ENERGY TECHNOLOGIES & SERVICES RESEARCH

ROBERTSON STEPHENS

November 8, 1999

ENRON CORPORATION

To Sell Portland General Electric; This Makes Good Sense, in Our View

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Robertson Stephens
Enron Corporation **ENE**
Energy Technologies & Services

Change in	**Yes/No**	**Was**	**Is**
...Rating:	No		BUY
...EPS 1998A:	No		$ 1.01
...EPS 1999E:	No		$ 1.17
...EPS 2000E:	No		$ 1.35
...EPS 2001E:	No		$ 1.55

52-Week Range:	26-45
Shrs Out (MM):	781.1
Market Cap ($MM):	$30,658
Average Daily Volume (000):	1,769.5
12/98 Book Value/Share:	$9.02
1998 ROE:	11.1%
1998 IBIT Margin	5.1%
Tot. dbt / cap as of 12/98:	24.8%
12/98 Net Cash/Share	$0.14
Dividend/Yield:	1.3%
3 Year Sec Growth Rate:	15%

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$39.25 **11/8/99**
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FY Dec	**1999E**	**2000E**	**2001E**
EPS: 1Q	$0.34	$0.30	
2Q	$0.27	$0.31	
3Q	$0.27	$0.34	
4Q	$0.29	$0.38	
Year	$1.17	$1.35	$1.55
P/E	33.6	29.2	25.4
Cal Year	$1.17	$1.35	$1.55
Cal P/E	33.6	29.2	25.4
Revs($M)	**1999E**	**2000E**	**2001E**
1Q	$7,632	$8,861	
2Q	$9,673	$11,852	
3Q	$11,835	$12,811	
4Q	$9,973	$13,622	
Year	$39,113	$47,145	$54,159
EqtyMkt/Rev	0.8	0.7	0.6

Key Points:

- Enron announced this morning that it will sell Portland General Electric to Sierra Pacific Resources (SRP $21-1/16) for approximately $3.1 billion. The company expects the transaction to close in 2H:00, and to result in a small one-time gain. The company believes the transaction will be earnings neutral.
- We take a positive view of this transaction. Portland General, like Enron Oil and Gas (divested earlier this year), is no longer strategic to Enron's objectives in the emerging deregulated power market, in our opinion. When Portland General was acquired two years ago, it arguably was strategic, in that it gave Enron a physical presence in the power business to support its growing wholesale marketing and trade. We believe Enron's construction of merchant plants since then, plus growth generally in the merchant power market, obviates the need today to control the Portland assets.
- We suspect that Enron's growing frustration over its attempts to remake Portland into a company prepared to meet the competitive future, also played into this decision to sell. Efforts to separate Portland's generating assets from its transmission and distribution assets got bogged down, and there appeared to be a rising tide of sticky social and political issues that would slow down, or, at worst, prevent Enron from making its desired changes at Portland.

- Enron will keep two Portland General operations of strategic importance. These are its West Coast wholesale marketing and trading operation, which is run out of Portland, and its telecommunications operation, which, while based on Portland's initial investment in telecommunications, has grown far beyond that and is now an important piece of Enron's larger corporate strategy.
- According to the company, the sale to Sierra Pacific results from an auction process begun this past summer. No shareholder approvals are required, and Sierra apparently has the financing committed. Regulatory approvals are required, from FERC and the SEC at the federal level, and from the Oregon and Nevada regulatory commissions. We do not expect any difficulty in obtaining these approvals, although they will likely drag out the process.

The Company and Investment Thesis

Enron is an integrated global energy company. Its operations span the production of natural gas and oil; the transmission and distribution of natural gas; the generation, transmission, and distribution of electricity; wholesale trading of energy in all forms; and retail sales of energy and of services associated with retail energy use. Approximately 80% of Enron's revenues derive from its domestic businesses; its international operations are principally in Europe, South America, and Asia. In 1998, the company reported revenues of $31.3 billion and net income of approximately $700 million.

We view Enron as the premier, large-cap play on the deregulation and restructuring of the electric utility industry in the U.S. and Europe. In our view, the opportunities created by this restructuring are substantial (see our April 12, 1999, report ***Rejoice Re: Juice Redux*** and our October 20, 1999, report, ***Talkin' 'Bout My Generation***). In addition, Enron has established itself as a leading force in other international power markets, where privatization is allowing new entry.

Investment Risks

Among the risks faced by Enron are risks associated with the company's construction of new power plants and other energy projects: the cost to construct, time to complete, and operating characteristics of the projects once complete all represent potential sources of risk. Enron's strategy has been to build merchant peaking plants, thus exposing the company to the risks (and high potential rewards) of power sold to meet short-term and relatively unpredictable requirements. As the largest marketer of power, Enron faces trading risks. Enron hedges these risks to a significant extent. However, the electricity market is exceptionally volatile: A Federal Energy Regulatory Commission report noted that during June 25 and 26, 1998, spot prices for electricity in the Midwest rose from $25 per megawatt hour to as much as $2,600 per megawatt hour, and reached as high as $7,500 per megawatt hour at one point. Finally, Enron faces exposure to political risk in its international operations.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT YOUR ROBERTSON STEPHENS REPRESENTATIVE AT:

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Unless otherwise noted, prices are as of intraday, Monday, November 8, 1999.

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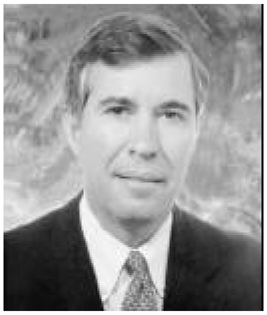

Hugh F. Holman

Hugh Holman joined Robertson Stephens in 1998 as a senior equity analyst covering the environmental sector and the deregulation of the electric utility industry. Prior to joining the firm, he ran his own consulting firm, Environmental Capital Associates, Inc. Hugh has seven years of experience on Wall Street as an equity analyst, principally with Alex. Brown. Prior to joining Alex. Brown in 1989, Hugh was a management consultant with Putnam, Hayes & Bartlett. He also worked for the U.S. Environmental Protection Agency, where he was the lead policy analyst for the Agency's hazardous and solid waste programs. In 1994, *The Wall Street Journal* recognized him as an All-Star pollution control analyst. He received his BA degree from Dartmouth College and his MBA from Stanford University.

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