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MEMORANDUM

Date: June 12, 2004
To: McCullough Research Clients
From: Robert McCullough
Subject: Reading Enron's Scheme Accounting Materials

Enron trading schemes were frequently documented in their accounting materials. Enpower, the central accounting system, had periodic mentions of schemes set out in the Yoder/Hall memos. Enron's "Inc Sheets" and "Reconciliation" reports frequently described these illegal practices.

Enron's operations were dominated by its trading operations. While all gas trading took place from Houston, electric trading was split into two offices: Portland's West Desk handling the west coast and all other U.S. electric trading from Houston. While evidence exists that Houston's electric trading committed criminal schemes designed to defraud ratepayers, the vast majority of the evidence concerning manipulation of electric markets concerns Enron's west coast trading operations.

Enron's West Desk consisted of one hundred trading and support personnel stationed at PGE, Enron's utility subsidiary in Portland, Oregon. The chief trader at West Desk was Tim Belden. Tim Belden and one manager who reported to him, Jeff Richter, have plead guilty to federal charges. Another manager, John Forney, is now under indictment.

West Desk was broken into eight departments:

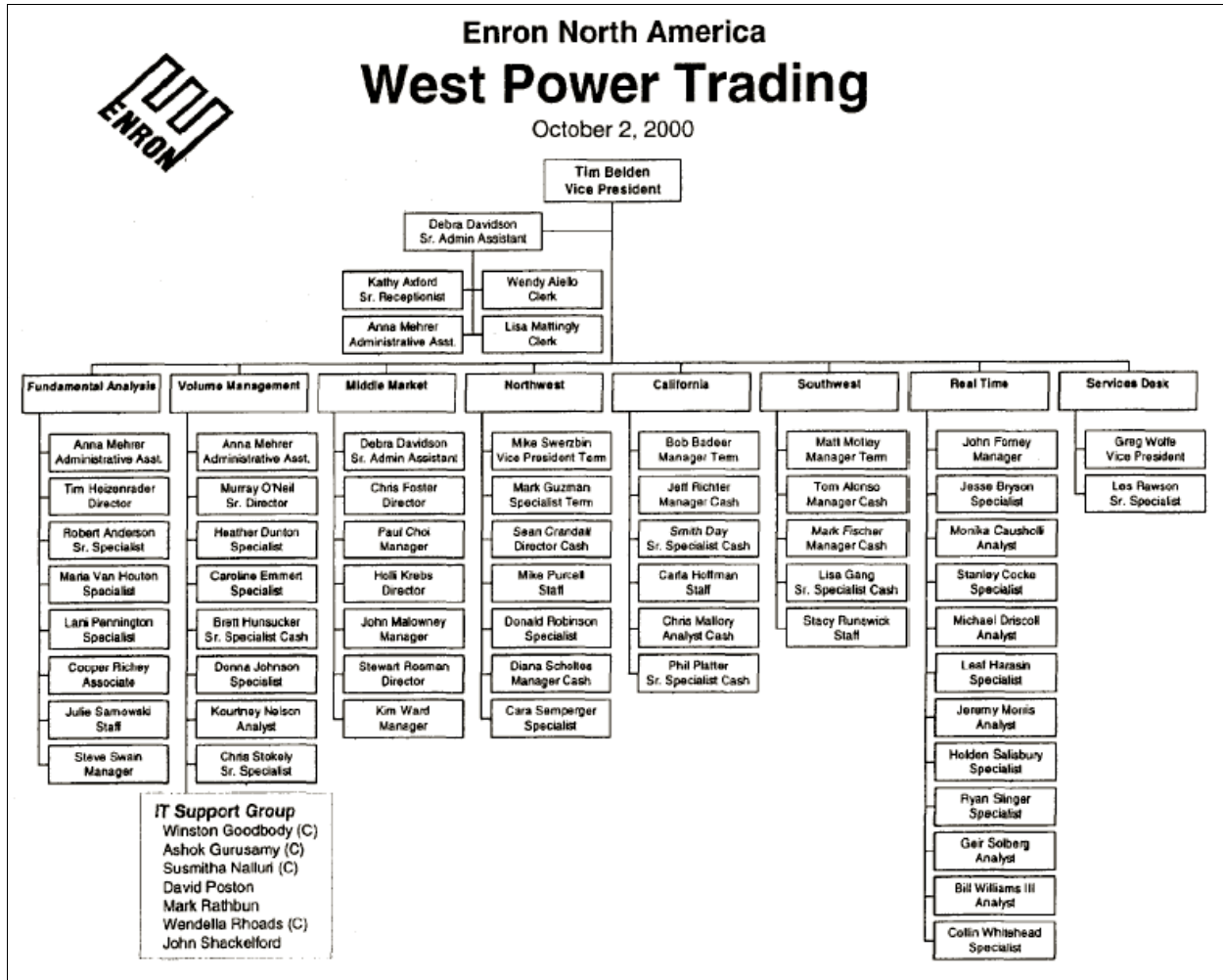
Fundamental Analysis
Middle Market

Volume Management
Northwest

California
Real Time

Southwest
Services

The largest of the trading groups was John Forney's Real Time group. In 2001, John Forney moved to Texas and this group was managed by Bill Williams III.



A substantial number of the names on this organizational chart show up as traders involved in the schemes mentioned in the Yoder/Hall memos, in Enpower, in the "Inc Sheets", and in the Enpower To CAPS Reconciliation Reports.

A central part of trading is record keeping. Not surprisingly, Enron's accounting systems were unique. In spite of Enron's declarations to the contrary, Enron's records have only lately become available. Some of the most important of the accounting systems have only become available in the last month, more than two years after their bankruptcy. Additional accounting information on Enron's trading manipulations most likely exists in Enron's possession at this time that has not been

turned over as yet.

A single trade should have been recorded in any number of places. First, in theory, all of Enron's trading should have been recorded by their telephone recording system. Second, traders maintained a personal trading ledger on paper for their own records. Third, transactions were entered in "private" accounting systems like the "Inc Sheets" and "Service Sheets." California transactions were also entered in the CAPS system. In principle, all transactions were eventually entered into Enron's Enpower trading system.

In practice, Enron's West Desk was curiously informal about its accounting practices. Frequently traders would ask callers to call back on unrecorded lines. The trader ledgers are often illegible and poorly organized. The "Inc Sheets" and "Service Sheets" are highly idiosyncratic, changing format from deal to deal and day to day. CAPS and Enpower were often incomplete. The challenge of maintaining the inconsistent accounting system was immense, so a final daily report, the "Enpower To CAPS Reconciliation" was prepared at the end of the night and signed by the reviewing trader. Several of Enron's schemes, specifically Death Star and Load Shift, caused frequent errors in CAPS and Enpower.

A number of accounting documents such as the Get Shorty and EES Sheets have not been turned over by Enron in spite of requests for their accounting materials.

Enpower

Enpower is Enron's trading accounting system for all of its transactions – including both West Desk and Houston. Enron had continuing problems with this system, which may be one of the reasons why Enron maintained more than one set of books.

Enron finally turned over a copy of the West Desk's Enpower entries in December 2003. Although Enpower has generally been described as a massive system, Enron's West Desk transactions will fit on a single CD-Rom. Most Enron transactions are entered into Enpower, but a number of schemes were not normally entered into Enpower.

Enpower is structured around "deals", "strips", and "legs." A "deal" is roughly similar to a contract. A specific contract could include any number of specific electric schedules. Each "strip" is a set of electric deliveries on a specific day. "Legs" are a link between specific "deals." "Legs" are not consistently used by West Desk. This is another reason for the other less formal accounting systems.

On entry, each "deal" is assigned a six digit number. The six digit number often is referenced with a single digit behind the decimal point. When this happens, it is referencing the "leg". For example, in Enron's August 15, 2000 Death Stars, for example, one "deal" is #393525. A reference to #393525.1 would mean the first leg of #393525. In most cases, the "deal" only has one "leg" so the decimal is omitted. A given scheme often required the use of a number of "deals" and "strips."

Each "deal" indicates the trader and the counterparty contact. John Forney and Bill Casey (PGE's

manager who facilitated Enron's Death Stars in the spring of 2000), for example, appeared together in deals #341128, 341156, 343199, 34202, 34204, 343217, 343221, 343222, 354733, 371441, and 371446.

Enpower has two comment fields – one for “Deals” and one for “Strips.” Enron staff frequently put additional scheme related information in the comments – the name of the scheme like Fat Boy, Death Star, or Ricochet. In addition, they frequently placed payment information – the share of the profits with a counterparty useful in setting up the scheme. Traders with comments referencing Enron schemes included Bill Williams III, Brian Robinhold, Carey Morris, Donald Robinson, Holden Salisbury, Jeremy Morris, Jesse Bryson, John Forney, Les Rawson, Matt Motley, Mike Driscoll, Mike Swerzbin, Stanley Cocke, and Valarie Sabo.

One very important notation in Enpower was the deal type. Most deals were “Forward” which meant a normal business transaction. Another frequent entry was “Buy/Sell”. A “Buy/Sell” followed by a “B” meant that Enron was buying a service from another party. These “Buy/Sell B” transactions are central to megawatt laundering at the California Oregon Border needed to disguise imports into California that actually came from California.

Enpower is very difficult to read and understand. Matching “deals” to schemes is so complex that early in the California market, John Forney introduced his own accounting system, the “Inc Sheet”.

Inc Sheet

“Inc Sheet” stands for “Incremental Sheet.” The “Inc Sheet” is an Excel workbook that is filled in on a daily basis by the real time traders. The critical importance of the “Inc Sheet” was that it summarized Enron's market manipulation schemes by scheme. This enabled real time traders like John Forney to review Death Stars, Load Shifts, and Ricochets.

Enron provided the first “Inc Sheets” in EL02-114. More recently, Enron has provided a full set of calendar year 2000 “Inc Sheets” in EL03-180.

“Inc Sheets” split the days transactions into “Service”, “ISO HA”, “Congestion Management”, “Bilateral Market”, and “Balance of Month”. Enron often would identify specific sections of the “Congestion Management” section into “Death Star” and “Load Shift” sections.

Often, but not always, “Inc Sheet” entries are tied back to “deal” numbers in Enpower. Each entry in the “Inc Sheet” indicated location, type of transaction, service customer and the profit or loss by transaction.

The Yoder/Hall memo that identified Enron's schemes in California are closely tied to entries in the “Inc Sheet.”

Service Sheet

In the fall of 2000, Enron moved the “Services” section of the “Inc Sheet” into a separate accounting system. While the “Inc Sheet” summarized schemes, the “Service Sheet” reflected the relationship between Enron and its service counterparties.

Service customers included Colorado River Commission (CRC), Montana Power Company, Powerex, and a number of other counterparties. Each entry in the Services Sheet indicated location, type of transaction, service customer and the profit or loss by transaction.

CAPS

Enron’s transactions with the California PX and the California ISO are contained in CAPS. Enron turned over some CAPS files in December 2003. Enron has not, so far, provided full copies of CAPS to the plaintiffs.

CAPS provides critical information on Enron’s bids and schedules in California. CAPS data currently provided includes plant dispatch and transmission schedules including the firmness of California schedules. As a rule, CAPS data is not included in Enpower. This means that while Death Stars may be documented in both Enpower and the “Inc Sheets”, the actual transmission schedules at the ISO are only found in CAPS.

Enron To CAPS Reconciliation

At the end of each Enron shift in West Desk, traders reviewed the CAPS and Enpower databases for consistency. Each Reconciliation is a thirty page report reflecting the day’s transactions in California. Since a number of the schemes caused errors in either Enpower or CAPS, the specific errors were identified by hand. Specific Death Stars and Load Shifts were circled. The trader who reviewed the Reconciliation signed the Reconciliation report. The Reconciliation reports extended to Enron’s declaration of bankruptcy and continued to illustrate Enron schemes until November 2001.

Recognizable signatures on the Reconciliation reports include Mark Guzman, Holden Salisbury, Mike Driscoll, Stanley Cocks, Brett Hunsucker, Brian Robinhold, Bill Reed, Jesse Bryson, Monika Causholli, Leaf Harasin, Craig Dean, Diana Scholtes, Bill Williams III, Jeremy Morris, Les Rawson, and David Porter.

Get Shorty

Certain schemes like Get Shorty were not included in the “Inc Sheets”. Evidence exists that these schemes had their own accounting “sheets”. The Real Time department maintained the “Inc Sheets”, but would not have had responsibility for schemes that were primarily aimed at the California ISO’s day ahead and hour ahead markets.