



# SANDERS MORRIS MUNDY

## ENRON CORP. (ENE – NYSE)

### *Lapping The Field: But Lowering the Rating*

January 29, 1999

Recent Price: **\$65.19**  
Price Target: \$65.00  
52 Week Range: \$67.13 - \$40.00  
DJIA: 9,157

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Recommendation: **HOLD**

Estimates (Dec):	1998A	1999E	2000E
Fully Diluted EPS:	\$2.01	\$2.30	\$2.60
P/E:	32.4x	28.3x	25.1x
% EPS Change:	9%	14%	13%
Q1 EPS (March):	0.38	0.49	
Cash Flow/Share:	\$4.56	\$5.75	\$6.29
Price/Cash Flow:	14.3x	11.3x	10.3x
Dividend Rate:	\$0.95	\$1.00	\$1.05
Dividend Yield:	1.46%	1.53%	1.62%

### Investment Profile:

Share Base (MM):	331
Market Value (MM):	21,515
Book Value:	18.46
Price Book:	3.5x
ROE (99E):	12.0%
% Leverage:	58.1
EST 5 year EPS Growth:	13.0%
Institutional Ownership:	57%
Recent Trading Volume (000 Daily):	1,127

### Company Profile:

ENE took its asset base from \$24 billion to \$30 billion in 1998, while improving its Core Operating EPS 14% in a very treacherous energy market. The company is likely to deleverage this year, and may shortly monetize EOG in the process. Whether hard assets or soft, ENE's 10%-15% earnings growth agenda is likely to drive the asset base to \$60 billion or so in the coming five years. Management owns 7% of the company.

### Investing Logic:

- ENE delivered a 39.7% total return in 1998, outdistancing the market's 30.0%, and the Energy Conglomerates' 5.3%. It is up another 13% in 1999 to date.
- The stock is trading at 28.3x and 25.1x our respective 1999-2000Es, and yields 1.5%. It has run a very good race. Its Energy Conglomerate (EC) peer group is now trading at 16.3x to yield 3.0%.
- We think other ECs have better risk-reward investing profiles, and our rating eases from an *Accumulate* to a *Hold*. If ENE can sustain these multiples, then there are a lot of relative bargains out there.
- Year-end Core Operating EPS came in a bit ahead of our expectations: \$2.01 versus \$1.74 last year. Q4 Operating EPS rose 41% to \$0.48.
- *Wholesale Energy Operations & Services* (WEOS) provided about two-thirds of 1998 EPS growth, and a full year of the PGN (electric utility) acquisition delivered the other one-third. Both E&P and Pipelines were lower for the year.
- ENE's 53.5% interest in *Enron Oil & Gas* (EOG: \$17.50: Not Rated) may be auctioned off soon. ENE has it on the public books for \$8.50 per share, and would like to realize perhaps \$20.00 per share or better. This could raise perhaps \$1.4 billion of after-tax cash, and deleverage the 61-39 capital structure.

## The Year-end Numbers:

ENE usually has lots of moving parts in its quarterly earnings profile, and Q4:98 was no exception. In the accompanying table, we allocate interest and taxes to derive an EPS table for the quarter.

	Q4-98	Q4-97
Exploration & Production	0.04	0.07
Gas Pipeline Group	0.11	0.10
Portland General	0.11	0.08
WEOS	0.26	0.22
Corporate & Other	0.03	-0.05
Core Operating EPS	0.54	0.43
Enron Energy Services (net)	-0.06	-0.09
<b>Total Operating EPS</b>	<b>0.48</b>	<b>0.34</b>
Recurring Nonrecurring Items	0.01	0.19
Reported EPS	0.49	0.52

Estimates: SMM (1/25/99)

E&P results were helped by \$10mm of hedging gains at the parent level this year versus an \$8mm charge last year. The EPS swing was \$0.03 EPS. There was also a \$0.13 EPS gain on the ACES' (Convertible Notes) exchange (i.e. 6.25% exchangeable notes into EOG shares). This was largely offset by another \$0.12 year-end reserve for its long suffering MTBE contracts.

ENE ran an earnings mix for the full year that reflects WEOS' growing importance. In 1998, the mix ran thus: WEOS—60%; Pipelines—22%; Electric Utility—18%; E&P—8%; Retail Energy Services—(7%). If our projections are realistic, the EBIT mix in 2002 should become this: 65%-15%-12%-6%-3%-1% (Other). ENE has some interesting new investments in a Telecom network niched in business teleconferencing using the Internet. Its \$2.3 billion investment in the U.K. water business (i.e., Wessex) is expected to begin contributing incrementally this year.

## The Momentum at WEOS:

WEOS (Wholesale Energy Operations and Services) is the real driver behind ENE, and it has been reconfigured yet again into two reporting sectors: *Commodity Sales & Services* (CS&S) and *Energy Assets & Investments* (EA&I). The former rose 41% in Q4:98, but the latter was marked to market with a 17% lower report. One offset the other, although 25% lower overhead expenses still allowed a 9% EBIT gain for the quarter. Here about \$100 mm of gains on international project sell-downs (Italy and Turkey) were partially offset by equity portfolio markdowns in EA&I. The latter was contained in a \$40 mm loss booked in the former *Finance & Investing* line.

WEOS escalated its trading volumes dramatically throughout 1998 in order to overcome the very soft *El Niño* domestic gas market. For 1998 as a whole, WEOS EBIT grew 48% on a 52% trading volume gain. Since more markets are unbundling (i.e., partially deregulating), CS&S is still on a strong growth curve in domestic power, and in European gas and power trading. EA&I is likely to

aggressively pursue privatizing foreign energy markets, and it already has a strong plant startup schedule for this year and next.

Domestic *gas trading* volumes fell 3% to 7.4 bcf/d for 1998. But its slow H1 performance was almost overtaken by a better H2. Canada helped considerably, with a 54% rise to 3.5 bcf/d. Europe (mainly the U.K.) advanced 89% to 1.2 bcf/d.

*Crude & NGL trading* volumes really took off during the year. Crude trading is a tough business if one is not a major oil company. But when massive volumes are added incrementally to an already flourishing trading desk, they serve to reduce the embedded cost structure. CS&S is in the fortunate position of being able to trade anything. By Q4:98, crude and NGL volumes had more than tripled to 5.5 mm bbl/day. For the year, volumes rose 112% to 3.56 mm bbl/day.

*Power marketing* continued to ride the growth curve. Volumes had tripled in 1997, and then doubled in 1998 to 402,000 mwh. ENE plans on gaining market share in both power and gas trading in 1999. It will also be adding about 1300mw of peaking units at favorable sites in the mid South power grid. These should be online by June, and given their contract profiles, the units may also be generating 80% internal rates of return.

In the overall CS&S trading profile, power contributes about half the gross margins, and gas and liquids trading the other half. As in the past, the relative contributions between CS&S and EA&I are going to remain volatile. 1999 should register a very healthy recovery for EA&I, thanks to both financial closings and some large project completions. Both Europe gas and power trading should improve. But there may be more bumps with portfolio holdings if the oil & gas markets don't recover.

Full year WEOS EBI and margins are shown below.

	1998	1997	%
Com Sales & Services	411	249	65%
Energy Assets & Investments	709	565	25%
Totals	1120	814	38%
General Expenses	-152	-160	-5%
Reported EBIT	968	654	48%
Com Sales & Services	42%	38%	12%
Energy Assets & Investments	73%	86%	-15%
Totals	116%	124%	-7%
General Expenses	-16%	-24%	-36%
Reported EBIT	100%	100%	0%
WEOS Core Operating EPS	1.25	1.02	23%

Estimates: SMM (1/25/99)

The fate of 53.5%—owned Enron Oil & Gas remains up in the air. At the analyst conference last week, it was abundantly clear that top management would like to monetize the assets, and fetch an extra \$1.4 billion or so of

after-tax cash, with which to deleverage. Things should become clearer in the next month. EOG had a stellar 1998 performance with its foreign assets, and a decent domestic one, considering the miserable state of oilfield economics. Despite its usually fine momentum, EOG's profitability has never come close to that of the parent, and there appears to be a more sober view of producing economics at the highest levels. The parent has continued to wisely hedge EOG's commodity exposures. It is 100% hedged on its domestic gas profile at \$2.31/mmbtu (NYMEX); and it is 90% hedged on its domestic crude at \$15.52/bbl (NYMEX).

### ***Enron Energy Services:***

ENE's grassroots venture in the unbundling commercial and small industrial power marketplace is its 93%—owned *Enron Energy Services*. EES continued to gain momentum with a doubled book of outsourcing business. Revenues rose 57% to \$1.1 billion, while its "burn rate" rose from a \$107 mm loss to a \$119 mm loss year to year. Its revenue mix was 85% commodity—15% services. Its capital spending needs were about \$50-\$60 mm, while DD&A rose to \$31 mm.

EES figures on earning about 1%-3% operating margins on the commodity portions of its outsourcing contracts. It would like to leverage these with 5%-8% margins on the services provided, and then add another 2%-4% from efficiencies, and finally pick up perhaps another 1% or so from asset securitizations. This would all foot to 9%-16% NOI margin levels, once EES is well down the learning curve.

These numbers would become immediately impressive on EES' expected \$2.4 billion of 1999 revenues, with a 30-70 commodity service mix. But staffing and new site start-ups are still underway. Management is fleshing out a 40 market national territory, and is moving from 3340 employees in Q1:98 to 5360 in Q4:99. EES now expects to lose about \$80 mm in 1999, but also expects to be in the black by Q4. Its "*TEE Statistic*" (Total Energy Expenditures of customers) measure rose to \$3.8 billion for 1998, and management is aiming towards an \$8 billion target in 1999.

EES would like to reach a \$4-\$5 billion revenue goal in 2000, then with a 50-50 commodity-service mix. The EBIT goal here is \$50 mm or better. All of this would create about a \$0.30 EBIT swing between 1998 (-\$0.24 per share) and 2000 (\$0.09 per share), with more to come in 2001 and beyond.

Valuation of EES had been open-ended during 1998. As this subsidiary moves toward profitability, we would expect its valuation to become rolled into ENE's overall market profile in-line with other existing outsourcers (e.g., Comfort Systems (FIX: \$17), IES (IEU: \$26), Quanta (PWR: 23.94), Building One (BOSS: \$20.58), Service Experts (SVE: \$25.25), and GroupMac). These consolidators are in the same broad downstream energy markets. They are currently

trading in a 10x-24x P/E range. They are growing at 20%-30% annually, and they are earning 6%-13% ROEs with 0%-30% balance sheet leverage.

### ***The Outlook:***

At its analyst conference, management expected 1999 to be a "momentum building year." We think 1999 can be quickly profiled:

A 15% EPS increase to \$2.30 EPS looks likely. Management has a variety of ways to bolster earnings, mainly in Pipelines and in WEOS.

The earnings mix should run about thus: WEOS—61%; Pipelines—20%; Electric Utility—16%; E&P—7%; EES—(4%).

Still more opportunistic capital spending trends: During 1998, ENE either spent or acquired \$7.5 billion of assets, all against a CFFO of about \$1.5 billion. Cash dividends were nearly \$400mm. It pushed over \$4 billion into joint ventures, and was left with net spending of \$3.1 billion. This year's preliminary spending/acquisition budget looks like \$2.5 billion. CFFO could approach \$1.9 billion, and dividends should remain in the \$400 mm area.

Investors should remember that ENE's businesses are very capital intensive, with either hard or soft asset growth necessary to sustain its 10%-15% EPS growth agenda. Further, owing to WEOS' strong growth focus, along with its various future growth "platforms," its economics are usually front-end loaded, cost-wise. This has made it harder to sustain its former premium profitability, namely 16%-17% ROEs. We have compared ENE/WEOS in the past to GE (parent)/ GE Capital Services. The asset scales are considerably different: but the strategies look analogous. GE (Parent) has \$80 billion of assets and earns a 20%+ ROE with a 10-90 capital structure, all the while growing at 10% or better. GE Capital has a \$220 mm highly diversified (28 divisions) asset base and earns a 20%-25% ROE with nearly a 90-10 capital structure. ENE (Parent) has about \$15 billion of assets, with a range of ROEs: from 3% in EOG to 14%-18% in the pipelines. ENE (Parent) might be able to grow 5%-7% overall at best. WEOS is only about \$15 billion in assets currently, and is earning perhaps 5%-7% ROEs with about a 60-40 capital structure. But WEOS is the growth engine, and it must generate 20%-25% EBIT growth on its 60%-of-earnings mix in order to counter balance the 4%-6% growth expected in the regulated 33%-of-earnings mix. To the extent that ENE uses its fine risk management expertise to leverage WEOS' ROE higher by running it increasingly as a "spread business," then even better EPS growth and profitability might be forthcoming.

### ***Valuations:***

ENE's strong year-end performance has been followed through by another 13% stock price advance in January to

date. This was in sharp contrast to the faltering stock prices among its competitors, all of whom have been bitten by some adversity in the very treacherous energy markets of the moment. ENE weathered its Q4 portfolio markdowns and MTBE contract hit with little overall impact.

The market has repriced ENE forward to nearly a market multiple (i.e., about 30x and 28x on the S&P 500). This is good news for ENE, because equity financing becomes so much more appealing. All investors should be impressed by ENE's widening premiums to its peer group of energy conglomerates. It is trading at about 70% ahead of the group's 16.3x and 14.5x P/Es for this year and next.

Because of ENE's new growth premiums, relative valuations and/or valuation matrixes don't work particularly well, other than to demonstrate the size of the premiums. The abbreviated valuation matrix below shows why.

<i>Table 3: EBIT Profile (%):</i>	<i>1999E</i>	<i>2000E</i>	<i>2001E</i>
Exploration & Production	7%	6%	6%
Gas Pipeline Group	19%	17%	16%
Portland General	16%	14%	13%
WEOS	58%	61%	64%
Water Services	1%	1%	2%
Corporate & Other	0%	0%	-1%
Core Operations	100%	100%	100%
Enron Energy Services (net)	-4%	2%	4%
Total Core EBIT	96%	102%	104%
<i>Market Driven P/Es:</i>			
Exploration & Production	25.0	25.0	25.0
Gas Pipeline Group	19.0	19.0	19.0
Portland General	14.7	14.7	14.7
WEOS	22.0	22.0	22.0
Water Services	14.0	14.0	14.0
Corporate & Other	15.0	15.0	15.0
Core Operations	20.5	20.6	20.8
Enron Energy Services (net)	20.0	20.0	20.0
Composite P/E	20.5	20.6	20.8
<i>Imputed Market Values:</i>			
Exploration & Production	3.95	3.75	3.97
Gas Pipeline Group	8.54	8.14	8.32
Portland General	5.53	5.23	5.31
WEOS	30.72	33.52	38.79
Water Services	0.26	0.39	0.77
Corporate & Other	-0.09	-0.08	-0.49
Core Operations	49.00	51.03	57.17
Enron Energy Services (net)	-2.46	1.73	3.38
Composite Market Value	46.54	52.76	60.55

Estimates: SMM (1/25/99)

We have always liked ENE's investing story, but have been reluctant to pay the premiums involved when other Energy conglomerates have enjoyed comparable or better investing credentials (Growth rates, ROE, Capital Structure, Yield) with lower P/Es. Bargain hunting worked well with the other Energy Conglomerates in the 1992-1997 era: but not last year. ENE looks like a strong **Hold** to us.

**Table 4: ENE - Summary Investment Profile**

<b>Diluted Per Share:</b>	<b>1996A</b>	<b>1997A</b>	<b>1998A</b>	<b>1999E</b>	<b>2000E</b>	<b>2001E</b>	<b>2002E</b>	<b>1998E- 2002E</b>
Core Operating EPS	1.73	1.98	2.25	2.39	2.48	2.74	3.00	
Retail Energy Services	<u>0.00</u>	<u>-0.24</u>	<u>-0.24</u>	<u>-0.12</u>	<u>0.09</u>	<u>0.17</u>	<u>0.33</u>	
Reported Operating EPS	1.73	1.74	2.01	2.27	2.57	2.91	3.33	
Recurring-Nonrecurring Items	<u>0.43</u>	<u>-1.42</u>	<u>0.01</u>	<u>0.03</u>	<u>0.03</u>	<u>0.02</u>	<u>0.01</u>	
Reported EPS	2.16	0.32	2.02	2.30	2.60	2.93	3.34	
DPS	0.86	0.90	0.95	1.02	1.08	1.16	1.24	
CFFO	3.98	2.15	4.56	5.75	6.29	6.81	7.44	
Book Value	13.27	17.26	18.46	19.74	21.25	23.02	25.12	
Average Book Value	12.98	15.27	17.86	19.10	20.49	22.14	24.07	
<i>% Core Operating EPS</i>	42.4%	14.3%	13.8%	6.2%	3.7%	10.6%	9.3%	8.7%
<i>% Retail Energy Services</i>	11.6%	0.0%	0.0%	-48.8%	-170.5%	94.8%	94.9%	<u>5.9%</u>
<i>% Reported Operating EPS</i>	18.6%	0.4%	15.7%	12.7%	13.1%	13.5%	14.3%	13.9%
<i>% ROE</i>	17.8%	2.1%	11.3%	12.0%	12.7%	13.2%	13.9%	
<i>% Interest Rate</i>	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
<i>% Leverage</i>	54.1%	57.7%	58.1%	57.6%	56.9%	55.6%	54.8%	
<i>% Payout Ratio</i>	39.8%	45.5%	47.0%	44.4%	41.6%	39.6%	37.2%	
<i>% Taxes</i>	-30.9%	-22.7%	-23.8%	-24.4%	-27.3%	-27.5%	-29.6%	
<b>Share Bases (mm):</b>								
Average Shares	246.1	272.1	321.0	335.0	345.0	355.0	365.0	
Diluted Shares	270.1	277.3	347.5	370.0	375.0	385.0	395.0	
Year-end Shares	255.1	311.2	318.0	321.0	324.0	331.0	328.0	

Estimates: SMM (1/25/99)

**Table 5: ENE: Earnings Forecast**

<b>EBIT (\$ MILLIONS ):</b>	<b>1995A</b>	<b>1996A</b>	<b>1997A</b>	<b>1998A</b>	<b>1999E</b>	<b>2000E</b>	<b>2001E</b>	<b>2002E</b>	<b>1998E-2002E</b>	<b>Growth Share (%)</b>
Exploration & Production	241	200	183	128	130	135	145	170	-13	-1%
Gas Pipeline Group	375	416	364	351	370	385	400	425	61	3%
Portland General	0	0	114	286	310	320	330	345	231	13%
Wholesale Operations & Services (WEOS)	401	466	654	968	1150	1370	1610	1850	1196	65%
Water (Net of Interest Expense)	0	0	0	0	15	25	50	75	75	4%
Corporate & Other	-35	-22	-31	7	-5	-5	-30	-40	-9	0%
<b>Core Operating EBIT</b>	<b>982</b>	<b>1060</b>	<b>1284</b>	<b>1740</b>	<b>1970</b>	<b>2230</b>	<b>2505</b>	<b>2825</b>	<b>1541</b>	<b>83%</b>
Retail Energy Services (net)	0	0	-107	-119	-70	50	100	200	307	17%
<b>Total Operating EBIT</b>	<b>982</b>	<b>1060</b>	<b>1177</b>	<b>1621</b>	<b>1900</b>	<b>2280</b>	<b>2605</b>	<b>3025</b>	<b>1848</b>	<b>100%</b>
Recurring Nonrecurring Items	183	178	-612	-39	15	15	10	5		
<b>Total EBIT</b>	<b>1165</b>	<b>1238</b>	<b>565</b>	<b>1582</b>	<b>1915</b>	<b>2295</b>	<b>2615</b>	<b>3030</b>		
<b>Interest Expense-Net:</b>	<b>284</b>	<b>274</b>	<b>401</b>	<b>546</b>	<b>650</b>	<b>780</b>	<b>851</b>	<b>922</b>		
Preferred Dividends-Subsidiaries	32	34	69	77	76	76	76	76		
Interest Expense-EES	0	0	0	0	4	16	20	28		
Minority Interests-EOG	44	75	50	24	20	25	45	50		
Minority Interests-EES	0	0	0	0	-4	3	6	12		
Minority Interests-Junior Preferred	0	0	30	53	40	40	40	40		
<b>Total Interest Expense</b>	<b>360</b>	<b>383</b>	<b>550</b>	<b>700</b>	<b>786</b>	<b>940</b>	<b>1038</b>	<b>1128</b>		
<b>Net Income Before Taxes:</b>										
Core Operating	622	677	734	1040	1180	1274	1447	1669		
Enron Energy Services (net)	0	0	-107	-119	-70	50	100	200		
<b>Total Operating</b>	<b>622</b>	<b>677</b>	<b>627</b>	<b>921</b>	<b>1110</b>	<b>1324</b>	<b>1547</b>	<b>1869</b>		
Recurring Nonrecurring Items	183	178	-612	-39	15	15	10	5		
<b>Total NIBT</b>	<b>805</b>	<b>855</b>	<b>15</b>	<b>882</b>	<b>1125</b>	<b>1339</b>	<b>1557</b>	<b>1874</b>		
<b>Income Taxes:</b>										
Core Operating	-285	-209	-180	-257	-295	-344	-391	-484		
Retail Energy Services (EES)	0	0	37	38	25	-18	-35	-70		
<b>Total Operating</b>	<b>-285</b>	<b>-209</b>	<b>-143</b>	<b>-219</b>	<b>-271</b>	<b>-361</b>	<b>-426</b>	<b>-554</b>		
Recurring Nonrecurring Items	-64	-62	233	44	-5	-5	-4	-2		
<b>Total Income Taxes</b>	<b>-349</b>	<b>-271</b>	<b>90</b>	<b>-175</b>	<b>-276</b>	<b>-367</b>	<b>-429</b>	<b>-556</b>		
<b>Net Income:</b>										
Core Operating Earnings	337	468	554	783	885	930	1056	1185		
Retail Energy Services (EES)	0	0	-70	-81	-46	33	65	130		
<b>Total Operating Earnings</b>	<b>337</b>	<b>468</b>	<b>484</b>	<b>702</b>	<b>840</b>	<b>963</b>	<b>1121</b>	<b>1315</b>		
Recurring Nonrecurring Items	119	116	-379	5	10	10	7	3		
<b>Total Net Income</b>	<b>456</b>	<b>584</b>	<b>105</b>	<b>707</b>	<b>849</b>	<b>972</b>	<b>1128</b>	<b>1318</b>		
Preferred Dividends	-16	-16	-17	-17	-17	-17	-17	-17		
<b>Net Income-Common</b>	<b>440</b>	<b>568</b>	<b>88</b>	<b>690</b>	<b>832</b>	<b>955</b>	<b>1111</b>	<b>1301</b>		
<b>Share Base (mm):</b>										
Basic Shares (mm)	243.7	246.1	272.1	321.0	335.0	345.0	355.0	365.0		
Diluted Shares (mm)	268.0	270.1	277.3	347.5	370.0	375.0	385.0	395.0		
<b>Diluted Earnings Per Share:</b>										
<b>Core Operating EPS</b>	<b>1.26</b>	<b>1.73</b>	<b>2.00</b>	<b>2.25</b>	<b>2.39</b>	<b>2.48</b>	<b>2.74</b>	<b>3.00</b>		
Retail Energy Services (EES)	0.00	0.00	-0.25	-0.23	-0.12	0.09	0.17	0.33		
<b>Total Operating EPS</b>	<b>1.26</b>	<b>1.73</b>	<b>1.75</b>	<b>2.02</b>	<b>2.27</b>	<b>2.57</b>	<b>2.91</b>	<b>3.33</b>		
Recurring Non-Recurring Items	0.44	0.43	-1.37	0.01	0.03	0.03	0.02	0.01		
<b>Total Reported EPS</b>	<b>1.70</b>	<b>2.16</b>	<b>0.38</b>	<b>2.03</b>	<b>2.30</b>	<b>2.59</b>	<b>2.93</b>	<b>3.34</b>		

Estimates: SMM (1/25/99)

Table 6: ENE - 1998 Quarterly Earning Profile

<b>EBIT (\$ MILLIONS ):</b>	<b>Q1</b>	<b>Q2</b>	<b>H1</b>	<b>Q3</b>	<b>9 MOS</b>	<b>Q4</b>	<b>YEAR</b>
Exploration & Production	43	29	72	25	97	31	128
Gas Pipeline Group	126	72	198	69	267	84	351
Portland General	79	62	141	61	202	84	286
Wholesale Operations & Services (WEOS)	249	241	490	277	767	201	968
Corporate & Other	<u>1</u>	<u>-16</u>	<u>-15</u>	<u>-4</u>	<u>-19</u>	<u>26</u>	<u>7</u>
<b>Core Operating EBIT</b>	<b>498</b>	<b>388</b>	<b>886</b>	<b>428</b>	<b>1314</b>	<b>426</b>	<b>1740</b>
Enron Energy Services (net)	<u>-27</u>	<u>-43</u>	<u>-70</u>	<u>-23</u>	<u>-93</u>	<u>-26</u>	<u>-119</u>
<b>Total Operating EBIT</b>	<b>498</b>	<b>345</b>	<b>816</b>	<b>405</b>	<b>1221</b>	<b>400</b>	<b>1621</b>
Recurring Nonrecurring Items	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-39</u>	<u>-39</u>
<b>Reported EBIT</b>	<b>498</b>	<b>345</b>	<b>816</b>	<b>405</b>	<b>1221</b>	<b>361</b>	<b>1582</b>
<b>Interest Expense-Net</b>	<b>-133</b>	<b>-131</b>	<b>-264</b>	<b>-134</b>	<b>-398</b>	<b>-148</b>	<b>-546</b>
Pfd divds-Subsidiaries	-19	-20	-39	-19	-58	-19	-77
Minority Interests (EOG)	-13	-6	-19	-2	-20	-4	-24
Minority Interests (Jr Prfd)	<u>-12</u>	<u>-13</u>	<u>-25</u>	<u>-14</u>	<u>-40</u>	<u>-13</u>	<u>-53</u>
<b>Subtotal</b>	<b>-177</b>	<b>-170</b>	<b>-347</b>	<b>-169</b>	<b>-516</b>	<b>-184</b>	<b>-700</b>
Interest Expense-EES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-4</u>	<u>-4</u>
<b>Total Interest &amp; Other</b>	<b>-177</b>	<b>-170</b>	<b>-347</b>	<b>-169</b>	<b>-516</b>	<b>-188</b>	<b>-704</b>
<b>Net Income Before Taxes:</b>							
Core Operating	321	218	539	259	798	242	1040
Enron Energy Services (net)	-27	-43	-70	-23	-93	-30	-123
Unusual Items	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-39</u>	<u>-39</u>
<b>Total</b>	<b>294</b>	<b>175</b>	<b>469</b>	<b>236</b>	<b>705</b>	<b>173</b>	<b>878</b>
<b>Income Taxes:</b>							
Core Operating	-89	-45	-134	-77	-209	-48	-257
Enron Energy Services (net)	<u>9</u>	<u>15</u>	<u>25</u>	<u>8</u>	<u>31</u>	<u>7</u>	<u>38</u>
Total Operating	-80	-30	-110	-69	-178	-41	-219
Unusual Items	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>44</u>	<u>44</u>
<b>Total</b>	<b>-80</b>	<b>-30</b>	<b>-110</b>	<b>-69</b>	<b>-178</b>	<b>3</b>	<b>-175</b>
<b>Net Income:</b>							
Core Operating	232	173	405	182	589	194	783
Enron Energy Services (net)	-18	-28	-46	-15	-62	-23	-85
Unusual Items	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5</u>	<u>5</u>
<b>Total</b>	<b>214</b>	<b>145</b>	<b>360</b>	<b>167</b>	<b>527</b>	<b>176</b>	<b>703</b>
Preferred Dividends	<u>-4</u>	<u>-5</u>	<u>-9</u>	<u>-4</u>	<u>-13</u>	<u>-4</u>	<u>-17</u>
<b>Net Income-Common</b>	<b>210</b>	<b>140</b>	<b>351</b>	<b>163</b>	<b>514</b>	<b>172</b>	<b>686</b>
<b>Share Base (mm):</b>							
Basic Shares	305.0	319.0	312.0	329.0	317.7	331.0	321.0
Fully Diluted Shares	329.8	346.3	338.1	356.0	344.0	358.0	347.5
End of Period-Diluted	331.7	356.6	356.6	358.1	358.1		
Basic EPS	0.69	0.44	1.12	0.50	1.62	0.52	2.14
Unusual Items	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.02</u>	<u>0.02</u>
Operating EPS	0.69	0.44	1.12	0.50	1.62	0.50	2.12
<b>Diluted Core Operating</b>	<b>0.70</b>	<b>0.50</b>	<b>1.20</b>	<b>0.51</b>	<b>1.71</b>	<b>0.54</b>	<b>2.25</b>
Enron Energy Services (net)	<u>-0.05</u>	<u>-0.08</u>	<u>-0.13</u>	<u>-0.04</u>	<u>-0.18</u>	<u>-0.06</u>	<u>-0.24</u>
<b>Diluted Operating EPS</b>	<b>0.65</b>	<b>0.42</b>	<b>1.06</b>	<b>0.47</b>	<b>1.53</b>	<b>0.48</b>	<b>2.01</b>
Unusual Items	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.01</u>	<u>0.01</u>
<b>Diluted Reported EPS</b>	<b>0.65</b>	<b>0.42</b>	<b>1.06</b>	<b>0.47</b>	<b>1.53</b>	<b>0.49</b>	<b>2.02</b>
% Dilution	5.8%	4.6%	5.3%	5.3%	5.3%	5.3%	5.3%
<b>1997 Diluted Core Operating EPS</b>	<b>0.61</b>	<b>0.44</b>	<b>1.06</b>	<b>0.51</b>	<b>1.57</b>	<b>0.43</b>	<b>1.99</b>
% Change	16%	13%	13%	-1%	9%	27%	13%
% Taxes-Normal	27.7%	20.6%	24.2%	29.7%	26.0%	19.8%	24.5%
% Taxes-EES	35.0%	35.0%	35.0%	35.0%	33.3%	23.3%	30.9%
% Taxes-Unusual Items	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
% Taxes-Reported	27.1%	17.1%	23.3%	29.2%	25.2%	-1.7%	19.9%

Estimates: SMM (1/25/99)

**Table 6: ENE - 1998 Quarterly Earnings Profile (Cont'd)**

<b>% EBIT Profile</b>	<b>Q1</b>	<b>Q2</b>	<b>HI</b>	<b>Q3</b>	<b>9 MOS</b>	<b>Q4</b>	<b>YEAR</b>
Exploration & Production	9%	7%	8%	6%	7%	7%	7%
Gas Pipeline Group	25%	19%	22%	16%	20%	20%	20%
Portland General	16%	16%	16%	14%	15%	20%	16%
Wholesale Operations & Services (WEOS)	50%	62%	55%	65%	58%	47%	56%
Corporate & Other	<u>0%</u>	<u>-4%</u>	<u>-2%</u>	<u>-1%</u>	<u>-1%</u>	<u>6%</u>	<u>0%</u>
<b>Core Operating EBIT</b>	100%	100%	100%	100%	100%	100%	100%
Enron Energy Services (net)	<u>-5%</u>	<u>-12%</u>	<u>-9%</u>	<u>-6%</u>	<u>-8%</u>	<u>-7%</u>	<u>-7%</u>
<b>Total Operating EBIT</b>	95%	88%	91%	94%	92%	94%	93%
Recurring Nonrecurring Items	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>-9%</u>	<u>-2%</u>
<b>Total EBIT</b>	95%	88%	91%	94%	92%	84%	90%
<b>Exploration &amp; Production (\$mm):</b>							
ENE Reported EBIT	43.0	29.0	72.0	25.0	97.0	31.0	128.0
EOG Reported EBIT	<u>37.3</u>	<u>32.6</u>	<u>69.9</u>	<u>17.6</u>	<u>87.5</u>	<u>21.0</u>	<u>108.5</u>
Hedging Gains (Losses)	5.7	-3.6	2.1	7.4	9.5	10.0	19.5
<b>EPS Effect Net to ENE</b>	0.01	-0.01	0.00	0.01	0.02	0.02	0.04
<b>Allocated EPS Profile:</b>							
Exploration & Production	0.06	0.04	0.10	0.03	0.13	0.04	0.17
Gas Pipeline Group	0.18	0.09	0.27	0.08	0.35	0.11	0.45
Portland General	0.11	0.08	0.19	0.07	0.26	0.11	0.37
Wholesale Operations & Services (WEOS)	0.35	0.31	0.66	0.33	1.00	0.26	1.25
Corporate & Other	<u>0.00</u>	<u>-0.02</u>	<u>-0.02</u>	<u>0.00</u>	<u>-0.02</u>	<u>0.03</u>	<u>0.01</u>
<b>Core Operating EBIT</b>	0.70	0.50	1.20	0.51	1.71	0.54	2.25
Enron Energy Services (net)	<u>-0.05</u>	<u>-0.08</u>	<u>-0.13</u>	<u>-0.04</u>	<u>-0.18</u>	<u>-0.06</u>	<u>-0.24</u>
<b>Total Operating EBIT</b>	0.65	0.42	1.06	0.47	1.53	0.48	2.01
Recurring Nonrecurring Items	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.01</u>	<u>0.01</u>
<b>Total Allocated EPS</b>	0.65	0.42	1.06	0.47	1.53	0.49	2.02
<b>WEOS Core Operating EPS</b>	0.35	0.31	0.66	0.33	1.00	0.26	1.25
<b>WEOS Allocated EPS:</b>							
Asset Development & Construction	0.02	0.05	0.07	0.05	0.13	0.04	0.17
Cash & Physical	0.19	0.11	0.30	0.14	0.45	0.11	0.56
Risk Management	0.04	0.01	0.05	0.05	0.10	0.04	0.14
Finance & Investing	<u>0.10</u>	<u>0.14</u>	<u>0.24</u>	<u>0.09</u>	<u>0.33</u>	<u>0.06</u>	<u>0.39</u>
Totals	0.35	0.31	0.66	0.33	1.00	0.26	1.25

Estimates: SMM (1/25/99)



**Table 7: ENE - 1997 - 1998 WEOS Comparisons**  
**1997 Daily Volumes**

<b>Cash &amp; Physicals (Bcf/ Daily):</b>	<b>Q1</b>	<b>Q2</b>	<b>HI</b>	<b>Q3</b>	<b>9 MOS</b>	<b>Q4</b>	<b>YEAR</b>
USA Natural Gas	8.611	7.330	7.971	7.321	7.754	7.370	7.658
Canada	2.107	2.123	2.115	2.353	2.194	2.464	2.262
Europe	0.460	0.572	0.516	0.748	0.593	0.854	0.659
Other	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Total Marketed	11.178	10.025	10.602	10.422	10.542	10.688	10.578
Transport	<u>0.207</u>	<u>0.686</u>	<u>0.447</u>	<u>0.456</u>	<u>0.450</u>	<u>0.488</u>	<u>0.938</u>
Total Gas Volumes (Bcf/day)	11.385	10.711	11.048	10.878	10.991	11.176	11.516
Crude Oil (mm bbl/day)	0.663	0.454	0.559	0.684	0.600	0.956	0.689
NGLs	<u>1.248</u>	<u>1.080</u>	<u>1.164</u>	<u>0.858</u>	<u>1.062</u>	<u>0.768</u>	<u>0.989</u>
Total Crude & NGLs	1.911	1.534	1.723	1.542	1.662	1.724	1.678
<b>Electricity Volumes Marketed (000 mwh)</b>							
United States	33.242	38.141	71.383	72.238	143.621	48.125	191.746
Europe	<u>0.050</u>	<u>0.018</u>	<u>0.068</u>	<u>0.019</u>	<u>0.087</u>	<u>0.013</u>	<u>0.100</u>
Total	33.292	38.159	35.726	72.257	107.983	48.138	156.121
Converted to Bbtu/day	3.699	4.193	3.946	7.183	5.025	5.232	5.256
Convsnio Ratio	9.000	9.101	9.054	10.059	9.387	9.201	9.340
<b>Total Physical Volumes (BBtue/day)</b>	16.995	16.438	16.717	20.274	17.902	18.132	17.960
<b>Total Physical Volumes (BBtue)</b>	1529.6	1495.9	3025.4	1865.2	4890.6	1668.1	6558.8
<b>Financial Settlements (BBtu/day)</b>	39.916	45.647	42.782	51.953	45.839	58.574	49.082
<b>WEOS Earnings (\$mm)</b>							
Total Sector EBIT	195.0	161.0	356.0	212.0	568.0	246.0	814.0
Unallocated Expenses	<u>-28.0</u>	<u>-31.0</u>	<u>-59.0</u>	<u>-39.0</u>	<u>-98.0</u>	<u>-62.0</u>	<u>-160.0</u>
Reported EBIT	167.0	130.0	297.0	173.0	470.0	184.0	654.0
<b>Unit Margins (\$/mmbtu):</b>							
Total Sector EBIT	0.127	0.108	0.118	0.114	0.116	0.147	0.124
Unallocated Expenses	<u>-0.018</u>	<u>-0.021</u>	<u>-0.020</u>	<u>-0.021</u>	<u>-0.020</u>	<u>-0.037</u>	<u>-0.024</u>
Reported EBIT	0.109	0.087	0.098	0.093	0.096	0.110	0.100

Estimates: SMM (1/25/99)

**Table 8: ENE - 1997 - 1998 WEOS Comparisons**  
**1998 Daily Volumes**

<b>Cash &amp; Physicals (Bcf/ Daily):</b>	<b>Q1</b>	<b>Q2</b>	<b>HI</b>	<b>Q3</b>	<b>9 MOS</b>	<b>Q4</b>	<b>YEAR</b>
USA Natural Gas	7.276	6.696	6.986	7.749	7.240	7.941	7.416
Canada	2.876	3.295	3.086	3.656	3.276	4.101	3.482
Europe	1.125	1.062	1.094	1.176	1.121	1.605	1.242
Other	<u>0.000</u>	<u>0.005</u>	<u>0.003</u>	<u>0.004</u>	<u>0.002</u>	<u>0.004</u>	<u>0.001</u>
Total Marketed	11.277	11.058	11.168	12.585	5.972	13.651	11.277
Transport	<u>0.450</u>	<u>0.630</u>	<u>0.540</u>	<u>0.643</u>	<u>0.574</u>	<u>0.510</u>	<u>0.558</u>
Total Gas Volumes (Bcf/day)	11.727	11.688	11.708	13.228	6.332	14.161	16.609
Crude Oil (mm bbl/day)	1.756	2.534	2.145	2.596	2.295	4.923	2.952
NGLs	<u>0.654</u>	<u>0.550</u>	<u>0.602</u>	<u>0.652</u>	<u>0.619</u>	<u>0.586</u>	<u>0.611</u>
Total Crude & NGLs	2.410	3.084	2.747	3.248	2.914	5.509	3.563
<b>Electricity Volumes Marketed (000 mwh)</b>							
United States	74.272	86.075	160.347	162.527	322.874	78.969	401.843
Europe	<u>0.082</u>	<u>0.040</u>	<u>0.122</u>	<u>0.165</u>	<u>0.287</u>	<u>0.242</u>	<u>0.529</u>
Total	74.354	86.115	160.469	162.692	323.161	79.211	402.372
Converted to Bbtu/day	8.262	9.463	8.863	17.684	11.803	9.201	11.152
Conversion Ratio	9.000	9.100	18.107	9.200	9.100	8.609	8.977
<b>Total Physical Volumes (BBtue/day)</b>	22.399	24.235	23.317	34.160	26.931	28.279	27.268
<b>Total Physical Volumes (BBtue)</b>	2015.9	2205.4	4221.3	3142.7	7364.0	2601.7	9965.7
<b>Financial Settlements (BBtu/day)</b>	69.918	67.411	68.665	83.653	73.661	79.879	75.266
<b>WEOS Earnings (\$mm)</b>							
Total Sector EBIT	279.0	281.0	560.0	313.0	873.0	247.0	1120.0
Unallocated Expenses	<u>-30.0</u>	<u>-40.0</u>	<u>-70.0</u>	<u>-36.0</u>	<u>-106.0</u>	<u>-46.0</u>	<u>-152.0</u>
Reported EBIT	249.0	241.0	490.0	277.0	767.0	201.0	968.0
<b>Unit Margins (\$/mmbtu):</b>							
Total Sector EBIT	0.138	0.127	0.133	0.100	0.119	0.095	0.112
Unallocated Expenses	<u>-0.015</u>	<u>-0.018</u>	<u>-0.017</u>	<u>-0.011</u>	<u>-0.014</u>	<u>-0.018</u>	<u>-0.015</u>
Reported EBIT	0.124	0.109	0.116	0.088	0.104	0.077	0.097

Estimates: SMM (1/25/99)

**Table 9: ENE - 1997 - 1998 WEOS Comparisons**  
**Daily Volumes**

<b>Cash &amp; Physicals (Bcf/ Daily):</b>	<b>Q1</b>	<b>Q2</b>	<b>HI</b>	<b>Q3</b>	<b>9 MOS</b>	<b>Q4</b>	<b>YEAR</b>
USA Natural Gas	-16%	-9%	-12%	6%	-7%	8%	-3%
Canada	36%	55%	46%	55%	49%	66%	54%
Europe	145%	86%	112%	57%	89%	88%	89%
Other	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
Total Marketed	1%	10%	5%	21%	-43%	28%	7%
Transport	<u>117%</u>	<u>-8%</u>	<u>21%</u>	<u>41%</u>	<u>28%</u>	<u>5%</u>	<u>-40%</u>
Total Gas Volumes (Bcf/day)	3%	9%	6%	22%	-42%	27%	44%
Crude Oil (mm bbl/day)	165%	458%	284%	280%	282%	415%	328%
NGLs	<u>-48%</u>	<u>-49%</u>	<u>-48%</u>	<u>-24%</u>	<u>-42%</u>	<u>-24%</u>	<u>-38%</u>
Total Crude & NGLs	26%	101%	59%	111%	75%	220%	112%
<b>Electricity Volumes Marketed (000 mwh)</b>							
United States	123%	126%	125%	125%	125%	64%	110%
Europe	<u>64%</u>	<u>122%</u>	<u>79%</u>	<u>768%</u>	<u>230%</u>	<u>1762%</u>	<u>429%</u>
Total	123%	126%	349%	125%	199%	65%	158%
Converted to Bbtu/day	123%	126%	125%	146%	135%	76%	112%
Conversion Ratio	0%	0%	100%	-9%	-3%	-6%	-4%
<b>Total Physical Volumes (BBtue/day)</b>	32%	47%	39%	68%	50%	56%	52%
<b>Total Physical Volumes (BBtue)</b>	32%	47%	40%	68%	51%	56%	52%
<b>Financial Settlements (BBtu/day)</b>	75%	48%	61%	61%	61%	36%	53%
<b>WEOS Earnings (\$mm)</b>							
Total Sector EBIT	43%	75%	57%	48%	54%	0%	38%
Unallocated Expenses	<u>7%</u>	<u>29%</u>	<u>19%</u>	<u>-8%</u>	<u>8%</u>	<u>-26%</u>	<u>-5%</u>
Reported EBIT	49%	85%	65%	60%	63%	9%	48%
<b>Unit Margins (\$/mmbtu):</b>							
Total Sector EBIT	9%	18%	13%	-12%	2%	-36%	-9%
Unallocated Expenses	<u>-19%</u>	<u>-12%</u>	<u>-15%</u>	<u>-45%</u>	<u>-28%</u>	<u>-52%</u>	<u>-37%</u>
Reported EBIT	13%	26%	18%	-5%	8%	-30%	-3%

Estimates: SMM (1/25/99)

**Table 10: ENE - 1997 Pipeline Quarterly Earnings**

<b>(\$ Millions):</b>	<b>Q1</b>	<b>Q2</b>	<b>HI</b>	<b>Q3</b>	<b>9 MOS</b>	<b>Q4</b>	<b>YEAR</b>
Net Revenues	206	139	345	143	488	175	663
Operating Expenses	73	76	149	77	226	82	308
DD&A	<u>18</u>	<u>16</u>	<u>34</u>	<u>16</u>	<u>50</u>	<u>19</u>	<u>69</u>
Total Expenses	91	92	183	93	276	101	377
Pipeline NOI	115	47	162	50	212	74	286
Equity in Earnings	10	8	18	11	29	11	40
Other Income-Net	<u>10</u>	<u>18</u>	<u>28</u>	<u>10</u>	<u>38</u>	<u>0</u>	<u>38</u>
Subtotal	20	26	46	21	67	11	78
Pipeline EBIT	135	73	208	71	279	85	364
Unusual Items	<u>102</u>	<u>0</u>	<u>102</u>	<u>0</u>	<u>102</u>	<u>0</u>	<u>102</u>
Reported EBIT	237	73	310	71	381	85	466
<b>Net Pipeline Margin (\$mm):</b>							
Northern Natural Gas	136	89	225	92	317	123	440
Transwestern	<u>38</u>	<u>37</u>	<u>75</u>	<u>37</u>	<u>112</u>	<u>37</u>	<u>149</u>
Subtotal	174	126	300	129	429	160	589
Florida Gas (50%-owned)	70	74	144	72	216	67	283
Northern Border (4% owned)	<u>47</u>	<u>46</u>	<u>93</u>	<u>40</u>	<u>133</u>	<u>46</u>	<u>179</u>
Totals	291	246	537	241	778	273	1051
<b>Pipeline Volumes (Bbtu/day):</b>							
Northern Natural Gas	4.809	4.085	8.894	4.063	12.957	4.507	17.464
Transwestern	<u>1.251</u>	<u>1.476</u>	<u>2.727</u>	<u>1.453</u>	<u>4.180</u>	<u>1.482</u>	<u>5.662</u>
Consolidated Volumes	6.060	5.561	11.621	5.516	17.137	5.989	23.126
Florida Gas	1.221	1.440	2.661	1.486	4.147	1.217	5.364
Northern Border	<u>1.856</u>	<u>1.785</u>	<u>3.641</u>	<u>1.740</u>	<u>5.381</u>	<u>1.820</u>	<u>7.201</u>
Subtotal	3.077	3.225	6.302	3.226	9.528	3.037	12.565
Total Volumes (Bbtu/day)	9.137	8.786	17.923	8.742	26.665	9.026	35.691
Consolidated Volumes (bcf)	545.4	506.1	1051.5	507.5	1558.9	551.0	2109.9
<b>Pipeline Economics (\$/ mmbtu):</b>							
Net Revenues	0.38	0.27	0.33	0.28	0.31	0.32	0.31
Operating Expenses	0.13	0.15	0.14	0.15	0.14	0.15	0.15
DD&A	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>
Total Expenses	0.17	0.18	0.17	0.18	0.18	0.18	0.18
Pipeline NOI	0.21	0.09	0.15	0.10	0.14	0.13	0.14
Equity in Earnings	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Other Income-Net	<u>0.02</u>	<u>0.04</u>	<u>0.03</u>	<u>0.02</u>	<u>0.02</u>	<u>0.00</u>	<u>0.02</u>
Subtotal	0.04	0.05	0.04	0.04	0.04	0.02	0.04
Pipeline EBIT	0.25	0.14	0.20	0.14	0.18	0.15	0.17
Unusual Items	<u>0.19</u>	<u>0.00</u>	<u>0.10</u>	<u>0.00</u>	<u>0.07</u>	<u>0.00</u>	<u>0.05</u>
Reported EBIT	0.43	0.14	0.29	0.14	0.24	0.15	0.22
<b>Pipeline Tariffs (\$/mmbtu):</b>							
Northern Natural Gas	0.31	0.27	0.00	0.28	0.00	0.33	0.31
Transwestern	0.31	0.27	0.00	0.28	0.00	0.26	0.33
Northern Border (per 100 miles: 4% owned)	0.037	0.037	0.037	0.037	0.037	0.037	0.037
Florida Gas (50%-owned)	0.74	0.59	0.00	0.57	0.00	0.64	0.63

Estimates: SMM (1/25/99)

**Table 11: ENE - 1998 Pipeline Quarterly Earnings**

<b>(\$ Millions):</b>	<b>Q1</b>	<b>Q2</b>	<b>HI</b>	<b>Q3</b>	<b>9 MOS</b>	<b>Q4</b>	<b>YEAR</b>
Net Revenues	192	137	329	144	473	167	640
Operating Expenses	69	68	137	68	205	71	276
DD&A	<u>16</u>	<u>17</u>	<u>33</u>	<u>17</u>	<u>50</u>	<u>20</u>	<u>70</u>
Total Expenses	85	85	170	85	255	91	346
Pipeline NOI	107	52	159	59	218	76	294
Equity in Earnings	11	9	20	8	28	4	32
Other Income-Net	8	<u>11</u>	<u>19</u>	<u>2</u>	<u>21</u>	<u>4</u>	<u>25</u>
Subtotal	19	20	39	10	49	8	57
Pipeline EBIT	126	72	198	69	267	84	351
Unusual Items	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Reported EBIT	126	72	198	69	267	84	351
<b>Net Pipeline Margin (\$mm):</b>							
Northern Natural Gas	133	85	218	93	311	121	432
Transwestern	<u>35</u>	<u>37</u>	<u>72</u>	<u>37</u>	<u>109</u>	<u>36</u>	<u>145</u>
Subtotal	168	122	290	130	420	157	577
Florida Gas (50%-owned)	72	74	146	72	218	73	291
Northern Border (4% owned)	<u>48</u>	<u>49</u>	<u>97</u>	<u>49</u>	<u>146</u>	<u>51</u>	<u>197</u>
Totals	288	245	533	251	784	281	1065
<b>Pipeline Volumes (Bbtu/day):</b>							
Northern Natural Gas	4.473	3.900	8.373	3.792	12.165	4.252	16.417
Transwestern	<u>1.657</u>	<u>1.675</u>	<u>3.332</u>	<u>1.615</u>	<u>4.947</u>	<u>1.492</u>	<u>6.439</u>
Consolidated Volumes	6.130	5.575	11.705	5.407	17.112	5.744	22.856
Florida Gas	1.168	1.328	2.496	1.471	3.967	1.303	5.270
Northern Border	<u>1.839</u>	<u>1.737</u>	<u>3.576</u>	<u>1.723</u>	<u>5.299</u>	<u>1.781</u>	<u>7.080</u>
Subtotal	3.007	3.065	6.072	3.194	9.266	3.084	12.350
Total Volumes (Bbtu/day)	9.137	8.640	17.777	8.601	26.378	8.828	35.206
Consolidated Volumes (bcf)	551.7	507.3	1059.0	497.4	1556.5	528.4	2084.9
<b>Pipeline Economics (\$/ mmbtu):</b>							
Net Revenues	0.35	0.27	0.31	0.29	0.30	0.32	0.31
Operating Expenses	0.13	0.13	0.13	0.14	0.13	0.13	0.13
DD&A	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.04</u>	<u>0.03</u>
Total Expenses	0.15	0.17	0.16	0.17	0.16	0.17	0.17
Pipeline NOI	0.19	0.10	0.15	0.12	0.14	0.14	0.14
Equity in Earnings	0.02	0.02	0.02	0.02	0.02	0.01	0.02
Other Income-Net	<u>0.01</u>	<u>0.02</u>	<u>0.02</u>	<u>0.00</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>
Subtotal	0.03	0.04	0.04	0.02	0.03	0.02	0.03
Pipeline EBIT	0.23	0.14	0.19	0.14	0.17	0.16	0.17
Unusual Items	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Reported EBIT	0.23	0.14	0.19	0.14	0.17	0.16	0.17
<b>Pipeline Tariffs (\$/mmbtu):</b>							
Northern Natural Gas	0.37	0.28	0.00	0.30	0.00	0.33	0.32
Transwestern	0.26	0.24	0.00	0.25	0.00	0.27	0.28
Northern Border (per 100 miles: 4% owned)	0.037	0.037	0.000	0.037	0.000	0.037	0.037
Florida Gas (50%-owned)	0.71	0.65	0.00	0.56	0.00	0.64	0.63

Estimates: SMM (1/25/99)

**Table 12: ENE - 1997 Portland General Earnings**

<b>(\$ Millions):</b>	<b>Q1</b>	<b>Q2</b>	<b>HI</b>	<b>Q3</b>	<b>9 MOS</b>	<b>Q4</b>	<b>YEAR</b>
Revenues	368	307	675	386	1,061	360	1,421
Purchased Power & Fuel	157	128	285	221	506	168	674
Operating Expenses	67	74	141	69	210	85	295
DD&A	<u>39</u>	<u>39</u>	<u>78</u>	<u>45</u>	<u>123</u>	<u>46</u>	<u>169</u>
Total Expenses	263	241	504	335	839	299	1,138
NOI	105	66	171	51	222	61	283
Other Income-Net	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>
Reported EBIT	105	67	172	51	223	63	286
Retail Customers (000, End of Period)	672	677	677	681	681	685	685
<b>Electricity Sales (000 mwh)</b>							
Residential	2.142	1.462	3.604	1.391	4.995	1.988	6.983
Commercial	1.711	1.623	3.334	1.831	5.165	1.787	6.952
Industrial	<u>0.983</u>	<u>1.086</u>	<u>2.069</u>	<u>1.093</u>	<u>3.162</u>	<u>1.073</u>	<u>4.235</u>
Total Retail	4.836	4.171	9.007	4.315	13.322	4.848	18.170
Wholesale	<u>6.419</u>	<u>6.958</u>	<u>13.377</u>	<u>8.556</u>	<u>21.933</u>	<u>4.892</u>	<u>26.825</u>
Total Sales	11.255	11.129	22.384	12.871	35.255	9.740	44.995
<b>Power Economics (\$/mwh):</b>							
Revenues	32.70	27.59	30.16	29.99	30.10	36.96	31.58
Purchased Power & Fuel	13.95	11.50	12.73	17.17	14.35	17.25	14.98
Operating Expenses	5.95	6.65	6.30	5.36	5.96	8.73	6.56
DD&A	<u>3.47</u>	<u>3.50</u>	<u>3.48</u>	<u>3.50</u>	<u>3.49</u>	<u>4.72</u>	<u>3.76</u>
Total Expenses	23.37	21.66	22.52	26.03	23.80	30.70	25.29
NOI	9.33	5.93	7.64	3.96	6.30	6.26	6.29
Other Income-Net	<u>0.00</u>	<u>0.09</u>	<u>0.04</u>	<u>0.00</u>	<u>0.03</u>	<u>0.21</u>	<u>0.07</u>
Reported EBIT	9.33	6.02	7.68	3.96	6.33	6.47	6.36
<b>Average Billed Revenue (Cents per kWh):</b>							
Residential	0.00	0.00	0.00	5.71	0.00	5.57	0.00
Commercial	0.00	0.00	0.00	5.01	0.00	5.10	0.00
Industrial	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>3.45</u>	<u>0.00</u>	<u>3.25</u>	<u>0.00</u>
Total Retail	0.00	0.00	0.00	4.84	0.00	4.88	0.00
Wholesale	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2.10</u>	<u>0.00</u>	<u>2.03</u>	<u>0.00</u>
Total Sales	0.00	0.00	0.00	3.02	0.00	3.45	0.00
<b>Average Variable Power Cost (Mills/kWh):</b>							
Generation	0.0	0.0	0.0	8.8	0.0	8.3	0.0
Firm Purchases	0.0	0.0	0.0	19.2	0.0	18.5	0.0
Secondary Purchases	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>13.0</u>	<u>0.0</u>	<u>13.9</u>	<u>0.0</u>
Total AVP	0.0	0.0	0.0	17.6	0.0	16.7	0.0

Estimates: SMM (1/25/99)

**Table 13: ENE - 1998 Portland General Earnings**

<b>(\$ Millions):</b>	<b>Q1</b>	<b>Q2</b>	<b>HI</b>	<b>Q3</b>	<b>9 MOS</b>	<b>Q4</b>	<b>YEAR</b>
Revenues	320	269	589	280	869	327	1196
Purchased Power & Fuel	124	94	218	104	322	129	451
Operating Expenses	76	78	154	76	230	65	295
DD&A	<u>44</u>	<u>45</u>	<u>89</u>	<u>47</u>	<u>136</u>	<u>47</u>	<u>183</u>
Total Expenses	244	217	461	227	688	241	929
NOI	76	52	128	53	181	86	267
Other Income-Net	<u>3</u>	<u>10</u>	<u>13</u>	<u>8</u>	<u>21</u>	<u>-2</u>	<u>19</u>
Reported EBIT	79	62	141	61	202	84	286
Retail Customers (000, End of Period)	688	694	694	698	696	704	704
<b>Electricity Sales (000 mwh)</b>							
Residential	2.076	1.524	3.600	1.454	5.054	2.052	7.106
Commercial	1.660	1.613	3.273	1.861	5.134	1.725	6.859
Industrial	<u>0.990</u>	<u>1.106</u>	<u>2.096</u>	<u>1.074</u>	<u>3.170</u>	<u>0.921</u>	<u>4.091</u>
Total Retail	4.726	4.243	8.969	4.389	13.358	4.698	18.056
Wholesale	<u>3.575</u>	<u>2.382</u>	<u>5.957</u>	<u>2.675</u>	<u>8.632</u>	<u>2.237</u>	<u>10.869</u>
Total Sales	8.301	6.625	14.926	7.064	21.990	6.935	28.925
<b>Power Economics (\$/mwh):</b>							
Revenues	38.55	40.60	39.46	39.64	39.52	47.15	41.35
Purchased Power & Fuel	14.94	14.19	14.61	14.72	14.64	18.60	15.59
Operating Expenses	9.16	11.77	10.32	10.76	10.46	9.37	10.20
DD&A	<u>5.30</u>	<u>6.79</u>	<u>5.96</u>	<u>6.65</u>	<u>6.18</u>	<u>6.78</u>	6.33
Total Expenses	29.39	32.75	30.89	32.13	31.29	34.75	32.12
NOI	9.16	7.85	8.58	7.50	8.23	12.40	9.23
Other Income-Net	<u>0.36</u>	<u>1.51</u>	<u>0.87</u>	<u>1.13</u>	<u>0.95</u>	<u>-0.29</u>	<u>0.66</u>
Reported EBIT	9.52	9.36	9.45	8.64	9.19	12.11	9.89
<b>Average Billed Revenue (Cents per kWh):</b>							
Residential	5.91	6.40	0.00	6.43	0.00	5.75	6.07
Commercial	5.06	5.07	0.00	5.07	0.00	4.94	5.09
Industrial	<u>3.09</u>	<u>2.64</u>	<u>0.00</u>	<u>3.37</u>	<u>0.00</u>	<u>3.86</u>	<u>3.69</u>
Total Retail	5.02	4.97	0.00	4.47	0.00	5.08	5.21
Wholesale	<u>1.82</u>	<u>1.72</u>	<u>0.00</u>	<u>2.61</u>	<u>0.00</u>	<u>2.59</u>	<u>2.15</u>
Total Sales	3.64	3.91	0.00	3.88	0.00	4.27	4.03
<b>Average Variable Power Cost (Mills/kWh):</b>							
Generation	7.0	6.6	0.0	9.6	0.0	10.1	8.6
Firm Purchases	16.3	14.3	0.0	18.8	0.0	21.6	17.3
Secondary Purchases	<u>14.2</u>	<u>12.4</u>	<u>0.0</u>	<u>32.1</u>	<u>0.0</u>	<u>28.3</u>	<u>23.6</u>
Total AVP	14.4	13.2	0.0	17.3	0.0	17.9	15.6

Estimates: SMM (1/25/99)

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