Global Power North America
Credit Update

Enron Corp.

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Sr. Unsecured Debt	BBB–	BBB+	11/5/2001
Subordinated Notes	BB	BBB	11/5/2001
Trust Prf./Prf. Sec.	B+	BBB–	11/5/2001
Commercial Paper	F3	F2	11/5/2001

Rating Watch .... Evolving
Rating Outlook .... None

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Profile

ENE operates networks throughout the world to develop and enhance energy and broadband communication services. The company is a dominant market leader in energy marketing and trading, operates domestic gas pipelines, is a global investor in merchant assets and manages a growing retail energy business.

Related Research

- Credit Update, Northern Border Pipeline Co., dated Aug. 7, 2001.
- Credit Update, Northern Border Partners, L.P., dated Aug. 7, 2001.
- Credit Update, Northern Natural Gas Co., dated Sept. 28, 2001.
- Credit Update, Transwestern Pipeline Co., dated Sept. 28, 2001.

Key Credit Strengths

- Strong performance from core operations.
- Benefits of proposed merger with DYN.

Key Credit Concerns

- Limited financial flexibility.
- Diminished value of global merchant assets.
- Significant use of off-balance-sheet and contingent obligations.

■ Rating Rationale

Enron Corp.'s (ENE) ratings were downgraded on Nov. 5, 2001, reflecting its weakened credit profile. Of particular concern was ENE's ability to manage its liquidity position in the face of an erosion in investor confidence. This followed the recognition of a substantial diminution in value of its global investments, which were partly financed through the aggressive use of off-balance-sheet vehicles.

On Nov. 9, 2001, Fitch revised the Rating Watch on ENE's securities to Evolving following an announcement by Dynegy Inc. (DYN) that it had reached an agreement to acquire ENE in a stock-for-stock transaction. The transaction addresses several major concerns for ENE, the most time-sensitive being liquidity. ChevronTexeco (CVX), a 27% stakeholder in DYN, committed to provide up to $2.5 billion of equity in the new company, including an immediate $1.5 billion cash injection in ENE. As a result, ENE's cash resources appear adequate to satisfy its cash needs through the first quarter of 2002. However, ENE faces significant refinancing risk. ENE's fully drawn $1.75 billion, 364-day committed bank credit facility is up for renewal in April 2002, and the outstanding Osprey Trust notes are expected to be repaid by mid-2002. It is likely that asset sales will not be adequate to fully fund maturing Osprey debt and ENE will be required to make up any deficiency.

■ Recent Developments

Fitch anticipates the surviving company rating would move to the mid-'BBB' range, assuming the successful execution of ENE's plans to deleverage its balance sheet. However, if the merger were to terminate, Fitch believes ENE's ability to manage its business would be severely impaired and would expect to downgrade its securities to highly speculative grade. Termination provisions to the merger agreement add an element of uncertainty to completing the merger. If the merger were terminated, DYN would have an option to acquire ENE's pipeline, Northern Natural Gas Co., removing both a valuable property and stable cash flow source from ENE's credit profile.

■ Liquidity and Debt Structure

As a result of its recent credit woes and diminished financial flexibility, ENE has attempted to strengthen its liquidity position. In October, ENE fully drew down its $3.0 billion committed bank facilities and paid down outstanding commercial paper, leaving approximately $1.0 billion of cash on hand. In addition, ENE is in the process of executing a new $1.0 billion secured bank facility, which, along with the $1.5 billion of cash contributed from CVX, will give ENE a large cash cushion. Substantial liquidity is needed to support ENE's commodity trading operations.

Financial Summary — Enron Corp.*

($ Mil., Fiscal Year Ended December)

	LTM 6/30/01	6/30/00	2000	1999	1998	1997	1996
Fundamental Ratios							
Operating EBIT/Interest Expense (x)	2.8	1.3	2.3	1.2	2.5	0.0	2.5
Operating EBITDA/Interest Expense (x)	3.8	2.5	3.4	2.5	4.0	1.5	4.2
Debt/Operating EBITDA (x)	3.7	7.1	3.6	4.9	3.3	10.2	2.9
Common Dividend Payout (%)	47.6	46.2	58.4	48.7	60.3	402.3	49.5
Internal Cash/Cap. Ex. (%)	135.1	8.9	178.7	32.2	64.4	10.4	88.8
Cap. Ex./Depreciation (%)	272.5	306.9	278.5	271.6	230.4	253.7	198.4
Profitability							
Revenues	170,947	52,839	100,789	40,112	31,260	20,273	13,289
Net Revenues	7,310	5,514	6,272	5,351	4,879	2,962	2,811
Operating and Maintenance Expense	3,565	3,215	3,184	3,045	2,473	1,508	1,510
Operating EBITDA	3,424	1,658	2,808	1,672	2,205	615	1,164
Depreciation and Amortization Exp.	944	783	855	870	827	600	474
Operating EBIT	2,480	875	1,953	802	1,378	15	690
Interest Expense	897	663	838	656	550	401	274
Net Income for Common	1079	1092	896	958	686	88	568
Oper. Maint. Exp. % of Net Revenues	48.8	58.3	50.8	56.9	50.7	50.9	53.7
Operating EBIT % of Net Revenues	33.9	15.9	31.1	15.0	28.2	0.5	24.5
Cash Flow							
Net Operating Cash Flow	3989	719	4779	1228	1640	501	1040
Dividends	(514)	(505)	(523)	(467)	(414)	(354)	(281)
Capital Expenditures	(2572)	(2403)	(2381)	(2363)	(1905)	(1413)	(855)
Free Cash Flow	903	(2189)	1875	(1602)	(679)	(1266)	(96)
Net Other Investment Cash Flow	(599)	(1499)	(1883)	(1144)	(2060)	(1023)	(375)
Net Change in Debt	(1,036)	4,069	62	1,504	875	1,674	282
Net Change in Equity	474	(552)	538	991	888	(50)	322
Capital Structure							
Short-Term Debt	3,457	1,486	1,679	1,001	0	0	0
Long-Term Debt	9,355	10,211	8,550	7,151	7,357	6,254	3,349
Total Debt	12,812	11,697	10,229	8,152	7,357	6,254	3,349
Preferred and Minority Equity	4,414	3,919	4,442	4,560	3,276	2,274	1,484
Common Equity	10,624	9,642	10,346	8,440	6,916	5,484	3,586
Total Capital	27,850	25,258	25,017	21,152	17,549	14,012	8,419
Total Debt/Total Capital (%)	46.0	46.3	40.9	38.5	41.9	44.6	39.8
Preferred and Minority Eq./Total Capital (%)	15.8	15.5	17.8	21.6	18.7	16.2	17.6
Common Equity/Total Capital (%)	38.1	38.2	41.4	39.9	39.4	39.1	42.6

*Financial statements for 1997–June 2001 will be restated.
LTM – Latest 12 months. Operating EBIT – Operating income plus total reported state and federal income tax expense.
Operating EBITDA – Operating income plus total reported state and federal income tax expense plus depreciation and amortization expense.
O&M – Operations and maintenance. Source: Financial data obtained from Navigant Knowledge System, provided under license by Navigant Consulting, Inc.,of Springfield, Ill. Note: Numbers may not add due to rounding.