Enron Corp.

Company Update

Rating: STRONG BUY *(Moderate Risk)*

- Enron's first-quarter 2000 EPS of $0.40 beat our expectations by $0.04…
- …With positive surprises in wholesale energy profits and break-even Broadband results.
- ENE is ahead of its peers in global online trading and retail energy services.

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ENE (65 1/2)—NYSE

April 18, 2000

	Earnings Per Share Fiscal Year Ending 12/99	12/00E	12/01E	P/E 12/01E	Ind. Div.	Yield	Shares O/S (Mil.)	52-Week Range
New	**$1.18**	**$1.40**	**$1.60**	**40.9X**	**$0.50**	**0.8%**	**859.1**	**78-33**
Old		**$1.35**						

DJIA: 10,582.5

S&P 500: 1401.53

PSI Natural Gas Pipeline Index: 1002.29

Priced as of the close, April 17, 2000.

Note: A PSI index's market-cap-weighted performance is on a total-return basis and, in most instances, from 1979. Most Prudential Securities Incorporated indexes (for about 200 industries in 12 economic sectors) are also segmented by small-, mid-, and large-cap stocks. For more information regarding these indexes and their composition please contact your Prudential Securities representative. Prudential Securities research is also available on Bloomberg, First Call/Research Direct, and Multex.

Research

Enron Corp.'s First-Quarter Earnings Beat Expectations On Energy Investment Gains And Online Trading Volumes

Enron Corp. is a leading integrated energy company, with both U.S. and international operations. The company owns over $30 billion in assets, and operates networks to develop and enhance energy and broadband communications services worldwide. It is also a global leader in the marketing and risk management of energy commodities and financial services.

Adjusted for the dilution of its preferred dividends, Enron Corp. earned $0.40 per share in the first quarter of 2000, up 18% from the $0.34 earned in the 1999 first quarter. We had been looking for $0.36 per share, and First Call consensus expectations were $0.37. The primary source of the positive surprise was in Enron's wholesale energy business, Energy Assets & Investments (investments and project development), which reflected strong performance in its energy asset portfolio and a full-quarter contribution from its power plant in Dabhol, India. Below we highlight the other sources of better-than-expected earnings.

- **Revenue from dark fiber sales offset start-up costs.** Enron Broadband broke even during the quarter, while we were expecting a double-digit loss. The results reflected revenues on dark fibers sales, which offset start-up costs. Losses in the $20 million-plus range are expected during the remaining quarters of this year.

- **Regulated reserve reversal contributed to utility results.** In Enron's regulated businesses, Portland General Electric benefited by about $30 million, based on a ruling that allowed the reversal of a reserve held against costs incurred in its customer choice program. This was partially offset by the absence of a favorable litigation reserve adjustment in Enron's Gas Pipeline Group, which benefited 1999 results.

- **The quarter reflected full contribution from India project and equity earnings.** EBIT from Energy Assets & Investments rose 62% (47% above our expectations) to $220 million, partially reflecting the full first quarter contribution (estimated at $20-$25 million) from the Dabhol project in India, which was completed late in first-quarter 1999. A contribution from its equity earnings in energy partnerships in a strong energy commodity price environment also benefited the quarter versus an unfavorable price environment a year ago.

- **Enron online generated 27% of total trading volumes.** Enron's Commodity Sales & Services (wholesale energy commodity trading) EBIT rose 10% to $246 million, largely because of increased physical deliveries of natural gas and power on its new e-commerce platform, Enron Online. The company estimates Enron Online contributed about 3 bcf/d to physical volumes of 41.8 bcfe/d.

- **Retail energy exceeded expectations in timing of revenue receipts.** Energy Services (EES), Enron's retail energy management services arm, generated double-digit profits of $16 million versus a $31 million loss in last year's quarter. We had been expecting a single-digit profit. On an annual basis, EES is still on track for $75 million in EBIT, and we have adjusted our quarterly estimates during the remainder of the year to reflect a smoother earnings stream.

Enron's EPS calculation includes the dilutive effect of $20 million in preferred shares on its second preferred and Series B preferred securities, which affected the diluted share calculation by an additional 85 million shares. The second preferred shares are roughly 35 million of this total and account for $4 million quarterly, or $16 million annually. The second preferred shares are always dilutive and included in the EPS calculation. The Series B preferred dividends are about $65 million annually on 50 million shares, or about $1.30 per share per year (about $0.32 per quarter). Therefore, the Series B preferred dividends are only dilutive when ENE's earnings exceed $0.32 per share in any quarter. When earnings exceed this amount, these preferred dividends and shares are added to the numerator and denominator, respectively, in the EPS calculation.

Raising Our 2000 EPS Estimate To $1.40 To Reflect Higher First-Quarter Earnings. After speaking with the company, we have elected to raise our 2000 earnings estimate to $1.40 from $1.35 per share, assuming preferred dilution during the remainder of the year and continued losses in Enron Broadband. However, we are leaving our 12-month price target of $85, which is based on our "sum-of-the-parts" model for Enron Corp., unchanged At its closing price on April 17, 2000, ENE offered a potential total return of over 35%. We are maintaining our Strong Buy rating on Enron.

Wholesale Energy Volumes Increased 43%, Reflecting Incremental Enron Online… Highlighting the segment performance in more detail, Enron's wholesale energy business reflected a strong increase of 43% in total physical sales/delivery volumes to 41.8 bcfe/d. Gas sales in North America increased by 6.5 bcf/d to 20.5 bcf/d, of which about 3 bcf/d were attributable to incremental volumes from Enron Online. Physical gas volumes in Europe rose 38% to 2.4 bcf/d, reflecting new customers and counterparties with Enron Online trading. Enron Online has completed 500 transactions in continental Europe versus zero in the 1999 first quarter, and represented 39% of total domestic and international transactions.

Enron Online is a free electronic transaction system in which Enron Corp. acts as principal. It is fully integrated into Enron's existing risk-management operations. To date, Enron Online has generated 70,000 transactions and $27 billion in gross notional transaction value, and is almost at its goal to reach $30 billion at the end of 2000.

…And Acquired Columbia Energy Contracts. The contracts from Columbia Energy, acquired late in 1999 also added about 3 bcf/d to first-quarter volumes. Further, electricity marketed volumes rose 28% to 110.7 million MWh, reflecting higher sales in the western region of the U.S. and an increase in European volumes by a factor of 25 times to 7.5 million MWh. Financial transactions also rose to 107 bcfe/d versus 64 bcfe/d, with the increase again attributable to Enron Online. While Enron Online cannibalizes a portion of Enron's traditional commodity sales and trading volumes, the incremental volumes in the first quarter are likely to increase in the future, and margins should improve with better pricing transparency.

Enron Online Has Attracted Competition From Power Trading Alliance. While Enron has led the foray into Internet-based trading of energy and related commodities, a group of power trading companies has banded together to compete with Enron Online. On April 13, six major energy companies joined to create a new transaction site that would bring buyers and sellers of wholesale gas and electricity to one location. While this consortium (which consists of American Electric Power, Aquila Energy, Duke Energy, El Paso Energy, Reliant Energy, and Southern Co.) may introduce some competition into the online trading market, we believe it is at least a year away from full implementation. It took Enron about nine months to put Enron Online into service, primarily because of the extensive legal due-diligence process.

Acquisition Of PG&E's Energy Services Business Should Be Accretive To Earnings. Enron recently announced plans to acquire PG&E's retail energy services contracts for $85 million. This book of business consists of a California-based portfolio of commodity contracts that represent about 9% of the commercial load behind the utility, or about 70% of the customers that have switched electricity suppliers. Enron intends to offer extended retail services to these customers without the cost of additional staffing requirements. Assuming a 3% margin on the services contracts, Enron could generate about $6-$9 million in annual EBIT from this transaction.

Retail Energy Services Exceeded Contracted Revenue Goal In The Quarter. Enron's retail energy business, EES, earned $16 million in the first quarter, above our $5 million estimate and a $47 million swing over last year's first-quarter loss of $31 million. EES contracted $3.7 billion in revenues from energy services, above its target of $3 billion in the quarter, compared with about $1.7 billion of contracted revenue in last year's first quarter. Several large contracts with ten-year durations and a large component of higher-margin outsourcing services were signed in addition to $500 million of contracted revenue under new contracts in Europe. Gross margins have improved with increasing scale and scope in the U.S. and the longer-term outsourcing agreements. The company has targeted annual EBIT of $75 million from this business, with a goal of signing $16 billion of revenue under contract.

Regulated Businesses Met Expectations, Benefiting From Reserve Reversal. Enron's regulated businesses (Gas Pipelines, Portland General Electric) grew EBIT by 7% to $233 million, just ahead of our expectations. Enron plans to expand its gas pipeline system selectivity in California, Florida, and Indiana, and the sale of its electric utility, Portland General, to Sierra Pacific is slated for late summer/early fall. The sale of the utility is not expected to affect Enron's credit ratings, which were recently upgraded by Moody's Investors Service to Baa1 from Baa2, and the lost earnings and cash flow from this business are expected to be more than offset by the continued growth in Enron's wholesale energy business.

Enron Broadband Is On Track To Exceed Intermediation Volume Projections. The exciting news during the quarter was in Enron's broadband bandwidth intermediation business. Enron Broadband has replicated the wholesale energy concept in a different industry: telecommunications. The Enron network is open and efficient with broad connectivity across the U.S., and the company plans to have about 15,000 of route miles in the ground by the end of this year. At the end of 1999, Enron's network consisted of 12,325 miles (each route mile will typically include 12 fiber pairs.) Capital expenditures in 2000 are budgeted at $650 million.

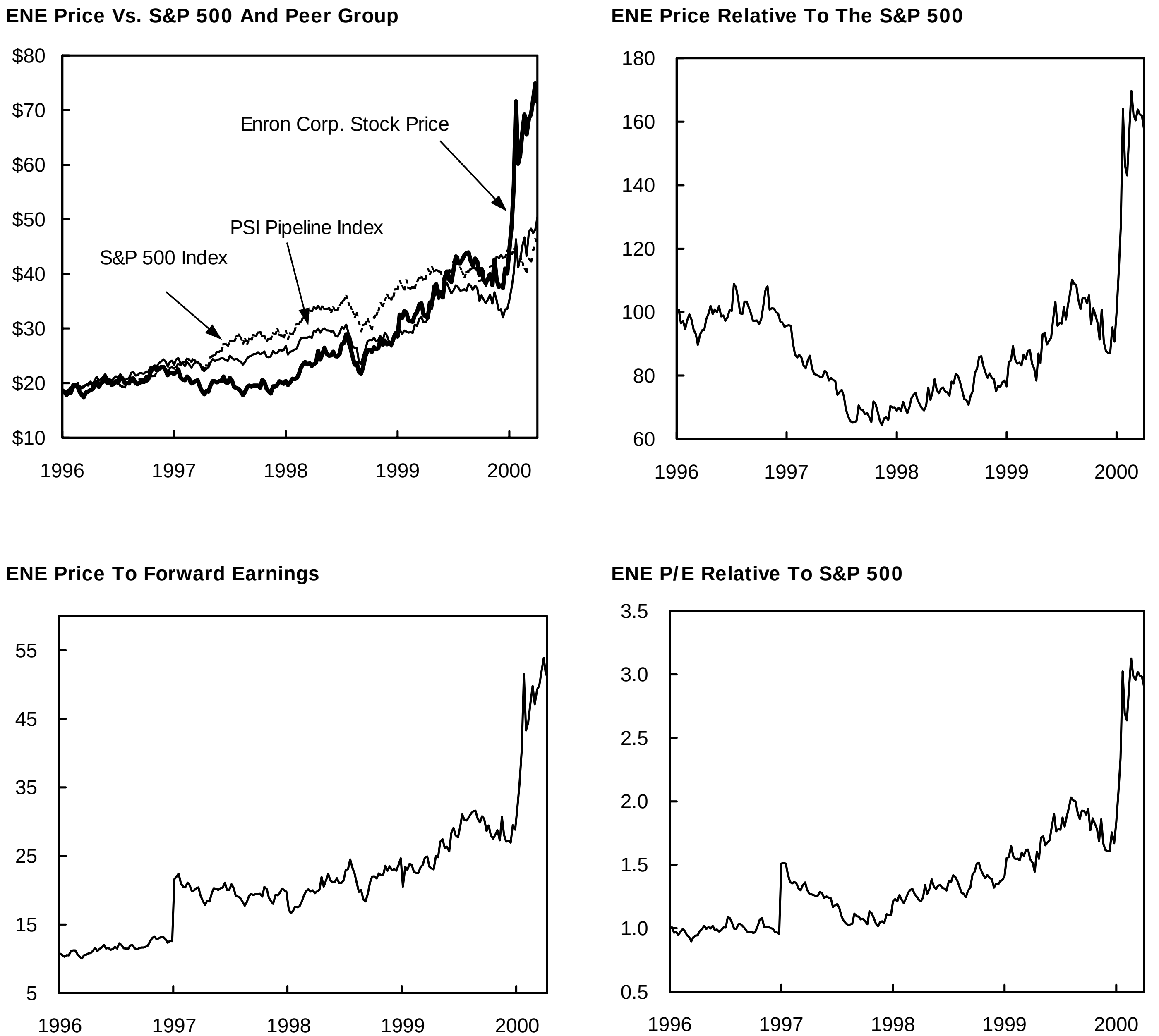
Developing Network Connectivity To Enable Unlimited Real-Time Bandwidth Access With End-To-End Control. Once the fiber network is in place, Enron plans to develop its bandwidth intermediation market with the installation of carrier-class servers. Enron's server architecture will co-locate the servers with distribution partners, and will provide "on-and-off-ramp service" and "one-hop" initiatives. Enron believes these one-hop initiatives will reach 20 million end-users in 2000, and will enable it to offer new broadband products. Embedded in Enron's distributed servers is its proprietary software, which should enable network control and allow for the forward reservation of bandwidth. Enron is also accelerating the deployment of pooling points or switches, which should allow content/data to move at higher speeds on lower-cost, higher-quality bandwidth.

The regional Bell operating companies (RBOCs) are leading the deployment of digital subscriber lines (DSL), and Enron is rapidly extending its broadband capabilities though partnerships with certain RBOCs. The co-location of its servers and contracts with the RBOCs allow Enron to connect directly to the Internet customer's DSL. Enron believes that direct connection is essential to serving the customer.

Bandwidth Intermediation Targets Top Tier Markets Of 15 Cities In U.S. And U.K. During the quarter, Enron Broadband delivered 432 DS-3 volumes and had scheduled settlements on commitments to deliver another 3,793 DS-3. This puts commitments/deliveries of DS-3 volumes at 85% of its targeted annual goal of 5,000 DS-3 in 2000. The company is likely to raise its 2000 expectations, and has targeted a total of 41,000 DS-3 deliveries in 2001. In the first quarter, Enron's primary customers included major brokers, carriers, and other enterprises. It is currently negotiating master agreements with 25 major counterparties.

Enron is seeing increased demand for its intermediation services and plans to offer bandwidth trading on Enron Online in the second quarter of this year. Also, Enron Broadband's content services unit (delivery of streaming content, data management services) generated over $30 million in contracted revenues in the first quarter. We believe this puts the company on track to achieve its $160 million target in 2000.

Figure 1. Enron Corp.—Valuation Measures



Source: Company information and Prudential Securities estimates.

Figure 2. Enron Corp.—Quarterly Income Statement

(Dollars in millions, except per-share data)

	1999					2000E				2000E	2001E
	1Q	**2Q**	**3Q**	**4Q**	**Year**	**1Q**	**2QE**	**3QE**	**4QE**	**Year**	**Year**
Segment Operating Income:											
Transportation & Distribution											
Gas Pipeline Group	$126.0	$72.0	$85.0	$97.0	$380.0	$128.0	$74.9	$88.4	$100.9	$392.2	$407.8
Portland General	92.0	56.0	52.0	89.0	289.0	105.0	52.9	79.3	0.0	237.2	0.0
Wholesale Energy Oper. & Svcs.											
Commodity Sales & Service	224.0	81.0	172.0	151.0	628.0	246.0	199.1	244.8	237.0	926.9	1,213.8
Energy Assets & Investments	136.0	325.0	240.0	149.0	850.0	220.0	310.0	245.0	280.0	1,055.0	1,160.5
Unallocated Expenses	(40.0)	(50.0)	(34.0)	(37.0)	(161.0)	(47.0)	(40.0)	(40.0)	(40.0)	(167.0)	(140.0)
Total Wholesale	320.0	356.0	378.0	263.0	1,317.0	419.0	469.1	449.8	477.0	1,814.9	2,234.3
Exploration & Production	12.0	20.0	33.0	0.0	65.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporate & Other	14.0	(9.0)	(23.0)	21.0	3.0	(44.0)	(25.0)	(17.5)	(20.0)	(106.5)	(70.0)
Total Core EBIT	**$564.0**	**$495.0**	**$525.0**	**$470.0**	**$2,054.0**	**$608.0**	**$571.9**	**$599.9**	**$557.9**	**$2,337.7**	**$2,572.2**
Energy Services	(31.0)	(26.0)	(18.0)	7.0	(68.0)	16.0	15.0	15.0	30.0	76.0	232.1
Broadband Services	—	—	—	—	0.0	0.0	(21.7)	(21.7)	(21.7)	(65.0)	(86.7)
EBIT (before Min. Interest)	**$533.0**	**$469.0**	**$507.0**	**$477.0**	**$1,986.0**	**$624.0**	**$565.2**	**$593.3**	**$566.2**	**$2,348.7**	**$2,717.6**
Net Interest Expense	(175.0)	(175.0)	(187.0)	(119.0)	(656.0)	(161.0)	(175.0)	(175.0)	(175.0)	(686.0)	(740.0)
Sub. Pfd. Stock Dividend	(19.0)	(19.0)	(19.0)	(19.0)	(76.0)	(18.0)	(19.0)	(19.0)	(19.0)	(75.0)	(76.0)
Total Minority Interest	(33.0)	(23.0)	(38.0)	(41.0)	(135.0)	(35.0)	(33.3)	(33.3)	(33.3)	(134.8)	(133.1)
EBIT	**$306.0**	**$252.0**	**$263.0**	**$298.0**	**$1,119.0**	**$410.0**	**$338.0**	**$366.0**	**$338.9**	**$1,452.9**	**$1,768.5**
Current	(51.0)	(43.0)	(67.0)	22.6	(138.4)	(62.0)	(52.3)	(62.1)	(52.6)	(229.0)	(355.0)
Deferred	(2.0)	13.0	27.0	(59.0)	(21.0)	(10.0)	(10.0)	(10.0)	(10.0)	(40.0)	(40.0)
Total Income Taxes	(53.0)	(30.0)	(40.0)	(36.4)	(159.4)	(72.0)	(62.3)	(72.1)	(62.6)	(269.0)	(395.0)
Tax Rate	17.3%	11.9%	15.2%	12.2%	14.2%	17.6%	18.4%	19.7%	18.5%	18.5%	22.3%
Recurring Net Income	253.0	222.0	223.0	261.6	959.6	338.0	275.7	293.9	276.3	1,183.9	1,373.5
Preferred Dividends:											
Second Preferred Stock	(4.0)	(4.0)	(4.0)	(4.0)	(17.0)	(4.0)	(4.0)	(4.0)	(4.0)	(16.0)	(16.0)
Preferred A & B Series	—	(15.0)	(15.0)	(20.0)	(49.0)	(16.0)	(16.0)	(16.0)	(16.0)	(64.0)	(64.0)
Total Preferred Dividends	(4.0)	(19.0)	(19.0)	(24.0)	(66.0)	(20.0)	(20.0)	(20.0)	(20.0)	(80.0)	(80.0)
Recurring Net to Common	**$249.0**	**$203.0**	**$204.0**	**$237.6**	**$893.6**	**$318.0**	**$255.7**	**$273.9**	**$256.3**	**$1,103.9**	**$1,293.5**
Second Preferred Stock	(4.0)	(4.0)	(4.0)	(4.0)	(16.0)	(4.0)	(4.0)	(4.0)	(4.0)	(16.0)	(16.0)
Recurring Net With 2nd Pfd	**$253.0**	**$207.0**	**$208.0**	**$241.6**	**$909.6**	**$322.0**	**$259.7**	**$277.9**	**$260.3**	**$1,119.9**	**$1,309.5**
Nonrecurring / Special Items	0.0	0.0	67.0	(2.6)	64.4	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary	(131.0)	0.0	0.0	0.0	(131.0)	0.0	0.0	0.0	0.0	0.0	0.0
Net Income to Common	118.0	203.0	271.0	235.0	827.0	318.0	255.7	273.9	256.3	1,103.9	1,293.5
Diluted EPS:											
Recurring Earnings	**$0.34**	**$0.27**	**$0.27**	**$0.31**	**$1.18**	**$0.40**	**$0.32**	**$0.33**	**$0.32**	**$1.40**	**$1.60**
Nonrecurring / Special Items	$0.00	$0.00	$0.09	($0.00)	$0.08	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Extraordinary	($0.18)	$0.00	$0.00	$0.00	($0.17)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Reported Diluted Earnings	$0.16	$0.27	$0.35	$0.31	$1.08	$0.40	$0.32	$0.33	$0.32	$1.31	$1.61
Primary Shares Outstanding	658.0	708.0	714.1	715.3	698.9	715.3	715.3	715.3	715.3	715.3	715.3
Diluted Shares Outstanding	744.6	771.1	781.1	779.1	769.0	851.9	801.9	851.9	801.9	851.9	851.9
Dividends Per Share	$0.12	$0.12	$0.12	$0.13	$0.50	$0.13	$0.13	$0.13	$0.14	$0.53	$0.56
Book Value	—	—	—	—	$11.34	—	—	—	—	$12.36	$13.61
Avg Return On Equity	—	—	—	—	10.4%	—	—	—	—	11.2%	11.8%
Return on Total Capital	—	—	—	—	7.7%	—	—	—	—	8.5%	9.8%

Source: Company information and Prudential Securities estimates.

Figure 3. Enron Corp.—Annual Income Statement

(Dollars in millions, except per-share data)

	1995	1996	1997	1998	1999	2000E	2001E
Segment Operating Income:							
Transmission & Distribution							
Gas Pipeline Group	$397.8	$415.8	$364.0	$351.0	$380.0	$392.2	$407.8
Portland General	—	—	114.0	286.0	289.0	237.2	0.0
Wholesale Energy Oper. & Svcs.							
Commodity Sales & Service	—	—	249.0	411.0	628.0	926.9	1,213.8
Energy Assets & Investments	—	—	565.0	709.0	850.0	1,055.0	1,160.5
Unallocated Expenses	—	—	(160.0)	(152.0)	(161.0)	(167.0)	(140.0)
Total Wholesale	—	—	654.0	968.0	1,317.0	1,814.9	2,234.3
Exploration & Production	177.8	180.7	183.4	128.0	65.0	0.0	0.0
Corporate & Other	(54.6)	(22.3)	(31.0)	7.0	3.0	(106.5)	(70.0)
Total Core EBIT	**871.7**	**1,009.7**	**1,284.4**	**1,740.0**	**2,054.0**	**2,337.7**	**2,572.2**
Energy Services	—	—	(107.0)	(119.0)	(68.0)	76.0	232.1
Broadband Services	—	—	—	—	—	(65.0)	(86.7)
EBIT (before Min. Interest)	**871.7**	**1,009.7**	**1,177.4**	**1,621.0**	**1,986.0**	**2,348.7**	**2,717.6**
Net Interest Expense	(283.3)	(273.6)	(401.0)	(550.0)	(656.0)	(686.0)	(740.0)
Dividends on Pfd. Stock of Sub. Co.	(32.5)	(34.0)	(69.0)	(77.0)	(76.0)	(75.0)	(76.0)
Total Minority Interest	(17.0)	(66.7)	(80.0)	(77.0)	(135.0)	(134.8)	(133.1)
EBIT	**538.8**	**635.3**	**627.5**	**917.0**	**1,119.0**	**1,452.9**	**1,768.5**
Current	14.4	33.2	(286.0)	(132.0)	(138.4)	(229.0)	(355.0)
Deferred	(128.6)	(207.0)	174.0	(87.0)	(21.0)	(40.0)	(40.0)
Total Income Taxes	(114.2)	(173.8)	(112.0)	(219.0)	(159.4)	(269.0)	(395.0)
Tax Rate	21.2%	27.4%	17.8%	23.9%	14.2%	18.5%	22.3%
Recurring Net Income	424.6	461.5	515.5	698.0	959.6	1,183.9	1,373.5
Preferred Dividends:							
Second Preferred Stock	0.0	0.0	0.0	0.0	(17.0)	(16.0)	(16.0)
Preferred A & B Series	0.0	0.0	0.0	0.0	(49.0)	(64.0)	(64.0)
Total Preferred Dividends	(15.2)	(15.6)	(17.0)	(17.0)	(66.0)	(80.0)	(80.0)
Recurring Net to Common	**409.4**	**445.9**	**498.5**	**681.0**	**893.6**	**1,103.9**	**1,293.5**
Second Preferred Stock	0.0	0.0	0.0	0.0	(16.0)	(16.0)	(16.0)
Recurring Net With 2nd Pfd	**0.0**	**0.0**	**0.0**	**0.0**	**909.6**	**1,119.9**	**1,309.5**
Nonrecurring / Special Items	96.4	120.2	(413.0)	5.0	64.4	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	(131.0)	0.0	0.0
Net Income to Common	505.9	566.2	85.5	686.0	827.0	1,103.9	1,293.5
Diluted EPS:							
Recurring Earnings	**$0.79**	**$0.85**	**$0.87**	**$1.00**	**$1.18**	**$1.40**	**$1.60**
Nonrecurring / Special Items	$0.18	$0.22	($0.70)	$0.01	$0.08	$0.00	$0.00
Extraordinary	$0.00	$0.00	$0.00	$0.00	($0.17)	$0.00	$0.00
Reported Diluted Earnings	$0.97	$1.08	$0.17	$1.01	$1.08	$1.31	$1.61
Primary Shares Outstanding	487.1	492.1	544.3	642.2	698.9	715.3	715.3
Diluted Shares Outstanding Including Pfd.	534.9	540.4	591.4	695.1	769.0	851.9	851.9
Dividends Per Share	$0.41	$0.43	$0.46	$0.48	$0.50	$0.53	$0.56
Book Value	$6.22	$7.29	$10.08	$10.66	$11.34	$12.36	$13.61
Avg Return On Equity	12.8%	11.7%	8.7%	9.4%	10.4%	11.2%	11.8%
Return on Total Capital	9.0%	8.3%	9.0%	12.3%	7.7%	8.5%	9.8%

Source: Company information and Prudential Securities estimates.

Figure 4. Enron Corp.—Cash Flow Statement

(Dollars in millions, except per-share data)	1999					2000E	2000E	2001E
	1Q	2Q	3Q	4Q	Year	1Q	Year	Year
Sources of Cash:								
Net Income	$118.0	$203.0	$271.0	$235.0	$827.0	$318.0	$1,103.9	$1,293.5
DD&A	215.0	236.0	225.0	194.0	870.0	225.0	914.0	914.0
Deferred Income Taxes	2.0	(13.0)	(27.0)	59.0	21.0	10.0	40.0	40.0
Amort of Def'd Contract	0.0	0.0	0.0	0.0	0.0	3.0	9.0	9.0
Other (incl non-cash charges)	131.0	0.0	441.0	0.0	572.0	0.0	0.0	0.0
Exploration & Lease Exp.	25.0	20.0	10.0	(6.0)	49.0	26.0	104.0	104.0
Cash Flow From Ops(CFO)	$491.0	$446.0	$920.0	$482.0	$2,339.0	$582.0	$2,170.9	$2,360.5
Per Share:								
Cash Flow	**$0.75**	**$0.63**	**$1.29**	**$0.67**	**$3.35**	**$0.81**	**$3.03**	**$3.30**
EBITDA	**$1.14**	**$1.00**	**$1.03**	**$0.94**	**$4.09**	**$1.19**	**$4.56**	**$5.08**
CF/Share Growth %					25%		-9%	9%
Changes In Working Capital	(556.0)	(353.0)	(163.0)	72.0	(1,000.0)	(200.0)	(800.0)	0.0
Total Sources of Cash	(65.0)	93.0	757.0	554.0	1,339.0	382.0	1,370.9	2,360.5
Uses of Cash:								
Capital Expenditures	519.0	450.0	1,053.0	275.0	2,297.0	470.0	1,880.0	1,600.0
Common Dividends	82.0	88.3	89.0	93.6	353.0	93.6	379.3	398.2
Free Cash Flow	($666.0)	($445.3)	($385.0)	$185.4	($1,311.0)	($181.6)	($888.4)	$362.3
CFFO	$491.0	$446.0	$920.0	$482.0	$2,339.0	$582.0	$2,170.9	$2,360.5
Gains on assets sales investments	(40.0)	(25.0)	(396.0)	(80.0)	(541.0)	0.0	0.0	0.0
Changes in working capital	(556.0)	(353.0)	(163.0)	72.0	(1,000.0)	(200.0)	(800.0)	101.0
Net assets from price RM activities	(518.0)	765.0	(192.0)	(450.0)	(395.0)	0.0	0.0	0.0
Amoritiz. of prod. payment transaction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	(37.0)	(211.0)	(174.0)	1,247.0	825.0	0.0	0.0	0.0
Net Operating Cash Flow	**(660.0)**	**622.0**	**(5.0)**	**1,271.0**	**1,228.0**	**382.0**	**1,370.9**	**2,461.5**
Investing Activities:								
Capital expenditures	(519.0)	(450.0)	(1,053.0)	(341.0)	(2,363.0)	(470.0)	(1,880.0)	(1,600.0)
Proceeds from sale of assets	43.0	95.0	107.0	49.0	294.0	0.0	0.0	0.0
Equity investments	(409.0)	(239.0)	(70.0)	(4.0)	(722.0)	0.0	0.0	0.0
Acquisition of subsidiary stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business acquisitions, net	(38.0)	(2.0)	(173.0)	(98.0)	(311.0)	0.0	0.0	0.0
Other	(207.0)	(133.0)	(107.0)	42.0	(405.0)	0.0	0.0	0.0
Net Investing Cash Flow	**(1,130.0)**	**(729.0)**	**(1,296.0)**	**(352.0)**	**(3,507.0)**	**(470.0)**	**(1,880.0)**	**(1,600.0)**
Financing Activities:								
Net change in short-term borrowings	1,119.0	182.0	737.0	(473.0)	1,565.0	200.0	800.0	0.0
Long-term debt	46.0	(563.0)	670.0	(214.0)	(61.0)	150.0	550.0	0.0
Preferred subsidiary securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common stock	839.0	50.0	0.0	(37.0)	852.0	0.0	0.0	0.0
Subsidiary equity	0.0	513.0	0.0	55.0	568.0	0.0	0.0	0.0
Dividends paid	(113.0)	(114.0)	(119.0)	(121.0)	(467.0)	(111.5)	(451.7)	(474.3)
Net change in Treasury stock	119.0	62.0	42.0	(84.0)	139.0	(1.0)	(1.0)	0.0
Other	(35.0)	(33.0)	1.0	(73.0)	(140.0)	0.0	0.0	(300.0)
Net Financing Cash Flow	**1,975.0**	**97.0**	**1,331.0**	**(947.0)**	**2,456.0**	**237.5**	**897.3**	**(774.3)**
Beginning Cash	**111.0**	**296.0**	**286.0**	**316.0**	**111.0**	**288.0**	**288.0**	**676.2**
Change in Cash	**185.0**	**(10.0)**	**30.0**	**(28.0)**	**177.0**	**149.5**	**388.2**	**87.2**
Ending Cash	**$296.0**	**$286.0**	**$316.0**	**$288.0**	**$288.0**	**$437.5**	**$676.2**	**$763.4**

Source: Company information and Prudential Securities estimates.

Figure 5. Integrated Energy Companies Universe—Valuation Screen

	Rating	Stock Price 4/17/00	Target Price	Potential Apprec.	EPS From Cont. Ops. 1999	EPS From Cont. Ops. 2000E	EPS From Cont. Ops. 2001E	P/E Ratio 2000E	P/E Ratio 2001E	CF/Share 1999	CF/Share 2000E	CF/Share 2001E	CF Ratio 2000E	CF Ratio 2001E
Integrated Energy Cos.														
Coastal Corp. (CGP) (4)	SB	$45.94	$61 *	32.8%	$2.30	$2.75	$3.20	16.7	14.4	$4.94	$5.60	$6.21	8.2	7.4
Columbia Energy (CG) (2)	Hold	60.50	70	15.7%	3.39	3.90	4.15	15.5	14.6	8.66	7.18	7.61	8.4	8.0
El Paso Energy (EPG)! (2)	SB!	39.81	50	25.6%	1.75	2.45	2.95	16.3	13.5	4.69	5.84	6.44	6.8	6.2
Enron Corp. (ENE) (4)	SB	66.75	85	27.3%	1.18	1.40	1.60	47.7	41.7	3.35	3.03	3.30	22.0	20.2
Equitable Reso. (EQT) (4)	SB	44.38	50	12.7%	2.13	2.65	3.30	16.7	13.4	6.32	7.13	7.22	6.2	6.1
Kinder Morgan Inc. (KMI)	Hold	30.38	31	2.1%	0.96	1.20	1.55	25.3	19.6	1.11	1.22	1.64	24.9	18.5
Midcoast Energy (MRS) (4)	SB	17.63	21	19.1%	1.52	1.70	2.00	10.4	8.8	2.40	3.24	3.88	5.4	4.5
Questar Corp. (STR)	Hold	18.31	18	-1.7%	1.15	1.35	1.45	13.6	12.6	2.95	3.21	3.30	5.7	5.5
Williams Cos. (WMB)	Accum.	37.00	53	43.2%	0.48	0.55	0.80	67.3	46.3	3.05	2.73	3.37	13.6	11.0
Simple Average								25.5	20.5				8.2	11.3
Unregulated Energy Cos.														
Dynegy Inc. (DYN) (1)	SB	$55.88	$70	25.3%	$0.87	$2.25	$2.75	24.8	20.3	$1.80	$5.01	$5.49	11.2	10.2
Independent Energy (INDYY) (4, 5)	SB	39.13	70	78.9%	0.22	0.90	1.40	43.5	27.9	0.37	1.49	2.33	26.3	16.8
Western Gas Reso. (WGR)	Accum.	16.25	17	4.6%	(0.17)	0.60	0.65	27.1	25.0	1.64	2.89	3.13	5.6	5.2
Simple Average								24.8	24.1				14.3	14.3
Yield-Oriented Securities														
Integrated Utilities														
Duke Energy (DUK) (4)	Accum.	$55.56	$57	2.6%	$3.62	$4.00	$4.40	13.9	12.6	$9.15	$7.10	$7.65	7.8	7.3
PG&E Corp. (PCG) (4)	Hold	24.25	21	-13.4%	2.24	2.40	2.55	10.1	9.5	4.03	6.73	7.33	3.6	3.3
USEC Inc. (USU) (3, 4)	Sell	4.19	4	-4.5%	1.21	1.20	0.50	3.5	8.4	1.72	1.65	1.23	2.5	3.4
Simple Average								9.2	10.2				4.7	4.7
Master Limited Partnerships														
Enterprise Products Ptrs. (EPD) (4)	Accum.	$19.75	$25	26.6%	$1.66	$1.83	$1.94	10.8	10.2	$2.53	$2.22	$2.33	8.9	8.5
Kinder Morgan Energy (KMP) (4)	SB	37.38	52	39.1%	2.42	2.58	3.05	14.5	12.2	3.25	4.44	4.65	8.4	8.0
Star Gas Partners (SGU) (4)	Hold	13.00	18	38.5%	0.08	0.53	0.57	24.5	22.7	3.13	4.31	4.65	3.0	2.8
Simple Average								12.6	15.0				6.8	6.8
Total Group Performance		$626.06												
Dow Jones Industrials		10,582.50												
S&P 500		1,401.44			$48.26	$58.00		24.2	—					

SB= Strong Buy; Accum.= Accumulate; != Single Best Idea; * CGP price target based on 1.23 shares of EPG.

Notes: 1) Indicates fiscal-2000 earnings estimates are pro forma, pending closing of merger.

2) Price targets based on expected merger.

3) Fiscal year ends 6/30 for USEC Inc. and Independent Energy and 9/30 for Star Gas.

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Source: Company information; Prudential Securities estimates.

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