

John W. O'Connor (312) 368-2059

Douglas J. Laskowski, CFA (312) 368-2053

May 26, 1999

Ratings:	Security Class	DCR	Latest Change	Prior	Moody's/S&P
	Senior Debt	BBB+	12/1995	NR	Baa2/BBB+
	TOPrS / Preferred Stock	BBB-	04/1994	BB+	Baa3/BBB
	Commercial Paper	D-2	09/1995	NR	P-2/A-2
Rating Watch:		No			*/No

Rating Rationale

ENE's credit protection measures are expected to improve in the medium term as a result of an improved balance sheet and the realization of cash flows from key investments, including, international projects, natural gas pipeline expansion and energy services.

- The inclusion of the strong, stable, regulated cash flows of ENE's transportation and distribution business (40 percent of EBIT, which includes Portland General, as well its four major interstate pipelines), help to offset its higher-business-risk ventures. Improved financial measures will help offset the increased operating risks associated with the company's aggressive growth strategy. ENE has modestly improved its capital structure over the last several years and continues to be focused and committed on improving its credit profile. Over the last 12 months, ENE has clearly demonstrated this commitment and issued more than \$1.5 billion in new common equity to maintain and improve its leverage ratio.
- ENE continues to maintain a high level of capital investment activity; in 1998, ENE made several large investments, which when netted against its proceeds from asset monetization, equaled \$3.1 billion; slight moderation is expected in 1999, as net investment is projected to be approximately \$2.5 billion. To finance these investments, ENE utilizes innovative financial engineering techniques. Such tools include various securitization techniques, debt backed by contingent equity issuances, and the more traditional, highly leveraged, nonrecourse project financing. Despite the high level of capital needs that stem from ENE's aggressive growth strategy, the majority of its investments are rated at least low investment grade on a stand-alone basis; this includes some sovereign environments where the foreign currency rating is less than investment grade. Although somewhat muted by the greater inherent uncertainty with international investments, these investments coupled with its low risk, stable cash flow T&D assets, lends additional comfort to ENE's stable consolidated credit profile.
- Some of the company's large international investments (India and Latin America, for instance) are strategic investments, as opposed to "one-off" plays, intended to optimize value through the integration of its participation in the various components of the energy value chain with its already developed skill set in both trading and marketing, as well as bundled energy services. While somewhat diluting the benefits of diversification, this integrated approach to investing is a credit positive.
- Through Enron Capital & Trade Resources (ECT), the company is a leader in wholesale energy operations and services, which include electric and gas marketing, as well as risk management services in both North America and international markets. As a result, ECT is expected to continue to benefit from ENE's diversified portfolio of energy-related assets. This, coupled with strict internal controls and oversight for the energy marketing and risk management activities, helps to limit the company's significant exposure to the thin margins associated with the volatile energy and financial derivative markets. ECT and ENE International comprise ENE's wholesale energy operations and services, which represented approximately 61 percent of ENE's EBIT in 1998 and, coupled with ENE Energy Services (EES), constitute the company's primary growth driver.
- The company's equity investments in a number of energy infrastructure projects around the world continue to represent risks for the company, including political, currency and performance risk. ENE minimizes such risks through a variety of risk-allocation methods. Management will remain challenged by the risks inherent in international operations. These risks were recently highlighted as ENE booked non-cash, foreign currency translation adjustment reducing equity by approximately \$600MM.

Liquidity/Debt Structure

ENE maintains substantial liquidity through bank facilities and its commercial paper program. In February, the company accessed the capital markets with an equity offering that raised more than \$820MM of equity capital, using the proceeds to repay debt. Ongoing capital market needs can be anticipated as the company pursues an aggressive capital investment program.

Recent Developments

EES is expected to be cash positive by the end of 1999. The company has a backlog of energy services management contracts with a total cumulative value in excess of \$5 billion. These contracts represent higher return opportunities, which will be increasingly realized as EES' revenue mix migrates from the lower return commodity delivery contracts to higher margin services contracts. By 2000, EBITDA from this business line is expected to exceed \$50 million.

Rating Issues

Controlling the risks associated with evolving markets; significant scope of the company's trading and risk

management operations results in the assumption of counterparty credit risk; net counterparty exposure is monitored on a daily basis and has established loss reserves and limits; commodity volatility is an additional factor; significant use of off-balance sheet and contingent obligations.

Fundamentals

ENE is an integrated energy company, with exploration, production, processing, transportation and electricity, and natural gas marketing. The company's strategy in pursuing overseas opportunities is to capitalize on its expertise as an operator, while balancing its domestic operations.

Enron Corp.

(\$ in Millions Except As Noted)

Fundamental Ratios	1998	1997	1996	1995	1994
EBIT/Int Exp(x)	2.5	2.6	3.5	2.5	3.3
EBITDA/Int Exp(x)	4.0	4.1	5.2	4.0	4.9
EBITDA/Int Exp(adj)(x)	3.8	3.8	4.7	3.6	4.4
EBITDA/Total Debt(%)	28.8	25.0	39.4	35.3	42.5
EBITDA/Total Debt(adj)(%)	25.9	22.5	32.5	28.5	34.1
Average Interest Cost(%)	7.7	7.8	8.0	8.9	9.4
Return on Common Equity(%)	10.8	11.7	12.1	12.9	15.5
Common Dividend Payout(%)	60.3	65.1	49.5	50.4	52.7
Internal Cash/Cap. Ex.(%)	64.4	41.5	88.8	NA	34.7
Cap. Ex./Depreciation(%)	230.4	235.5	180.4	169.2	149.8
Profitability					
Revenues	31,260	20,273	13,289	9,189	8,984
% Change from Prior Year	54.2	52.5	44.6	2.3	12.7
Operating & Maintenance Exp.	2,473	1,508	1,510	1,297	1,207
% of Revenues	7.9	7.4	11.4	14.1	13.4
EBITDA	2,205	1,654	1,438	1,130	1,348
% of Revenues	7.1	8.2	10.8	12.3	15.0
% Change from Prior Year	33.3	15.0	27.3	-16.2	20.4
Depreciation & Amortization Exp	827	600	474	432	441
EBIT	1,378	1,054	964	698	907
% of Revenues	4.4	5.2	7.3	7.6	10.1
% Change from Prior Year	30.7	9.3	38.1	-23.0	37.0
Interest Expense	550	401	274	284	273
Net Income Bef. Extraord. Items.	686	544	568	504	438
Cash Flow					
Net Operating Cash Flow	1,640	940	1,040	-15	461
Dividends	-414	-354	-281	-254	-231
Capital Expenditures	-1,905	-1,413	-855	-731	-661
Free Cash Flow	-679	-827	-96	-1,000	-431
Net Other Investment Cash Flow	-2,060	-1,023	-375	744	101
Net Change in Debt	875	1,674	282	269	144
Net Change in Equity	888	-50	322	-45	188
Net Financing Activity	1,763	1,624	604	224	332
Capital Structure					
Short Term Debt	299	365	304	137	367
Long Term Debt	7,357	6,251	3,349	3,065	2,805
Total Debt	7,656	6,616	3,653	3,202	3,172
Off Balance Sheet Debt & Equiv.	1,039	912	912	912	912
Adjusted Total Debt	8,695	7,528	4,565	4,114	4,084
Preferred Equity	1,002	993	592	377	377
Common Equity	9,191	6,765	4,478	3,714	3,170
Total Capital	18,888	15,286	9,635	8,205	7,631
% Change from Prior Year	23.6	58.7	17.4	7.5	0.6
Adjusted Total Debt/Total Capital(%)	46.0	49.3	47.4	50.1	53.5
Preferred Equity/Total Capital(%)	5.3	6.5	6.1	4.6	4.9
Common Equity/Total Capital(%)	48.7	44.3	46.5	45.3	41.5
Other Data					
Total Retail Gas Sales(TBtu)	NA	NA	NA	NA	NA
% Change in Gas Sales	NA	NA	NA	NA	NA
Total Throughput(TBtu)	NA	NA	NA	NA	NA
% Change in Throughput	NA	NA	NA	NA	NA
% Colder (Warmer) Than Normal	NA	NA	NA	NA	NA
Ratings History (Senior Debt)					
DCR	BBB+	BBB+	BBB+	BBB+	NA
Moody's	Baa2	Baa2	Baa2	Baa2	Baa2
Standard & Poor's	BBB+	BBB+	BBB+	BBB+	NA
Debt Maturities					
		Financing Alternatives		Used	Unused
1999	541	Principal Bank Facilities (\$MM)			
2000	413	Committed Lines		149	1,521
2001	666	Uncommitted Lines		0	335
2002	182				
2003	656				