the purchase of the equity in a power plant from Enron and enter into a construction contract with Nepco, a wholly owned subsidiary of Enron, for the construction of the new plant. LJM2 received a put premium at closing on July 7, 2000 of \$357,000, and the put obligation will be outstanding for two weeks. If Avista exercises the put, LJM2 will have an additional \$3.2 million from the transaction to cover the expenses of remarketing the turbine. We expect the equity sale and construction contract to be completed by Enron and Avista and the put to expire unexercised.

### Liquidated Investments

At year-end 1999, LJM2 purchased 90% of the equity of Bob West Treasure, L.L.C. for \$2.95 million. Bob West Treasure is a special purpose vehicle created to acquire the domestic exploration and production assets of Tesoro Petroleum. LJM2 received a cash payment of \$3.25 million for this investment, representing a return of and on capital, giving LJM2 an unlevered annualized return of 25% and a levered annualized return of 93% on this investment. LJM2 continues to hold the economic interest in this investment, which may give rise to future tax benefits.

### Potential Investments

LJM2 is working on several new investments that are expected to close and fund in August. We expect that some of these investments will be LJM2's first non-Enron investments. Approximately \$100 million of additional capital may be required to fund these investments, which will most likely require additional capital calls in the month of July. The following is a short summary on each potential investment.

Coyote Springs II Equity and Blue Ridge - Investment Summaries on these two investments were included in a package of seven investment summaries, distributed to you as part of the capital calls made in June. Coyote Springs II is a power plant in Oregon. LJM2 is considering the purchase of 50% of the equity interest in this plant. Blue Ridge is a CLO structure offered by First Union and LJM2 is considering the purchase of preferred shares in the structure. The capital to fund these two investments was not part of the June capital calls. We expect both of these investments to be closed and funded in August.

Westinghouse Turbine - LJM2 is considering the purchase of a Westinghouse W501d5A gas combustion turbine and subsequently entering into an option agreement to allow Enron Engineering & Construction Company to purchase the turbine within four months. The purchase of the turbine will allow Enron to secure the turbine, while maintaining off balance sheet treatment of the asset. LJM2 will be paid an option

premium and will need to fund approximately \$12.4 million in turbine payments over the option period.

Zenith Telecom - LJM2 is considering the purchase of 20% of the equity in Zenith Telecom Trust, which is a new off balance sheet vehicle to be created by Texas Utilities ("TXU") to fund the growth of its telecommunications business. The investment is expected to be \$30 million and the certificates will earn a 16% yield that will be prefunded through a debt offering. After four years, if LJM2's equity has not been returned through either a third party equity sale or an IPO of the telecom business, the yield will increase 1% every six months. At dissolution, the certificate holders will receive 80% of any gains/profits until a 20% IRR is achieved and then 5% of any gains/profits thereafter.

### Debt Facilities

A portion of the June capital calls was used to repay the Chase revolver by \$8.5 million, bringing the outstanding available balance to \$15 million. Availability under this facility is determined by the amount of unfunded partners' capital; therefore as additional capital calls are made, the ability to use the revolver decreases. Therefore, we are currently working on a new \$200 million debt facility that will be advanced against the value of the investment portfolio. This new facility will be used to repay outstandings under the Chase revolver and to fund new investments.

A payment of \$1.17 million was required under the terms of the SE Acquisition Loan, bringing the outstanding balance to \$14.14 million. We anticipate repaying this loan from the proceeds of the new credit facility.

### Co-Investment

LJM2 offered its second co-investment opportunity to selected limited partners during June. Two limited partners invested a total of \$12 million as co-investors in the TNPC special warrants. The General Partner continues to see opportunities to offer co-investments, and encourages all limited partners who are interested in co-investment to contact Kathy Lynn.

Best regards,



Andrew S. Fastow  
General Partner