

Enron Documents

1996

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

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FROM: I HAVE A DREAM

NOTES AREA:

SUBJECT SUMMARY: INFORMS SECRETARY THAT ENRON
CORP HAS MADE A CONTRIBUTION
TO "I HAVE A DREAM - HOUSTON"
IN THE SECRETARY HONOR

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF: SECRETARY

ACTION TO: OFFICE OF THE SECRETARY
ACTION TYPE: Prepare final reply
ACTION OFFICER: WALLACE

CONCURRENCE COPIES TO:
INFORMATION COPIES TO: ES1 TEAM

CONCURRENCES COMPLETED:

REMARKS:

EXECUTIVE SECRETARIAT CONTACT: G Holloway

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I Have a Dream[®]

HOUSTON

December 28, 1995

The Honorable Hazel O'Leary
Secretary
U.S. Department of Energy
1000 Independence Ave., SW
Washington, D.C. 20585

Dear Mr. O'Leary:

This holiday season, the management committee of Enron Corp. has made a contribution to *I Have a Dream - Houston* in your honor. This special tribute to you will help us continue our mentoring, tutoring and after-school programs for under-privileged inner-city children.

*Rebecca King
Manager*

713/853-6318

*Enron Corp
PO Box 1188*

*Houston, TX 7725
118*

We are very grateful to you for inspiring this special gift.

Sincerely,
THE I HAVE A DREAM STAFF

*Call who specifically
donate so we can
say thank you*

96-000274



THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

January 17, 1996

Mr. Kenneth Lay
Chief Executive Officer
Enron Corp.
P.O. Box 1188
Houston, TX 77251-1188

Dear Mr. Lay *Ken*

I wanted to express my sincere gratitude to you and the Management Committee of Enron for your thoughtfulness during the holiday season. The contribution made in my name to *I Have a Dream - Houston* is a special honor which makes a difference in our young people.

Thank you for celebrating the season in such a special way.

Sincerely,

A handwritten signature in cursive script, appearing to read "Hazel R. O'Leary".

Hazel R. O'Leary

cc: Ms. Rebecca King



Printed on recycled paper



**American Gas
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February 29, 1996

The Honorable Bill Archer
Chairman
Committee on Ways and Means
U.S House of Representatives
Washington, D.C. 20515-6348

Dear Mr. Chairman:

Re: Support for H.R. 2822, the Temporary Duty Suspension Act

On behalf of the members of the American Gas Association (A.G.A.), I would like to submit this statement for the official record in support of H.R. 2822, the Temporary Duty Suspension Act.

A.G.A. is a national trade association comprised of approximately 300 natural gas distribution, transmission, gathering and marketing companies in North America, which together account for more than 90 percent of the natural gas delivered in the United States.

The Temporary Duty Suspension Act would amend the current Tariff Act of 1930 by providing the Department of Commerce the authority to temporarily suspend antidumping and/or countervailing duties for certain products that are not available in the United States. This legislation is necessary because there are no adequate mechanisms under existing law to suspend a duty when a product is not available in the United States. Domestic industries are being forced to pay the antidumping or countervailing duties on products that they cannot obtain from American manufacturers. The Department of Commerce should be given the flexibility to effectively administer American international trade policy and to protect domestic industries that must import certain products from unnecessary costs.

Under the current law, antidumping and countervailing duties are imposed on entire classes of products, which may include goods that cannot be obtained from any domestic manufacturer. The Department of Commerce can only suspend a tariff on a permanent basis after lengthy review process following a 24 month waiting period. H.R. 2822 provides the Department of Commerce a modest, yet important, addition to its authority to address unique trade problems, on a temporary and limited basis in a timely manner.



Hon. Bill Archer
Page 2
February 29, 1996

For example, many natural gas companies require specialized steel for the construction of safe pipelines. While U.S. steel manufacturers produce some specifications that the gas industry needs, there are instances the U.S. steel industry does not produce, or is unable to produce within a reasonable time, steel that meets those specifications. Therefore, our industry must import this steel. The imported product may be subject to the antidumping or/and countervailing duties, even though the product is not available domestically. This unnecessarily increases the costs for pipeline projects and the ultimate cost of the natural gas that is transmitted to those served by the pipeline. In cases like this, the current law imposes a penalty on a domestic company, yet there is no domestic maker of that product to protect.

The purpose of our antidumping and countervailing duty laws is to protect domestic companies from unfair or subsidized foreign competition. Our trade laws are not intended to artificially raise prices of goods that domestic companies need and can not obtain in the United States. H.R. 2822 recognizes the market reality that all products are not always available in the domestic market, ultimately forcing industries to look for supplies in foreign markets. The Temporary Duty Suspension Act would only apply when there is no domestic manufacturer to be protected.

Temporary relief authority, similar to this legislation, was successfully employed in the 1980's. It is a concept that has been tested.

We urge Congress to provide the authority to enable the Department of Commerce to act quickly and fairly to correct the inequities that result when domestic manufacturers cannot provide the needs of other domestic industries.

We appreciate your support for this legislation. If you need additional information, please feel free to contact me.

Sincerely,

A handwritten signature in black ink that reads "Mike Baly". The signature is written in a cursive, flowing style.

Michael Baly III.

March 1, 1996

FROM: JOE WILLIAMS
ENRON WASHINGTON, INC.

MEMORANDUM

TO: Mr. Phillip D. Mosely
Chief of Staff
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

FROM: Energy Industry Group
750 17th Street, N.W.
4th Floor
Washington, D.C. 20006

Re: Comments on Miscellaneous Trade Proposals (Advisory No. TR-17)

Attached, please find six copies of a statement by the Energy Industry Group. These comments are submitted pursuant to the above-referenced Advisory of the Subcommittee on Trade of the Committee on Ways and Means.

4

COMMENTS OF THE ENERGY INDUSTRY GROUP
ON H.R. 2822
SUBMITTED TO THE COMMITTEE ON WAYS AND MEANS

March 1, 1996

The Energy Industry Group supports HR 2822 in the effort to provide for fair treatment of all U.S. industry segments through the administration of our country's antidumping and countervailing duty laws. We fully support the application of these laws in specific situations where U.S. made products face unfair competition from foreign made goods that are priced below production cost, sometimes because of foreign government subsidies. We do insist, however, that when a product not available from U.S. sources is needed, the supply of that product should not be impeded or penalized economically through inclusion in a generally applied categorical definition. When this injurious remedy is imposed, many U.S. industry segments are harmed without any compensating benefit to any other industry segment. This is harmful to domestic competition as well as detrimental to U.S. competitiveness in world trade. The additional cost of duties paid must ultimately be absorbed by the consumer. This injury is manifested in unnecessarily higher prices of goods and services or more innocuously in projects not undertaken or wells not drilled.

For example, the interstate pipeline systems must be able to depend on a consistent reliable supply of large diameter high grade pipe in order to maintain and expand the availability of energy to American industry and consumers. Situations that would disrupt the supply of pipe, and ultimately energy delivery, should not be sustained unnecessarily by government.

Domestic production of large diameter pipe is concentrated in only four manufacturers, two of which produce their own steel plate (the raw material for production of pipe). The other two pipe producers must obtain plate from the two integrated producers or from foreign sources, a situation that puts the nonintegrated producers at a severe disadvantage when plate supplies are tight.

Moreover, some sizes and grades of plate are not produced in the United States and must be obtained abroad. When plate is covered generally by antidumping and countervailing duties orders, even supplies of specific kinds of plate not made in the U.S. are penalized by government unless relief can be provided in these special circumstances. This penalty is passed to consumers without benefit to any industry segment.

There are similar examples of potential shortages involving drill pipe and production tubing, as well as similar situations affecting other industry groups.

It is the position of the Energy Industry Group that when it is necessary for the government to protect U.S. industry from unfair foreign competition, it is also necessary that the government have the flexibility and sensitivity to see that domestic competition is maintained and that downstream industries and consumers are not unduly injured by the process.

Respectfully Submitted

THE ENERGY INDUSTRY GROUP

A

THE ENERGY INDUSTRY GROUP

American Gas Association

Amoco Corporation

Columbia Gas Association Inc.

El Paso Natural Gas Company

Enron Corp.

**International Association of Drilling
Contractors**

**Interstate Natural Gas Association of
America**

Koch Industries, Inc.

MidCon Corp.

Natural Gas Supply Association

PanEnergy Corporation

Sonat Inc.

The Williams Companies

B

UNITED STATES OF AMERICA
HOUSE OF REPRESENTATIVES

COMMENTS OF THE TEMPORARY DUTY SUSPENSION GROUP ON
H.R. 2822
SUBMITTED TO THE COMMITTEE ON WAYS AND MEANS
MARCH 1, 1996

These comments are submitted on behalf of the Temporary Duty Suspension Group ("TDSG"), a group of U.S. corporations and trade associations, whose members employ well over one million American workers and account for \$__ billion in annual sales and over \$__ in U.S. exports. The TDSG is a very diverse group--its membership includes oil and gas producers, pipelines, petroleum products manufacturers, makers of heavy machinery and transportation equipment, steel producers, distributors and users, computer manufacturers and makers of a vast array of high-technology equipment. Members of the Group are listed below.

The TDSG strongly supports the prompt enactment of the temporary duty suspension ("TDS") legislation to enhance the competitiveness of U.S. industry and specifically urges the passage of the bill introduced by Congressman Crane on December 21, 1995 (H.R. 2822).

TDSG members strongly support the vigorous and effective enforcement of the antidumping and countervailing duty laws of the United States that protect domestic manufacturers against injurious dumping and subsidies. TDSG does not support weakening those laws; nor do we favor, by our support of H.R. 2822 the re-opening of the debates on the structure and character of the trade laws, including the calculation of dumping and subsidy margins, the determination of injury or threat of injury, the collection or assessment of antidumping and countervailing duties, or any other aspect of those laws. Indeed, passage of this bill may avoid the basic questioning of these laws by alleviating a serious and, we are convinced, unintended consequence of those laws: the danger to the competitiveness of much of American manufacturing.

H.R. 2822 would allow the Department of Commerce to suspend antidumping and countervailing duties temporarily, and for a limited quantity, on one or more specific products needed by American industry when they are not available from U.S. producers. Each exemption would need to be approved by the administering authority (under current law, the Department of Commerce).

The trade laws do not now differentiate between products within a broad "class or kind of merchandise" on the basis of whether they are available from United States sources. There is no reason why these laws should restrict international commerce in merchandise that is not available in the United States. Yet, as currently written, they have exactly that consequence. Moreover, as we demonstrate below, the provisions of the trade laws do not adequately address this

unintended consequence, despite protestations of others, including the Administration, to the contrary.

A temporary duty suspension provision could prove vital to the health and competitive position of U.S. companies that rely on imported components and raw materials, as well as their workers and communities. It would strengthen, not hamper, the effectiveness of U.S. trade laws.

Why a Temporary Duty Suspension Remedy Is Needed

Under current law, antidumping and countervailing duties are imposed on a "class or kind of merchandise," a broadly inclusive set of products, without regard to whether all of the products in the "class or kind" are made domestically. Similarly, the International Trade Commission makes a broad assessment of U.S. producers of a "domestic like product," when determining whether imports cause or threaten material injury to a U.S. industry. In both cases, the Department of Commerce and the ITC do not exclude from their analysis products that may fit within the broad categories they analyze, but are not made in the United States. Thus, particular products that are or may become unavailable from domestic producers are included within the scope of an order. Clearly, imposing dumping and countervailing duties on products that are not available from domestic producers is bad policy. It hurts U.S. manufacturers who must compete globally, but does not reduce injury to any domestic industry.

The Committee is well aware that U.S. manufacturing has changed dramatically over the last few decades. Very few industries in the U.S. any longer manufacture products entirely from domestic components and raw materials. Auto producers, steel makers, manufacturers of semiconductor chips, aluminum and copper producers, just to name a few, are all dependent on imports of components and raw materials to some degree, and all are to some extent competing globally, against foreign competitors in our market and in export markets.

The changing structure of global production means that the antidumping and countervailing duty laws unnecessarily penalize U.S. industrial users of dumped imports. This does not happen in every case, but it can happen without warning or anticipation. When it happens, the law needs, but does not now have, a mechanism for avoiding unnecessary injury to American manufacturers without harming the petitioning industry. The TDS bill provides this mechanism.

Antidumping and Countervailing Duties Affect Availability of Products in the U.S. Market

Antidumping/countervailing duties affect the availability of products in the U.S. The average antidumping duty margin has been over 50 percent in recent years. This is *higher* than the average Smoot-Hawley tariffs, which were a

major cause of the collapse of world trade in the '90's. Because of the widespread use of "best information available" in antidumping and countervailing duty cases, the estimated duties are often much higher than any plausible difference between home market prices (or any other realistic basis for "normal value") and U.S. prices. U.S. users that rely on these imports can be the unintended victims of the unwillingness or inability of foreign producers to comply with extensive demands for information.

The uncertainty of how much duty will actually be required on imported products subject to trade remedy cases further restricts the availability of imports. Actual antidumping and countervailing duties are not assessed until years after importation. Only a deposit of estimated duties is made at the time of entry. Assessed duties may be higher or lower than the deposit amount. Many importers cannot accept the uncertainty, and as a result cease importing products subject to antidumping or countervailing duty orders. This in turn denies these products to U.S. manufacturers.

The net result of the lack of a mechanism to address this problem is to do damage to the competitive position of U.S. companies. There are numerous examples of this phenomenon, including (but not limited to) the following:

- ◆ **Example 1:** In 1991, 63% antidumping duty margins were imposed on flat panel displays from Japan (critical components in laptop computers), even though there was only a very small amount of production of these products in the United States. Even though U.S. production could not remotely supply U.S. demand, the antidumping duties were applied to all imports from Japan. As a result, U.S. computer companies were forced to move manufacturing of laptop and portable computers offshore in order to compete with Japan-based computer manufacturers. While the *Flat Panels* petition was ultimately withdrawn, the manufacturing jobs had already left the country.
- ◆ **Example 2:** Currently, there are antidumping orders on antifriction bearings from 9 countries. Many users of bearings in the United States require highly specialized products which U.S. producers do not make. Foreign bearings users can incorporate specialty bearings into finished products and import them into the United States without being subject to the antidumping and countervailing duties on bearings. U.S. users of these bearings are hurt, even when no U.S. producer benefits from the protection.
- ◆ **Example 3:** Users of steel products in the United States sometimes require specifications for steel mill products that are not available from domestic sources, because of particular product specifications (e.g., chemistry, metallurgy, tolerances, surface finish), or periodic shortages. Without a mechanism for temporary suspension of duties, these U.S. steel

users are at a competitive disadvantage. Their foreign competitors can fabricate or manufacture the same products abroad, and sell finished products in the U.S. market without being subject to antidumping and countervailing duties. Yet, because the needed materials are not available in the U.S., domestic producers are not helped by the imposition of duties on these products.

- ◆ **Example 4:** A manufacturer of steel line pipe receives an order for pipe that required a certain specification of steel plate. The plate was unavailable due to certain testing requirements not performed by U.S. suppliers, but commonly done in European plate mills. The U.S. supplier plans to install new testing equipment within one year, but cannot fill the order at this time. As a result, the pipe maker must bid on the project using plate subject to antidumping and countervailing duties. The bid price is far higher than a bid from a foreign pipe maker, and the U.S. pipe mill loses the order.

The above examples illustrate the problem of the rigid application of antidumping and countervailing duties to products that cannot be obtained from domestic sources. In each case, a specific quantity of products could be allowed to enter the United States free of antidumping or countervailing duties without any injury to the domestic industry that brought trade petitions, and without undermining the effectiveness of the relief for the petitioners.

There Is Ample Precedent For A TDS Procedure

Laws designed to protect one industry may have the unintended effect of harming upstream or downstream U.S. producers. The U.S. has long recognized that such laws must be finely tuned to ensure that these laws are in fact providing protection and not inordinately damaging other interests. For example, many statutes that are designed to protect U.S. industries have provided for waiver of certain restrictions in situations involving products, materials, or goods in "short supply." The theory underpinning these exceptions is all the same - that is, that applying restrictions to products that cannot be obtained in the U.S. hurts U.S. upstream manufacturers but does not help any domestic industry.

One analogous precedent is the short supply procedure that was part of the steel voluntary restraint agreements ("VRAs"). The short supply procedure provided an effective mechanism for relief from the quotas under the steel VRAs where a particular product was not available domestically. Under this mechanism, the Commerce Department had the authority to permit the importation of additional quantities of a product that was in short supply above the aggregate quantitative limitations under the VRAs. Application for such relief could be filed by a U.S. producer or consumer of the product; a U.S. importer/distributor of the product; or a foreign producer of the product. The Department processed 64 steel

short supply applications from 1989-1992. Without the short supply procedure, many U.S. producers could have been forced to curtail U.S. operations due to lack of needed steel inputs. Indeed, preventing this unfortunate result was the principal reason for the short supply procedure.

Other statutes that include the concept of waiver in situations of "short supply" include: the Buy American Act (41 U.S.C. § 10a) (exempting materials or supplies that are not mined, produced, or manufactured in the U.S. in sufficient and reasonably available commercial quantities of satisfactory quality); the Convict-made Goods Statute (19 U.S.C. § 1307) provides for an exemption on the prohibition of importation of convict-made goods when goods are not mined, produced, or manufactured in such quantities in the United States as to meet the consumptive demands of the U.S.); the Foreign Assistance Act of 1974 (22 U.S.C. § 2423) (authorizes the President to contravene other restrictions imposed by the Foreign Assistance Act in order to secure materials in short supply); and the Export Administration Act of 1979 (50 U.S.C. App. § 2408) (authorizes an exception to the applicable controls when an item cannot be obtained except through import--i.e., it is in short supply).

Existing Procedures under the Trade Laws Are Inadequate to Address the Problem

Existing procedures do not adequately address the Temporary Duty Suspension Group's concerns about lack of available domestic supply of goods subject to antidumping and countervailing duties. The available procedures can theoretically be made to address some of these concerns. However, the main problem is the lack of flexibility in the law to remedy temporary conditions of unavailable supply, which could force U.S. companies offshore and render them unavailable as customers when a temporary shortage is removed.

First, the current law does not directly consider the availability of a particular product from United States producers. For example, Commerce has changed the scope of a petition during an investigation (not after), but only on the ground that the petitioner has requested a change in scope. In scope determinations after an order is in place, Commerce has expressly held that whether a product is made in the United States is irrelevant [see, e.g., Television Receiving Sets, Monochrome and Color, from Japan, Final Scope Ruling, 56 Fed. Reg. 66841, 66844 (1991)]. The relevant considerations are the physical characteristics of the merchandise, distribution channels, etc. In proceedings to revoke an order in part due to changed circumstances, Commerce considers the lack of interest of the domestic industry to be the key changed circumstance, rather than non-availability of the product. We know of no case where Commerce has ruled that the fact that a product was unavailable domestically was a basis for taking a product outside the scope of an investigation or order.

One important element that current laws and procedures lack, therefore, is a process for directly considering whether a product is available, and whether or not antidumping or countervailing duties should be imposed for this reason.

Second, under current law, products may be removed from the scope of a trade proceeding on a permanent, as opposed to a temporary basis. This has several detrimental effects on U.S. manufacturing. Permanent exclusion of the product from the scope of a proceeding means that petitioners will not be protected in the future from unfair trade practices with respect to that product, even if they start to manufacture it. By contrast, the temporary relief authorized under H.R. 2822 will encourage domestic industry to develop new products, because downstream customers will remain in the U.S. until the U.S. industry begins to manufacture the needed input product. Once the domestic industry begins to manufacture a particular product, the relief afforded by H.R. 2822 would be terminated and the protections of the antidumping duty order fully reinstated. This benefits the producer and the user.

Third, exclusion of a product from an order, once the order is in force, is contingent on petitioners expressing "no interest" in keeping particular products within the scope of the order. This gives petitioners an absolute veto power over any action, without any obligation or opportunity on the part of the Commerce Department to evaluate any opposition. We believe that petitioners' views should be accorded great weight, but no interested party should have a veto over a Department of Commerce determination. While temporary unavailability may not cause petitioners to have "no interest" in an order, it could cause users to relocate production outside the United States. Commerce should have a chance to consider this issue in appropriate cases.

Fourth, the current procedures are not sufficiently flexible to allow for timely relief. For example, a "changed circumstances" review may not be conducted less than twenty-four months after the antidumping or countervailing duty order was issued unless "good cause" is shown. By contrast, H.R. 2822 is a very flexible provision which should allow the Commerce Department to provide needed relief on a timely basis.

H.R. 2822 Is A Discretionary Provision That Will Not Impose Significant Burdens

H.R. 2822 is a dramatic departure from the short supply proposal that was considered by the Ways & Means Committee in 1994. The prior proposal was modeled on the strict procedures established in the short supply provision of the U.S. voluntary steel restraint agreements. H.R. 2822, by contrast, is modeled on the much more discretionary European Union's temporary suspension provision added to the EU's antidumping regulation last year.

The EU provision has been in place for approximately one year, and relief has only been provided in one case during that time. This provision has been administered without a significant burden on the resources of the and there is no reason to believe that the Commerce Department's experience would be different. While some have argued that the EU's process in antidumping cases is sufficiently different to make their experience uninformative in our system, we strongly disagree. Opponents have pointed to no particular reason that justifies this claim. A hallmark of H.R. 2822 is the broad discretion it accords to the administering authority to deny relief in any case it considers inappropriate. This could include any difficult case in which the Department believes that its resources would not be adequate to determine the facts. However, the difficulty of applying this provision in some situations does not mean that the Department should not have the authority to address domestic unavailability in situations where the issues are clear and relief is manifestly warranted.

H.R. 2822 Will Not Undermine The Effectiveness Of The Antidumping Or Countervailing Duty Laws

The temporary duty suspension remedy would only apply in situations where products cannot be obtained in the U.S.—situations in which no U.S. producer benefits from the protection of antidumping laws and downstream U.S. producers and their suppliers would be harmed. As such it would neither alter the structure of the law or undermine its effective enforcement.

International trade rules require that antidumping and countervailing duties only be imposed when a domestic industry has been injured by dumping and subsidies. In the absence of injury, there is nothing "illegal" about U.S. customers purchasing goods that the Commerce Department might conclude are sold at below home market prices, or subsidized. Domestic integrated steel producers, who have claimed for years that foreign steel mills engage in dumping and receive subsidies, nevertheless import and use foreign semifinished steel products. These products are clearly subsidized to no less an extent than the finished products that are the subject of petitions. However, because these imports cause or threaten no injury, they are not actionable, and there is nothing illegal or wrong about importing them.

Similarly, there is no injury caused by products imported because they cannot be obtained domestically. Yet these products can be, and often are, swept up in cases that apply to much broader categories of products. When such a situation occurs, the administering authority should have the ability to address it. Without such an ability, the trade laws can appear arbitrary and wrong-headed. With this flexibility, the operation of these trade proceedings can be smooth, more efficient and more effective in alleviating injury to domestic industries.

The purpose of this bill is simply to prevent harm to U.S. domestic producers when needed input products are not available domestically. There is nothing in H.R. 2822 that would authorize relief based on pricing considerations. This is in contrast to the Short Supply procedures in the Voluntary Restraint Agreements which authorized short supply relief based on a finding that domestic prices were "aberrational". Under H.R. 2822, if the product is actually available domestically, Commerce would turn down the request, regardless of the price at which the product is really available. Commerce would also turn down the request if it determined that granting relief might undercut U.S. prices.

The current failure of U.S. antidumping and countervailing duty laws to consider domestic availability of products subject to these proceedings continues to hamper the competitiveness of numerous U.S. companies. Future cases will expand the number of potentially damaging situations. The proposed legislation gives the Department of Commerce the flexibility and control necessary to address changing market conditions without changing the way the laws work.

Some have argued that a short supply procedure is not needed in the antidumping and countervailing duty laws because importers are free to purchase any quantity they wish (so long as the extra duties are paid). This argument fails to account for the fact that antidumping and countervailing duties can effectively bar entry of products into the United States. In such cases, the imposition of duties acts as an embargo (a quota of zero). If the products are available domestically, then the law makes a reasonable choice between the interests of producers and users; if not, the choice to deny access to these products for U.S. manufacturers is clearly unreasonable.

The Temporary Duty Suspension Group appreciates the opportunity to provide these comments. Again, we urge that the Committee approve H.R. 2822 promptly.



**American Gas
Association**

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March 6, 1996

Mr. Joe Hillings
Vice President
Federal Government Affairs
Enron Corporation
750 17th Street NW
4th Floor
Washington, DC 20006-4607

Dear Joe:

Enclosed you will find a copy of the letter sent to Bill Archer, Chairman of the House Committee on Ways and Means, in support of H.R. 2822, the Temporary Duty Suspension Act. The statement will be included in the official record. The statement is also available online through Gas Industry Online (GIO).

Due to the politics of the election year, it is unlikely that H.R. 2822 will be considered by the Committee on Ways and Means or on the floor of the House. The issue has been raised, however, and Chairman Archer is now aware of the importance of the Temporary Duty Suspension Act to AGA members and the industry.

In addition to this individual letter of support, A.G.A. joined with other industry representatives and signed the enclosed group statement.

I appreciate your interest and hard work on this issue. If you have any questions or need assistance, please feel free to call on me.

Sincerely,

Charles Fritts

CF:ka
Enclosures

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER: ES96-004296
EXTERNAL

TE OF DOC: 03/11/96 REC'D: 03/12/96 CONTROLLED: 03/12/96 DUE: 04/09/96

FROM: HILLINGS, E JOSEPH DC 0 NOTES AREA:
ENRON CORP

SUBJECT: ENCLOSURES COPY OF TESTIMONY IN
SUMMARY: SUPPORT OF H.R. 2822

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF: GENERAL COUNSEL

ACTION TO: GENERAL COUNSEL
ACTION TYPE: Reply direct
ACTION OFFICER:

INCURRENCE COPIES TO:
FORMATION COPIES TO: CP PO ES1 TEAM

INCURRENCES COMPLETED:

REMARKS:

EXECUTIVE SECRETARIAT CONTACT: G Holloway

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INFORMATION GENERATED ON 03/13/96 AT 08:27

7

ENRON CORP

E. Joseph Hillings
Vice President
Federal Government Affairs

750 17th Street, N. W., 4th Fl.
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(202) 828-3366
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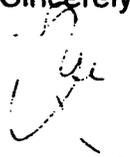
March 11, 1996

Ms. Hazel O'Leary -
Secretary of Energy
Department of Energy
1000 Independence Avenue, SW
Room 7A-257
Washington, DC 20585

Dear Secretary O'Leary:

The Energy Industry Group and the American Gas Association have submitted testimony in support of H.R. 2822, which I thought would be of interest to you. Your support of our position could be instrumental in getting the legislation enacted. Please let me know if you would like more information.

Sincerely,



Copy

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

ROUTINE
ES NUMBER: ES96-004594
EXTERNAL

TE OF DOC: 03/15/96 REC'D: 03/18/96 CONTROLLED: 03/19/96 DUE

FROM: CARSON, MARGARET M TX O NOTES AREA:
ENRON CORP

SUBJECT VIEWS ON DRAFT DOCUMENT
SUMMARY: CONCERNING SUSTAINABILITY,
TRANSPORTATION, ELECTRICITY
GENERATION, S/CC

SOURCE: PUBLIC MAIL DOCUMENT TYPE: FAX

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF:

ACTION TO: EFFICIENCY AND RENEWABLES
ACTION TYPE: For your information
ACTION OFFICER:

CURRENCE COPIES TO:
FORMATION COPIES TO: ES1 TEAM
CURRENCES COMPLETED:

MARKS: THIS IS THE SECRETARY'S COPY OF A LETTER ADDRESSED TO MR.
KURT D. ZWALLY.

EXECUTIVE SECRETARIAT CONTACT: Sheila Jeter

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
RELATED CODE/NUMBER:
ACCRTS NUMBER:

SPECIAL INT. CODE:
SPECIAL INT. DATE:

FILE CODE: PMCARSON-ES96004594

EXECUTIVE SECRETARIAT
COMPLETION DATE: 03/19/96





Facsimile Cover Sheet

To: Honorable Hazel O'Leary
Company: Department of Energy
Phone: 202 586 6210
Fax: 202 586 7644

From: Margaret Carson
Company: Enron Corp.
Phone: 713 853 7088
Fax: 713 646 2369

Date: 3/15/96
Pages including
this cover page: 10

Comments:

A

**ENRON
CORP**

P. O. Box 1188 Houston, Texas 77251-1188 (713) 853-6161

March 15, 1996

Mr. Kurt D. Zwally
Task Force Coordinator
President's Council on
on Sustainable Energy
730 Jackson Place, N.W.
Washington, D.C. 20503

One copy: Co-chairs
Mr. John Adams
Mr. Kenneth Derr
Honorable Hazel O'Leary
One copy: Liaisons
Frances Beinecke
Bill Mulligan
Richard Rosenzweig

Dear Mr. Zwally:

On behalf of Terry Thorn, I have reviewed the Draft document, and it is acceptable with five exceptions concerning Sustainability, Transportation, Electricity Generation, the Efficiency Fee and Revenue Neutral Taxes. These changes to the Final Draft of the Energy and Transportation Report are submitted for your kind consideration:

1. Sustainability

The buildup of greenhouse gases discussed on page fourteen may lead to an enhanced greenhouse effect – since scientific uncertainty abounds about the effect of the buildup of greenhouse gases. It is therefore recommended the phrase “is expected to” be changed to read “may lead to” an enhanced greenhouse effect.

B

Page 2

2. Transportation

On page 35 the statement is made that increased traffic congestion will cause 7 billion hours to be spent in U.S. traffic congestion delays by 2005.

This is an inaccurate statement. In fact, 11 billion hours were spent in traffic congestion delays in 1990, according to the 1995 U.S. Statistical Abstract, Table 1013. Therefore, delete the first sentence in the last paragraph on page 35 and reinstate the final sentence on page 35 which more accurately addresses growing congestion. This final sentence had been deleted earlier.

3. Electricity Generation

The federal program discussed on page 41 in paragraph two, line 2, should be "provided to U.S. electricity generators" to be consistent with POLICY RECOMMENDATION 1 on this subject on page 39.

On page 42 beginning on line 4, in discussing in paragraph two the Impact on Energy Consumers of tax incentive programs for electric generation restructuring cost recovery, delete lines 4 through 18 and insert: These tax incentive programs should not lead to rate increases, as they serve as an additional financing tool for electric generation.

Also on page 42, paragraph three, the first sentence should read: Long term electricity rates are likely to stabilize or decrease if aging and inefficient power plants are retired early and as newer plants reduce the risk of future

Page 3

rate shocks due to fuel prices, operating and maintenance cost overruns or regulatory changes arising from growing health and environmental concerns.

4. Efficiency Fee

Regarding POLICY RECOMMENDATION 2 on page 43. Delete first four new paragraphs under background and reinstate paragraph five.

Paragraph six remains unchanged. Add as a last paragraph on page 48 the following: There is a trade-off here. If the fee is sizable, it could foster efficiency and renewable technologies on the one hand, but it could penalize already low cost electricity suppliers whose rate payers may or may not be the beneficiaries of these conservation measures. It may also impair wholesale electricity trade if the fee is sizable or if it applies to the transmission fee portion of the overall rate.

On page 45, paragraph four, insert: Five or Seven year "SUNSET" provisions in line 1 and add: five or seven years in line 3.

5. Revenue Neutral Taxes

Under Pros and Cons

On page 51, delete first bullet point, as it is wrong, especially when compared to effects of current command and control regulation.

Bullet point three, delete. It is also difficult to set pollution control reduction targets.

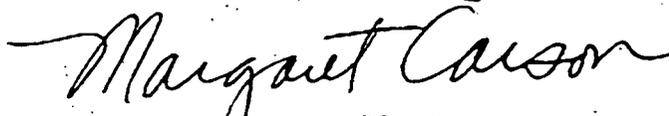
Page 4

Bullet point four, add at end.: " but has less broad effects compared to command and control regulations.

Also attached please find a list of editing, spelling and minor phrasing changes needed to enhance the overall quality of the document.

We appreciate the opportunity to review and improve the draft document on Energy and Transportation.

Yours truly,



Margaret M. Carson, Director
Terence H. Thorn

cc: Bruce Stram

ATTACHMENT

Proofreading, Typos, Etc.

- Page 4 Lines 10 and 25 – rationale, recognize
- Page 5 Line 23 – delete: are
- Page 9 Lines 4 and 9 – add: I; add: was
- Page 10 Chart – spelling: Utilities
- Page 11 Chart – spelling: Utilities
- Page 12 Line 10 and 12: be an important indicator; add: of
- Page 16 Figure 9 needs Source
- Page 17 Figure 10 needs Source
Last paragraph, lines 8 and 9 – increasing; delete: and
- Page 18 Line 1 – delete: has, add: , (comma)
Line 8 – delete: but also, add: and
Lines 12 and 13 – to read: The task force challenge was to look . . .
Line 15 – add: . (period)
Last paragraph – correct word: Business
- Page 19 Line 27 – : narratives
- Page 20 Does the curve on the graphic for Inclusive Development accurately reflect the scenario? Shouldn't it slope more like ECO-CRISIS in the mid-term because of the unresolved economic problems and delays in the timing of environmental progress?
Line 8 – delete: are; insert: have
- Page 21 Line 2 – delete: that
Line 28 – delete: is; insert: are
- Page 26 Line 13 – delete brackets: []
- Page 28 Line 4 – word: shows
- Page 29 Line 21 – including

C

Attachment
Page 2

- Page 31 Last paragraph - line 3, delete: is; insert: its
- Page 32 Line 18 - delete: a
Last paragraph - delete: oil
- Page 34 Line 17 - delete: the
- Page 35 Line 6 - insert: and
- Page 36 Line 1 - word: Accessibility
Line 21 - add: growth in
Line 30 - delete: goals similar to
Line 32 - delete: (period)
- Page 37 Line 3 - Accessibility
Lines 8-10 - add up to 101 percent; should be 100 percent
Line 14-16 - add up to 101 percent; should be 100 percent
Line 23 - add: adults
Line 24 - adequate; concerted
Line 26 - substantially
- Page 38 Line 3 - degrees
- Page 39 Table, Item 7 - delete "OR FOR"
- Page 40 Paragraph 2 - line 6: backup
Last paragraph - line 1: provided
- Page 41 Line 7 - delete utilities, and insert, U.S. electricity generators.
Last paragraph - line 5: rewards
- Page 42 Line 20 - add word: dollars
Line 24 - provide
Footnote - paragraph one, line one should read: 50 to 60 percent"
and line two should read: "with similar conversion efficiencies" (delete:
equal or greater)
- Page 43 Line 2 - add after transportation: ", as electricity generated in cleaner,
more efficient plants is substituted for power from less efficient plants with
higher pollution emissions from CO, NO_x, SO₂ particulates and VOCs
combined."
Under NEGATIVE: First paragraph, delete last three sentences and add:
The short term rate impact should not lead to rate increases as the
incentive is a financing issue.

Attachment
Page 3

- Page 44 Last paragraph – line 9: recommendation
Line 12: twelve
- Page 45 Line 15: engage
Line 18: warranted
Line 21: delete a – add: an
- Page 46 Last paragraph – line 7, last word: of
- Page 47 Line 1 – insert – :
Bullet point two, delete "and"
Bullet point four: for example,
- Page 48 New paragraph – Add: There is a trade-off here. If the fee is sizeable, it could foster efficiency on the one hand, but it could penalize already low cost electricity suppliers whose rate payers may, or may not, be the beneficiaries of these conservation measures. It may also impair wholesale electricity trade if it applies to the transmission fee portion of the overall rate.
- Page 50 Last line – recommendations
- Page 54 Line 19 – non-motorized
- Page 56 Under POLICY OVERVIEW, LINE 4, add "fuel and" maintenance costs
- Page 57 Paragraph 1 – add (a.)
Line 11 – delete: though
Next to last paragraph, line 10, delete: otherwise
- Page 58 Line 2 and line 4: substantially
In POLICY BOX, delete BUT and insert AND
Next to last paragraph, line 4, should read: "program is that the". . .
Last line should begin: Cash for clunkers
- Page 61 Next to last paragraph, line 6, insert after: prices of energy are nearly
- Page 62 Line 18: retrofit
Line 22 should read: Efficiency, a
- Page 63 Paragraph 3 line 6 should re: DOE has grants to establish or enlarge 10 regional energy centers created by EPAAct. The appropriate federal agencies should also encourage state governments to require energy

Attachment

Page 4

efficiency information in their educational curricula, provide more information via the Internet and expand energy efficiency labeling to include more products.

Page 64

Next to last paragraph line 4 – last two words: clean coal

Page 65

Paragraph 2 – line 2: sharing

Paragraph 3 – line 3 disaster. This is generally done ... etc.

Paragraph 4 – line 4: accelerate

Page 66

Paragraph-2 – line 9: vehicle

Page 67

Line 3: coordinate

Last paragraph – line 8: docket

Page 68

Paragraph 5 – word: Business

Page 69

Paragraph 3 – line 11 delete: by; add: about

Paragraph 4 at end: "unevenly distributed."

Last paragraph – line 6 delete: dance; add "building trends."

Line 8 delete: dance; add: trends

Page 70

Paragraph 2 – line one to read: followed the

Page 72

Paragraph 2 – line 3 to read: environment issue

Paragraph 4 – line 4 to read: changes was the battle over a share of the economic benefits between workers, capital, ...

Paragraph 5 – line 3 delete: more; insert: a larger

Page 73

Paragraph 2 – line 3 delete words: get serous about; insert: address

Line 12 – to read: giving more in wages and benefits to workers.....

Last line – delete: and; insert: but

Paragraph 3 – last line: systems "were broadly supported at the state and local levels."

Paragraph 4 – last line delete: back then; add: at that time

Page 74

Line 2 add at the end: filibuster stage.

Line 4 delete: decimal

Paragraph 4 – line 6 delete: "primarily for peak load generation."

Line 7 – to read: alternative energy

Page 75

Line 1 to read: the "greening" of America

Bullet point 6 delete words: looking at; replace with: in

Attachment
Page 5

Line 6 to read: ... "apply to both the richer older populations of the industrialized world and the poorer younger billions of people of the developing world?"

Page 76 Line 6 to read: it had the benefits of advanced planning.; delete "pretty"
Line 7 delete: a need to create; insert. the creation of
Line 8 use word: tailspin
Line 15 to read: cost to industries and consumers but etc
Last paragraph – add after term: environment and energy policy

Page 77 Line 5: coal-fired
Add: after efficiency: with large reductions in sulfur dioxide, particulates and nitrogen oxide emissions.
Paragraph 2 -- line 5 replace increased with: Improved automotive technology -
Paragraph 3 – line 2, replace took with occurred over
Line 6 delete "less throughput" and insert. "more technology"
Line 9 – delete: paralyzed; insert "stalled"

Page 78 Paragraph 3 – line 8 delete: hoped for; insert: awaited

Page 80 Line 1 – delete. dirty; insert polluted
Line 9 to read: base load generation
Line 15 replace "oil" with "hydrocarbon" to represent both oil and gas sourced advanced fuels.

Page 81 To read: docket

Page 84 Last line: Is spelling of proper name accurate?

Page 85 Move last line to end of page 84



Terence H. Thorn
Senior Vice President
Government Affairs and
Public Policy

March 21, 1996

P. O. Box 1188
Houston, Texas 77251-1188
(713) 853-3071
Fax (713) 646-4831

The Honorable Hazel O'Leary
Secretary of Energy
Department of Energy
1000 Independence Avenue, SW
Washington, DC 20585

Dear Secretary O'Leary:

I would like to update you on Enron's effort to develop the Pande Gas Field in Mozambique and to construct a pipeline to transport the natural gas to a mine site in the Phalaborwa region of South Africa. Since we were in South Africa, considerable progress has been made. We secured an agreement to market the natural gas with the government of Mozambique at year-end and are currently negotiating a Gas Sales Agreement with an iron carbide facility. The facility would be used to convert discarded iron ore to iron carbide which has great value as an export commodity and a domestic raw material. This area is part of the Maputo Corridor project for which joint economic development is a high priority for both governments.

We expect to complete definitive contracts and to commence the project financing in early 1997. I am, however, very concerned that a lack of agreement regarding fiscal (accounting, tax-including depreciation) and regulatory issues could hamper and delay the project financing and the attendant economic and social benefits. The slow pace of South African gas policy development and associated regulations causes us concern.

Amid the uncertainty of these broad policy and regulatory issues, the Intergovernmental Treaty for the sale of gas from Mozambique to South Africa is an alternative vehicle to capture the project fiscal and regulatory needs essential for project financing and pipeline operation. But it too must be managed in a timely manner.

You are well aware of the benefits of the Pande project. It will:

- Demonstrate private sector/free market principles which will increase interest from global capital providers.
- Generate new direct and indirect employment opportunities in a region critically in need of jobs.
- Create new business opportunities for local service and service providers.
- Bring large scale (approximately U.S. \$600 million) direct investment.
- Generate significant U.S. dollar denominated earnings for both countries.
- Contribute to the infrastructure and energy needs of the region.
- Promote strong regional economic and political ties.



Honorable Hazel O'Leary
March 21, 1996
Page Two

Your role on the Gore-M'Biki Commission has been a critical one in laying the foundation for private energy development in South Africa. Your support for this \$600 million project, the largest U.S. project in Southern Africa, has been important and much appreciated. We have recently briefed Dr. David Jhirad of your staff on the details of the project, and are available to further explore the political and economic challenges we face.

I certainly hope this project and the gas regulatory aspects of your August 1995 mission remains a priority for the DOE. I look forward to hearing from you on DOE's progress in working with the South African government to develop a regulatory structure for natural gas. Again, thanks for your support.

Best regards,

A handwritten signature in black ink, appearing to read "Jerry Thorne". The signature is written in a cursive style with a large, looping initial "J".

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER: ES96-005650
EXTERNAL

TE OF DOC: 03/25/96 REC'D: 03/28/96 CONTROLLED: 04/04/96 DUE: 04/25/96

FROM: PARKER, PAUL UT O
CENTER FOR RESOURCE MANAGEMENT

NOTES AREA:

UT

4-8-96

SUBJECT: EXPRESSES CONCERN REGARDING
SUMMARY: ADDITIONAL FUNDING FOR TITLE
XXVI IN THE DEVELOPMENT OF
RENEWABLE ENERGY ON INDIAN LAND

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF: EFFICIENCY AND RENEWABLES *UT*

ACTION TO: EFFICIENCY AND RENEWABLES
ACTION TYPE: Coordinate and reply direct
ACTION OFFICER:

CURRENCE COPIES TO: CP
FORMATION COPIES TO: SL ES1 TEAM

CURRENCES COMPLETED:

4-18-96

MARKS:

EXECUTIVE SECRETARIAT CONTACT: G Holloway 2584

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ACCRTS NUMBER:

SPECIAL INT. CODE:
SPECIAL INT. DATE:

FILE CODE: PMPARKER-ES96005650

COMPLETION DATE:

INFORMATION GENERATED ON 04/04/96 AT 17:50

10

March 25, 1996

The Honorable Hazel O'Leary
Secretary of Energy
1000 Independence Avenue, NW
Washington DC 20585

Dear Secretary O'Leary:

We the undersigned are members of the Task Force on Developing Renewable Energy Resources on Indian Lands, an informal group of people from industry, Indian tribes, and governmental organizations. The Task Force mission is to "encourage development of renewable energy on Indian land consistent with tribal culture and goals".

We are aware of the proposed "Energy Mission to Indian Country" which has been endorsed by the Council of Energy Resource Tribes and other organizations and individuals. We strongly support the concept of such a mission. It could provide the basis for a strengthened partnership between the Department, Indian tribes, renewable energy companies as well as other benefits.

We hope the "energy mission" will give particular emphasis to renewable energy resources and the emerging role of Indian tribes in developing new policies and markets for renewables. For example, federal power marketing administrators are undergoing significant changes as a result of specific provisions in the Energy Policy Act. Tribes may be able to play an important role in replacing power previously obtained by hydroelectric sources. The electric utility restructuring may also open new opportunities for tribes to become independent power producers by accessing through a more open grid, the "green power" market.

However, in order for tribes to pursue these opportunities and develop the necessary partnerships with the private sector, additional resources for Title XXVI and other similar programs are needed. Tribes desperately need resources which allow them to conduct accurate resource assessments, feasibility studies, research, and other tools essential to developing project financing. Title XXVI is a useful program but needs to be funded at twenty to thirty million dollars for FY 97 in order to effectively support tribes in this new arena.

Our task force hopes that the trade mission will be an opportunity to address these new opportunities and needs for renewable energy development on Indian lands. We welcome any opportunity to have the task force assist with the planning for the trade mission and would be pleased if you were able to meet with the task force as part of your scheduled activities.



DA

A

If we can be of assistance to you and your staff, please contact Paul Parker, the designated task force point of contact. Mr. Parker can be reached at the Center for Resource Management, 1104 East Ashton Avenue, Salt Lake City, UT 84106, (801) 466-3600.

Sincerely,



Paul Parker
Vice President
Center for Resource Management

On behalf of the task force on Developing Renewable Energy Resources on Indian Lands

Harris Arthur
Navajo Nation

Vernon Masayesva
American Indian Studies Program

Rob Bankondy
ENRON Capital & Trade Resources

Gary Nakarado
National Renewable Energy Laboratory

Todd Bartholf
Winrock International

Brian Parry
Western Area Power Administration

Hap Boyd
Zond Systems, Inc.

Chet Pino
Laguna Industries, Inc.

Ray Dracker
Bechtel Group, Inc.

Robert Robinson
Center for Applied Research

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Steve Sargent
USDOE-Denver Support Office

Zuretti Goosby
Yurok Tribe

Jesse Smith
Seattle Northwest Securities Corp.

Steve Grey
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Laboratories

Ron Solimon
Laguna Industries, Inc.

Roger Hill
Sandia National Laboratories

Henry Townsend
Public Service Company of New Mexico

Lori Jablonski
Coalition for Energy Efficiency and
Renewable Technologies

Jim Williams
University of California, Berkeley

Connie Lausten
Bechtel Group, Inc.

Jim Williamson
National Renewable Energy Laboratory



Department of Energy
Washington, DC 20585

96-005128

April 22, 1996

Mr. Terence H. Thorn
Senior Vice President
Government Affairs and Public Policy
Enron Corp
P.O. Box 1188
Houston, Texas 77251-1188

Dear Mr. Thorn:

Secretary O'Leary asked me to respond to your letter of March 21, 1996, informing her of Enron's progress in developing the Pande natural gas field in Mozambique and in constructing a pipeline to South Africa. In your letter, you express Enron's concern regarding the slow pace of gas policy and regulatory development in South Africa.

Natural gas market development in South Africa is a key priority of the Secretary's work with the Sustainable Energy Committee of the Gore-Mbeki Binational Commission. Since September 1995, the Department has provided extensive analysis and comments on the gas chapter of the draft South African energy "White Paper," which we understand will be published in May. During the week of April 15, a team from the Department was in South Africa to assist in establishing a national regulatory body for the electricity sector, and this experience will inform our continuing work on gas regulation. In the coming months, we will be assisting the South African government in drafting a "Gas Act". Secretary O'Leary also plans to discuss natural gas issues with Minister Botha at the Binational Commission meetings tentatively scheduled for early July, in Washington, D.C.

We are excited about the strong cooperative effort we have underway with South Africa on energy issues, and the opportunities we have to work on energy policy development in that country. As you know, South African energy policy and regulatory structures are being reconstructed from the ground up; a process that we believe creates many investment opportunities for U.S. companies. We have communicated repeatedly to the South African government our firm commitment to creating an environment in South Africa in which U.S. companies can play a key role in that country's economic revitalization.



11

We will keep you closely informed as to our progress in working with South Africa on gas policy development. If you have any additional questions on this issue, please don't hesitate to contact Andrea Lockwood, the Department's overall coordinator for South Africa, on (202) 586-6082, or Donna Bobbish, the Department's Director of Natural Gas Policy, on (202) 586-6690.

Sincerely,

Marc W. Chupka
Acting Assistant Secretary for Policy



The Secretary of Energy
Washington, DC 20585

May 15, 1996

Mr. Kenneth L. Lay
Chairman and
Chief Executive Officer
Enron Corp.
Post Office Box 1188
Houston, Texas 77251-1188

Dear Mr. Lay:

I am pleased to invite you to continue your service as a member of the National Petroleum Council for the 1996-97 membership term.

The Council has a long history of contributing to the energy strength, security, and stability of our Nation. This has been made possible by individuals like yourself who unselfishly gave of their time and talents. Please accept my sincere gratitude for your effort and support.

We hope you will be able to accept this reappointment to the Council and continue to take part in its work.

Sincerely,

A handwritten signature in cursive script that reads "Hazel R. O'Leary".

Hazel R. O'Leary

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12A

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Chief Executive Officer
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Chief Executive Officer
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Chief Executive Officer
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**Testimony of Kenneth L. Lay
Chairman and CEO, Enron Corp.**

on

Electricity Regulation: A Vision for the Future

before the

**Committee on Commerce
Subcommittee on Energy & Power
U.S. House of Representatives**

May 15, 1996

13

Executive Summary

Kenneth L. Lay, CEO Enron

- Federal action could lower electricity rates by 30 percent to 40 percent if customer choice in electricity is universalized. All customers would share in this benefit, particularly smaller ones who are unable to negotiate effectively with their monopoly supplier.
- The annual consumer savings of \$60 billion to \$80 billion would represent the equivalent of one of the largest tax cuts in history.
- The economic stimulus from competitively restructuring one of America's largest industries will mean increased household income, better jobs and improved international performance.
- Bringing electricity into the competitive world will unleash new discoveries -- new products, efficiencies, business synergies, and entrepreneurial success stories. It will unleash new industries and new jobs.
- The blueprint for the restructured industry already exists with the open-access wholesale market for electricity, where terms and conditions are in place and a multi-billion dollar service industry is already thriving.
- The experience with natural gas, where \$330 billion (constant dollars) have been saved since 1985, is a model for electricity. In short, the lesson is that the market works.
- Over 100 power marketing companies have received their certificates from the Federal Energy Regulatory Commission and are poised to serve the tens of millions potential customers.
- A decision by Congress to "throw on the switch" with competition and customer choice will be the most momentous industry event since Thomas Edison and his colleagues flipped on the switch that inaugurated the electric industry just over a century ago.

My name is Kenneth L. Lay, chairman and chief executive officer of Enron Corp. in Houston. I appreciate the opportunity to share Enron's vision for the new electricity industry. Let me begin by describing my company.

Enron Corp.

Enron is a \$13 billion in assets company headquartered in Houston, Texas with existing or planned operations in 30 countries. We operate the second largest gas transmission system in the world; are the largest purchaser and marketer of natural gas and the largest non-regulated marketer of electricity in North America; produce and market natural gas liquids worldwide; own 60 percent of Enron Oil & Gas Company, one of the largest independent (non-integrated) exploration and production companies in the United States; own 52 percent of Enron Global Power & Pipelines L.L.C., which is owner and manager of operating power plants and natural gas pipelines in emerging markets; and are one of the largest independent developers and producers of electricity in the world.

Enron is an entrepreneurial, free market company. We hold no monopoly franchises in any of our business lines. We must attract and retain customers by virtue of our product and price in competition with other providers, including even within our regulated interstate pipelines.

In the current "America's Most Admired Companies" issue of *Fortune* magazine (March 6, 1996), Enron Corp. was ranked number one in its industry group (pipelines), number one among all energy companies, and the most innovative company of all companies in all industries in the survey. Overall, Enron achieved a ranking in the top twenty-five. I mention all this, Mr. Chairman, because just ten years ago we were primarily a regulated company with over 80 percent of our net income coming from the mature natural gas transmission business. Yet, last year, businesses that did not exist at Enron in 1985 accounted for 40 percent of our \$520 million net income. And, we anticipate that by the year-2000, forty percent of our expected over \$1 billion of net income will be from businesses that did not exist five years ago, including the retail sale of electric power, the subject of our discussion today.

The changes that I envision in the electric power industry will require a great deal of innovation. But I submit that a new generation of competitors is up to the challenge.

Electric Power: A Sleeping Giant

Electric power is the sleeping giant of consumer issues. I don't know of any other public policy issue that will have such a far-reaching impact on American households and American businesses as bringing competition to the electric utility industry. Few people are aware of just how enormous the retail electricity market really is and how ripe this market is for competition and consumer savings.

Mr. Chairman, the retail electricity market is a \$200 billion a year business.

That is larger than the telecommunications market. It is larger than the natural gas, credit card, cable, and on-line computer markets combined. Utilities account for 15 percent of all household spending, and electricity accounts for 40 percent of that amount.

The reason we are here is that we all know electric power distribution is also one of the last surviving monopolies in the United States. Our electricity system is a relic of an earlier age. And, although it served us well during an earlier age, it now creates a heavy and unnecessary tax burden on American ratepayers—which means virtually every American. It also is not providing the product innovation and customer service today's consumers need and want.

It is time to bring competition to the electric business and, in the process, cut electricity rates by 30 to 40 percent.

The vision I have in mind for this currently regulated, monopoly business will have a dramatic impact on every household and every business in America. It is based on the most important principles in our economy: consumer choice, innovation, and competition. But unless we make fundamental changes in the way electric power is bought and sold, the consumer will not have choice, there will be little innovation and

competition will not exist. This is bad public policy and we must not let it happen.

Natural Gas "Open Access" Model

I feel so strongly about the case for deregulating the electric power industry because of what we have gone through in the natural gas industry. More than a decade ago, some of us in the energy industry came to Congress to argue for "open access" competition for the interstate gas market. To some, it sounded like a far-fetched notion. I still remember some of the protests we heard back then: "Too risky." "Reliability will suffer." "Bad for consumers." "It won't work."

Well, we now have had over a decade of experience with open-access on natural gas pipelines. The evidence is in and those who opposed it have been proven wrong. Deregulation of the gas industry has been a great consumer success, exceeding virtually everyone's expectations. Let me just mention some of the gas industry highlights, even before complete open access has occurred on all local distribution systems, which, incidentally, has only just gotten underway over the past couple of years:

- 1995 natural gas prices, adjusted for inflation, have fallen by an average of 40 percent over the last eleven years.
- Residential prices have dropped by 28 percent; industrial and electric generation consumers have seen prices drop by 50 percent.
- Consumers have saved over \$30 billion annually since 1985. That's a \$3500 cumulative savings for every American household.
- Consumption of clean burning natural gas is 26 percent higher today than in 1985, reversing a 14 percent decline that occurred in the five years before open access was established.
- The reliability of the service is better than before open access, even during the abnormally cold winter we just went through.

- Innovation in the industry has been unprecedented, and costs have fallen as a result of more competition, better technology, and a stronger market.

To be sure, deregulation wasn't without a price: our stockholders had to absorb approximately one-third of the industry's billions of dollars in stranded costs. But over the last decade we grew as a company, because the competition forced us to become a better company, and the whole industry is stronger and healthier today than it was 10 years ago.

Competition forced all of us to become more efficient or we would not have survived. It forced us to become more innovative. It forced us to expand into new areas.

Above all, deregulation taught us that consumers want lower prices, they want new products and services and they want the ability to choose suppliers.

Bringing Change to the Electric Industry

I mention this recent history of the natural gas industry because it is very instructive about how we should reform the electric industry. Customer choice and competition in natural gas has been a true American success story. Isn't it time we applied the lessons learned from that experience to electric utilities?

At the very least, we should be telling consumers the truth about how much our antiquated regulatory system costs them. Enron estimates that the potential consumer savings from a competitive restructuring of the electric industry could be between \$60 and \$80 billion per year. Other estimates have been as high as \$100 billion a year. We think these savings can be achieved by reforming both the retail and the wholesale side of the business. That way all consumer classes will benefit.

What I am describing is, in effect, equivalent to an across-the-board annual tax cut for Americans. Every household and business that pays electric utility rates could save 30 to 40 percent on their utility bills. And this is not a temporary "quick fix;" it is embedded for an open-ended future.

In other words, reform the electric power system, bring it into the modern age, end the monopoly of the utilities, and give American consumers the equivalent of one of the largest tax cuts in history.

Lower electricity costs will have profound effects across the economic spectrum. Lower electric bills for the military, post office, and other major government users will benefit taxpayers. American industry will become more profitable and become stronger competitors in the international marketplace. Consumers every month will have more discretionary dollars to spend in other directions or to save and invest, which will further strengthen the U.S. economy.

A variety of ancillary benefits will emerge. "Smart" appliances will be installed to take advantage of off-peak electricity pricing. Customer choice will allow the introduction of "green" energy options where environmentally preferred generation sources, such as natural gas or solar, can be selected. Improved customer service functions, such as returning downed power lines or generating stations to service, would have the market immediacy that is not present today.

But, let me guarantee one thing. You are going to hear arguments against reform of the electric industry. The threatened status quo is dead set against the ideas of real competition and real customer choice. Listen to their arguments: "service will deteriorate," "reliability will be put at risk," "untried," "too risky," "go slow."

As I've tried to demonstrate, these are not new arguments. We heard them over a decade ago when opponents tried to stop the deregulation of natural gas. I am sure you have heard them used more recently against bringing other industries into the competitive world as well.

Our argument is simple: let competition work for consumers—just as it has in every other part of our economy. The continued existence of a utility monopoly is simply no longer defensible. This is, after all, an industry which, by their own admission, has in recent years overspent by "about \$200 billion"—billions which would be unrecoverable from consumers in a competitive market. We must subject this industry to the

same competitive forces which control costs and spur innovation in every other industry.

Getting From Here to There

There are no technical, economic, or logistical barriers preventing Americans from buying electricity for their homes and businesses in a competitive marketplace. The barriers are political and legal. It is our historic opportunity as citizens, business persons, and legislators to remove these barriers for the common good.

Federal legislation is needed to expedite retail competition for electricity. The Federal Energy Regulatory Commission (FERC) has done an excellent job of bringing wholesale markets into the competitive world. The rules have been set and the tariffs written. Customers, marketers, and utilities know the standards of conduct for nondiscriminatory access to the transmission grid, and every day the benefits of this model are being proven by a new generation of market participants.

Meanwhile, progress has been very slow at the state (retail) level where the lion's share of the market is concentrated. California began the debate in the spring of 1994, and around one-half of the states are evaluating retail access, yet we are still waiting for our first statewide retail customers out of the tens of millions of potential candidates. Imagine the frustration of a restaurant, for example, that was allowed to only serve the tour bus driver but not the passengers – and at monopoly prices. With electricity, Enron and others are ready to beat the utility monopolist's prices and services today.

ECT: Fast-Forwarding Competition

Enron Capital & Trade Resources (ECT) is one of the new breed of entrepreneurial providers. We are applying a decade of experience with natural gas marketing to electricity. We made our first wholesale power transaction in June 1994; today we believe we are the third largest power marketer in the United States next only to Bonneville Power and the Tennessee Valley Authority; the two large federal government-owned

electric monopolies. We have nearly 150 professionals engaged in the buying and selling of electricity, and this number is expected to approach and eventually exceed our current natural gas marketing operation of some 1,000 people as the electric market opens. In the first quarter of this year, ECT more than tripled its previous quarter's volume -- a sign of a maturing market. Enron and over one hundred FERC-certificated power marketing companies across the country want to substitute "XYZ Citizen" and "XYZ Company" for "XYZ Utility" in our contracts. But, we need a federal solution.

Federal Involvement is Necessary

The national electric grid is an interconnected interstate system that cannot be boxed into state subdivisions. The unique properties of electrons makes this commodity particularly inappropriate to political subdivision.

The free market is a national system. The federal interest in free and open competition requires that jurisdiction over the terms and conditions of access to the customer be federal and not state. Therefore, we ask for Congressional action to give the FERC implementing authority to end the current market bifurcation, a bifurcation that is heavily weighted against consumers, and to universalize competition.

The states can and should have sovereignty over such important matters as determining stranded cost recovery, implementing universal service, and funding social programs such as energy efficiency and low-income ratepayer assistance. The states can and should have sovereignty over the economic regulation of the local distribution system. But, the federal government can and should have sovereignty over open access on those systems. This approach will give state and federal authorities the tools they need to protect consumers and implement state policy priorities while at the same time allowing everyone access to better service at lower prices.

Conclusion

The reasons for implementing national free-market reform are overwhelming. Consumers are ready. Industry providers are ready. Just as

Thomas Edison and his colleagues flipped on a switch at Pearl Street over a century ago to inaugurate the electric industry, it is time for Congress to flip on the switch for nondiscriminatory open-access competition to inaugurate customer choice in electricity. We will not only implement the economic equivalent of a major tax cut, we will unleash a new era of productivity and creativity in this very large and vital industry to lead America into the new millennium.

Deregulation in the Modern U.S. Economy

Brokerage Fees
1975

Railroads
1976, 1980

Air Cargo
1977

Airlines
1978

Natural Gas
1978, 1985, 1987,
1989, ?

Urgent Mail
1979

Trucking
1980

Cable Television
1980, 1984

Petroleum
1981

Passenger Buses
1982

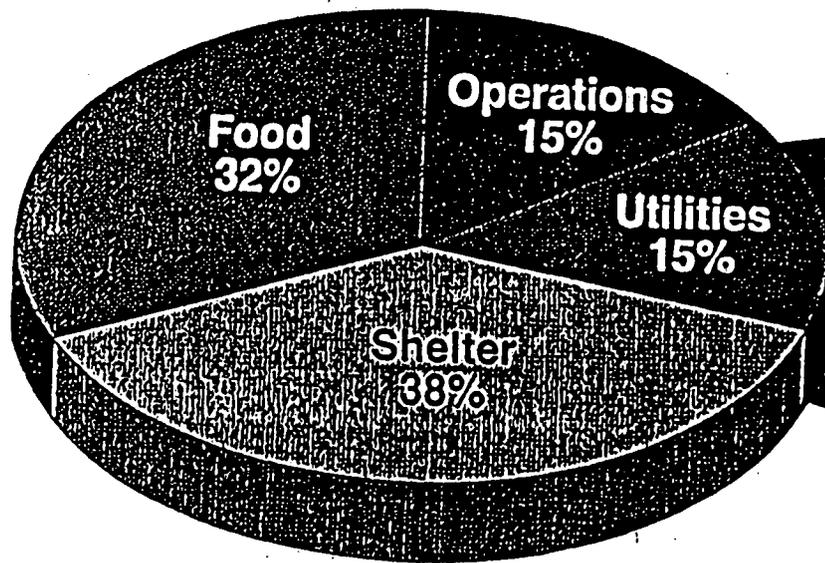
Long Distance
Telephone
1984

Telecommunications
1996

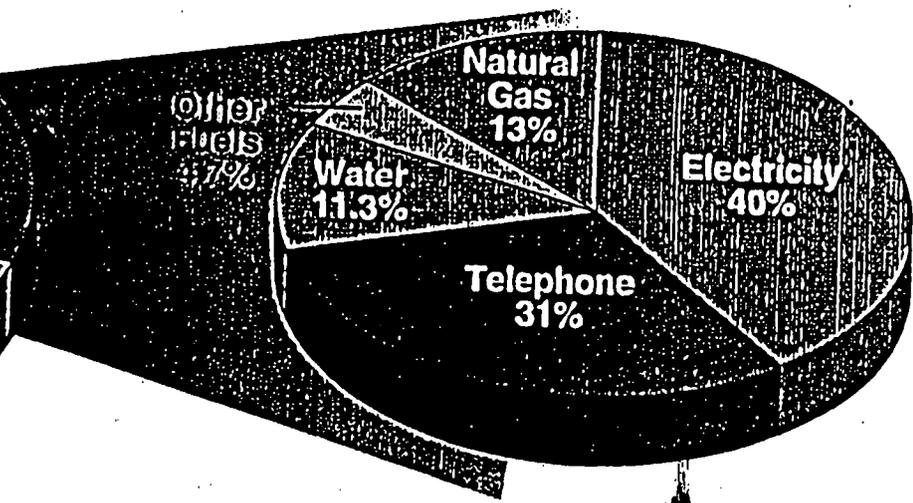
Electricity
1992, ?

Importance of Market Household Spending 1993

Breakdown of Household Spending

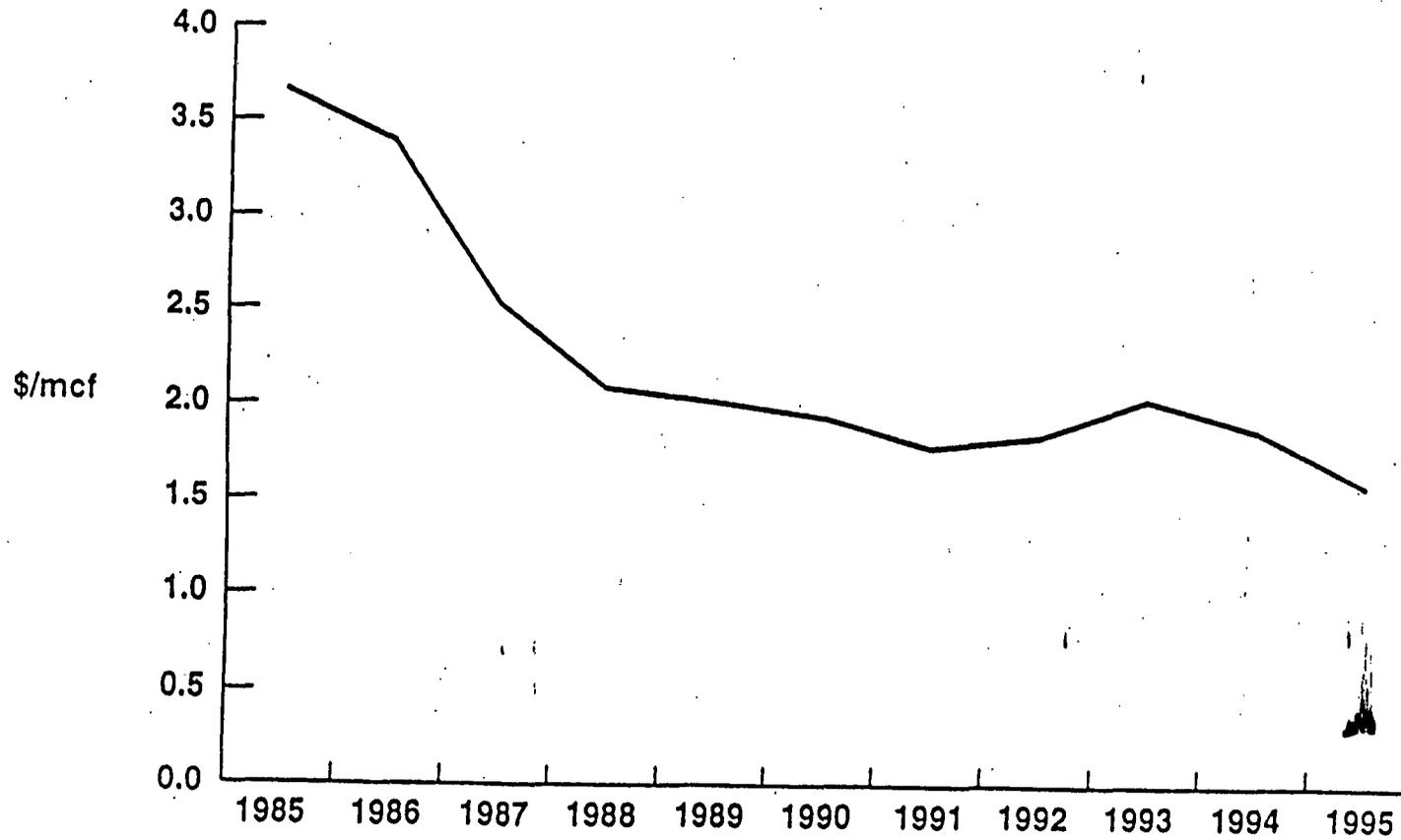


Breakdown of Utilities



U.S. Wellhead Natural Gas Prices

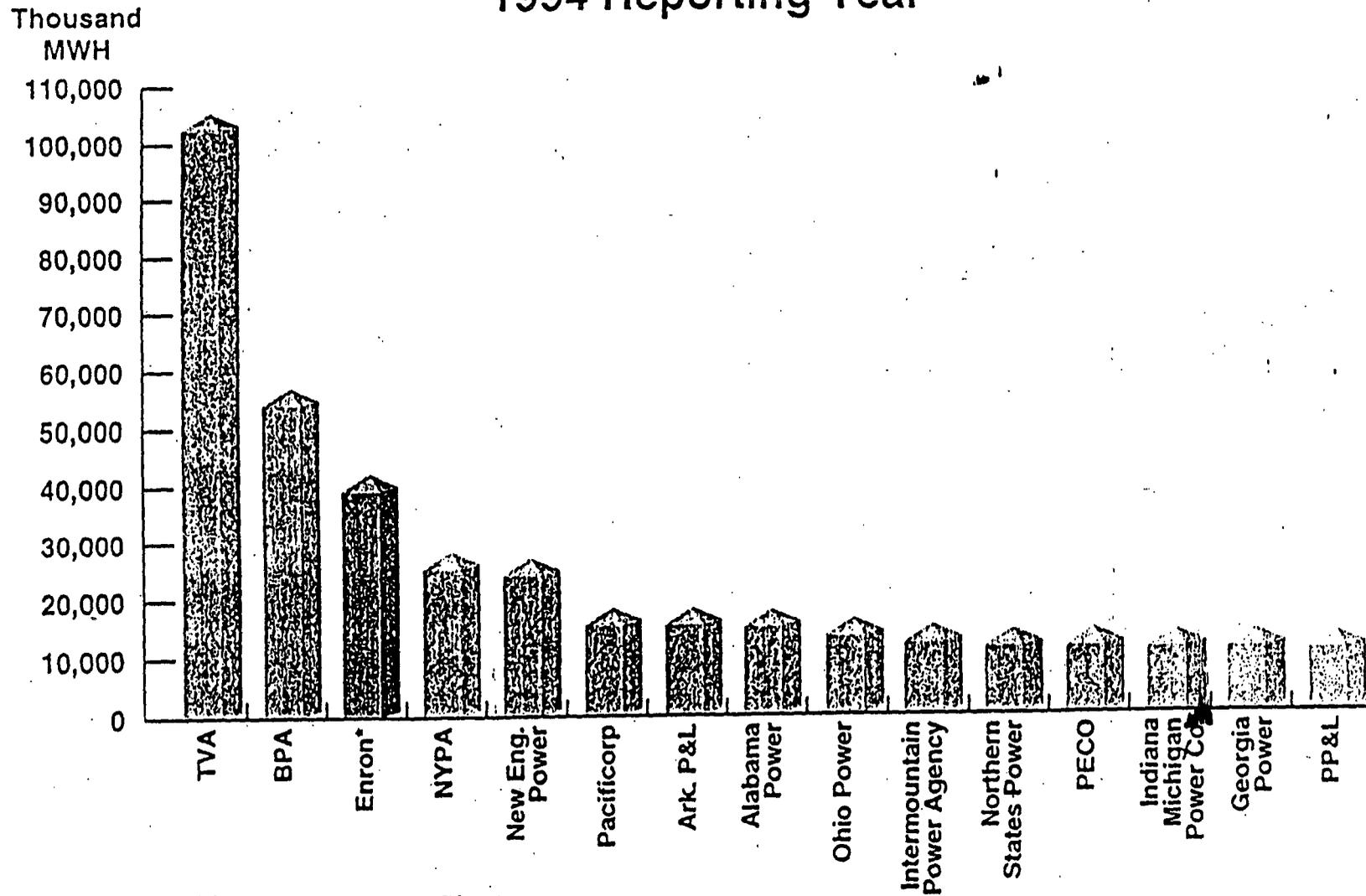
1985 - 1994
(in Constant 1994 Dollars)



Source: Energy Information Administration

Wholesale Power Sales by Utilities

1994 Reporting Year



Source: 1996 U.S. Electric Utility Industry Directory
* January 1996 Volumes Annualized

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OFFICE OF THE EXECUTIVE SECRETARIAT
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AMOCO/ENRON SOLAR

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June 3, 1996

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Washington, DC 20585

Dear Deputy Secretary Curtis:

You are cordially invited to a reception and dinner honoring Mr. M.L. Mehta, Chief Secretary, State Government of Rajasthan, India and his delegation, Mr. P.N. Bhandari, Chairman, Rajasthan State Electricity Board; Mr. S.P. Gupta, Secretary, Mines and Energy, Government of Rajasthan and Mr. P. Dayal, Chief Executive and Director, Rajasthan Energy Development Agency. Mr. Mehta and his delegation are in the United States meeting with Amoco/Enron Solar with whom Rajasthan has signed a power purchase agreement to construct a 50 megawatt solar power facility near Jaisalmer.

Please join the Secretary and his delegation for a reception on Thursday, June 13, 1996, from 6:00 p.m. to 7:30 p.m. in the Grille Room of the Metropolitan Club of Washington located at 1700 H Street, N.W. A small dinner will immediately follow in the Bird Room located on the fourth floor of the Club.

Please RSVP by calling Carolyn Cooney at (202)828-3360.

Sincerely,

A handwritten signature in cursive script that reads "Robert C. Kelly".

14A

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER: ES96-009389
EXTERNAL

DATE OF DOC: 06/03/96 REC'D: 06/04/96 CONTROLLED: 06/04/96 DUE: 06/10/96

FROM: KELLY, ROBERT C
AMOCO/ENRON SOLAR

TX 0

NOTES AREA:

SUBJECT: INVITES THE SECRETARY TO
SUMMARY: ATTEND A RECEPTION HONORING
MR. M.L. MEHTA -- JUNE 13, 1996

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF: SCHEDULING AND LOGISTICS

ACTION TO: SCHEDULING AND LOGISTICS
ACTION TYPE: Reply direct
ACTION OFFICER:

CONCURRENCE COPIES TO:
INFORMATION COPIES TO: SL ES1 TEAM

CONCURRENCES COMPLETED:

EXECUTIVE
DISPATCH
UNIT
SECRETARIAT
1995 JUN 14 P 3:25

REMARKS:

EXECUTIVE SECRETARIAT CONTACT: G Holloway

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
RELATED CODE/NUMBER:
ACCRTS NUMBER:

SPECIAL INT. CODE: MR
SPECIAL INT. DATE: 06/13/96

FILE CODE: PMKELLY-ES96009389

COMPLETION DATE:

INFORMATION GENERATED ON 06/04/96 AT 12:53

15

Amoco/Enron Solar



**ENRON
CORP**

Robert C. Kelly
Co-Chairman Managing Board

1400 Smith Street
P. O. Box 1188
Houston, Texas 77251-1188
(713) 853-7494
Fax (713) 646-8870

June 3, 1996

VIA MESSENGER

The Honorable Hazel O'Leary
Secretary
Department of Energy
1000 Independence Avenue, S.W.
Room 7A-257
Washington, DC

Dear Secretary O'Leary:

You are cordially invited to a reception and dinner honoring Mr. M.L. Mehta, Chief Secretary, State Government of Rajasthan, India and his delegation, Mr. P.N. Bhandari, Chairman, Rajasthan State Electricity Board; Mr. S.P. Gupta, Secretary, Mines and Energy, Government of Rajasthan and Mr. P. Dayal, Chief Executive and Director, Rajasthan Energy Development Agency. Mr. Mehta and his delegation are in the United States meeting with Amoco/Enron Solar with whom Rajasthan has signed a power purchase agreement to construct a 50 megawatt solar power facility near Jaisalmer.

Please join the Secretary and his delegation for a reception on Thursday, June 13, 1996, from 6:00 p.m. to 7:30 p.m. in the Grille Room of the Metropolitan Club of Washington located at 1700 H Street, N.W. A small dinner will immediately follow in the Bird Room located on the fourth floor of the Club.

Please RSVP by calling Carolyn Cooney at (202)828-3360.

Sincerely,

A handwritten signature in cursive script that reads "Robert C. Kelly".

15A

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER:- ES96-009482
EXTERNAL

DATE OF DOC: 06/05/96 REC'D: 06/06/96 CONTROLLED: 06/06/96 DUE:

FROM: WAY, ANTHONY R O NOTES AREA:
ENRON DEVELOPMENT CORP.

SUBJECT: APPRECIATES THE SECRETARY
SUMMARY: AND DOE STAFF PARTICIPATION
IN THE GAS POLICY INITIATIVES
IN MOZAMBIQUE AND SOUTH AFRICA

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF:

ACTION TO: POLICY
ACTION TYPE: For your information
ACTION OFFICER:

CONCURRENCE COPIES TO:
INFORMATION COPIES TO: PO/BOBBISH ES1 TEAM

CONCURRENCES COMPLETED:

EXECUTIVE SECRETARIAT
DISPATCH UNIT
1995 JUN -6 12 52

REMARKS:

EXECUTIVE SECRETARIAT CONTACT: G Holloway

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
RELATED CODE/NUMBER:
ACCRTS NUMBER:

SPECIAL INT. CODE:
SPECIAL INT. DATE:

FILE CODE: PMWAY-ES96009482

COMPLETION DATE: 06/06/96

INFORMATION GENERATED ON 06/06/96 AT 12:03

16

ENRON
Development Corp.

Anthony R. Way
Principal & Senior Vice President

Fox Millbank
London SW1P 3ET
(44171) 316 5300 phone
(44171) 316 5316 fax

5 June 1996

The Honorable Hazel R. O'Leary
Secretary of Energy
7A-257 Forrestal Building
1000 Independence Avenue, SW
Washington, DC 20585
U.S.A.

Dear Secretary O'Leary:

Gas Policy Initiatives in Mozambique and South Africa

The purpose of this letter is to express Enron's appreciation for the efforts in Southern Africa of your Policy and International Affairs staffs, especially the recent work of Ms. Donna Bobbish who was recently in South Africa to meet with their Government officials.

Enron, together with Empresa Nacional de Hidrocarbonetos de Mocambique (ENH), is currently developing the Pande gas field in central Mozambique and hopes to bring this natural gas to market via a cross border pipeline into South Africa. I have recently assumed responsibility for this project within Enron, and it is my understanding that you have been briefed as to the many regional economic benefits of this project. The project has progressed significantly in the last few months and we are currently ready to sign a Heads of Agreement (along with a Gas Sale Contract Term Sheet and Master Project Agreement) with the Industrial Development Corporation (IDC) of South Africa. The IDC contemplates using the natural gas in a large iron reduction facility. The South African Department of Trade and Industry is currently reviewing the proposed document(s).

The recent visit of Ms. Bobbish has helped this project significantly. The effort by Donna to assist the South Africans with overall gas policy is crucial for the success of our project. She has been of great assistance in advising the South African Government concerning the regulatory framework for the emerging natural gas industry, and in her discussions on domestic policy and necessary bi-national agreements. The proposed policy conference in October, leading to legislation to be placed before Parliament in January 1997, supports our project schedule. Ms. Bobbish's visit also served as a catalyst for addressing all views within the South African Department of Trade and Industry on the supply of Pande gas to this new industry, allowing a prompt response from Enron and ENH.

A

Page 2

5 June 1996

The Honorable Hazel R. O'Leary

The initiatives that your department are making continue to bring economic growth in this region closer to reality, and will be of great assistance to Enron's activity in Southern Africa. We will keep you apprised as the project progresses.

Yours sincerely

A handwritten signature in black ink, appearing to read "Anthony Way", written in a cursive style.

Anthony Way

cc: Mr Marc Chupka, Department of Energy
Mr Joe Sutton, Enron Development Corp.

A large, bold, handwritten mark in the bottom right corner of the page, resembling a stylized letter 'B' or 'M'.

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER: - ES96-011271
EXTERNAL

DATE OF DOC: 07/03/96 REC'D: 07/08/96 CONTROLLED: 07/11/96 DUE:

FROM: HOLLINGS, E JOSEPH DC O NOTES AREA:
ENRON CORPORATION
SUTTON, JOSEPH W DC C
PRESIDENT
ENRON DEVELOPMENT CORP.

SUBJECT SUMMARY: NOMINATES JOSEPH W. SUTTON TO
ATTEND THE 11/21-23/96 APEC
BUSINESS FORUM MEETINGS TO BE
HELD IN MANILA

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF:

ACTION TO: POLICY
ACTION TYPE: Appropriate action
ACTION OFFICER:

CONCURRENCE COPIES TO:
INFORMATION COPIES TO: ES1 TEAM

CONCURRENCES COMPLETED:

EXECUTIVE SECRETARIAT
DISPATCH
JUL 11 10 42 AM '96

REMARKS:

EXECUTIVE SECRETARIAT CONTACT: C Carpenter

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
ASSIGNED CODE/NUMBER:
ACCRTS NUMBER:

SPECIAL INT. CODE:
SPECIAL INT. DATE:

FILE CODE: PMHILLINGS-ES96011271

COMPLETION DATE: 07/11/96

INFORMATION GENERATED ON 07/11/96 AT 13:51

M
10

ENRON CORP

E. Joseph Hillings
Vice President
Federal Government Affairs

750 17th Street, N. W., 4th Floor
Washington, D. C. 20006-4607
(202) 466-9145
Fax (202) 828-3372

July 3, 1996

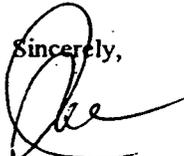
The Honorable Hazel O'Leary
Secretary of Energy
Department of Energy
1000 Independence Avenue, SW
Room 7A-257
Washington, DC-20585

Dear Secretary O'Leary:

Attached is Enron's recommendation that Enron Development Corp. President Joseph W. Sutton be one of the twenty five Business leaders selected to represent the United States at the APEC Business Forum (ABF) to be held in Manila this coming November. Please feel free to contact me if you desire additional information.

Thank you for your time, and on going support.

Sincerely,



Enclosures

cc: George Ziegler

A

ENRON CORP

750 17th Street, N. W., 4th Floor
Washington, D. C. 20006-4607
(202) 466-9145
Fax (202) 828-3372

E. Joseph Hillings
Vice President
Federal Government Affairs

July 3, 1996

Ambassador John Wolf
U.S. Coordinator for APEC
Room 6205
Department of State
Washington, DC 20520

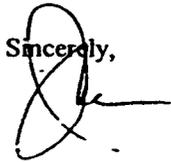
Dear Ambassador Wolf:

Enron currently operates extensive energy facilities, and has projects in active development in many of the APEC member countries. Therefore, Enron Corp. desires to nominate Joseph W. Sutton, President, Enron Development Corp. as one of the twenty five senior executives from the United States private sector to represent infrastructure related business at the APEC Business Forum (ABF) meetings to be held in Manila on November 21-23. During these meetings, Mr. Sutton would also be available as a resource to the United States representatives to this year's APEC Business Advisory Council (ABAC).

Mr. Sutton's work in business and public policy in the APEC region is extensive. I am attaching his biography for your information and use. In order to facilitate planning Mr. Sutton's travel schedule, I would appreciate if you can inform me of his acceptance to the ABF at your earliest convenience.

Enron is committed to contributing its resources and creative energy solutions in assisting countries in the APEC region develop their infrastructure and grow their economies. Thank you for considering this nomination.

Sincerely,



Enclosure

cc: The Honorable Charlene Barshefsky
U.S. Trade Representative
The Honorable Michael Kantor
Secretary of Commerce
The Honorable Hazel O'Leary
Secretary of Energy

B

Joseph (Joe) W. Sutton

Joe Sutton is currently President and Chief Operating Officer of Enron Development Corp. He leads an experienced team focused on development of integrated energy projects internationally. This team has had unparalleled success in electric power and pipeline development in Asia, Latin America, Europe, Africa, and the Middle East.

Before his current position, Joe served as Managing Director in charge of all Middle East and Asia project development for Enron Development Corp. Prior to that post, he was a Principal in EDC in charge of India and Southeast Asia project development, and Vice President actively involved in project development in Asia.

He has personally led the development of two new power plants in the Philippines, one at Batangas and another at Subic Bay, both now in full commercial operation. Recently, he completed a four year effort in the development of the controversial 2015 MW Dabhol Power Project, a liquid natural gas power project in India. Additionally, he was instrumental in the development efforts of the first U.S. private power project in China on Hainan Island. That 150 MW combined cycle power plant is now currently in full commercial operation. Joe and his team have also spearheaded active development efforts in Indonesia, Pakistan, Thailand, Vietnam, and Oman.

His is now focusing Enron Development Corp.'s efforts on high quality projects worldwide. These efforts encompass over 30 developing countries and several billion dollars of investment in infrastructure development.

Prior to joining Enron, he was a career military officer serving 23 years in the Army. He retired as a Colonel. His Army experience consisted of commanding combat units in Armor, Cavalry and Aviation. He served two times in the Pentagon.

He holds a bachelors degree and two masters degrees for Ohio University, Indiana University, and Long Island University. He currently sits on Boards of Directors of several Enron affiliates throughout the world. He is married with two daughters and resides in The Woodlands, Texas.

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER: ES96-010707
EXTERNAL

TE OF DOC: 06/18/96 REC'D: 06/24/96 CONTROLLED: 06/24/96 DUE:

FROM: SANDHERR, CYNTHIA C DC O NOTES AREA:
ENRON CORP

SUBJECT: ENCLOSURES COPY OF TESTIMONY OF
SUMMARY: KENNETH L. LAY ON ELECTRICITY
REGULATION: A VISION FOR THE
FUTURE

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: DEPUTY SECRETARY
FOR SIGNATURE OF:

ACTION TO: OFFICE OF THE SECRETARY
ACTION TYPE: Appropriate action
ACTION OFFICER: CURTIS

EXECUTIVE SECRETARIAT
DISPATCHING UNIT
1995 JUN 24 A 10:49

CURRENCE COPIES TO:
FORMATION COPIES TO: ES1 TEAM

CURRENCES COMPLETED:

MARKS:

EXECUTIVE SECRETARIAT CONTACT: Sheila Jeter

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
RELATED CODE/NUMBER:
ACCRYS NUMBER:

SPECIAL INT. CODE:
SPECIAL INT. DATE:

FILE CODE: PMSANDHERR-ES96010707

COMPLETION DATE: 06/24/96

INFORMATION GENERATED ON 06/24/96 AT 10:17

18

ENRON CORP

Cynthia C. Sandherr
Director
Federal Government Affairs

750 17th Street, N. W., 4th Floor
Washington, D. C. 20006-4607
(202) 466-9143
Fax (202) 828-3372

June 18, 1996

Mr. Charles Curtis
Deputy Secretary
U.S. Department of Energy
Room 7B-252, Forrestal Building
1000 Independence Avenue, SW
Washington, D.C. 20585

Dear Mr. Curtis:

I thought the attached copy of Enron Corp. Chairman and Chief Executive Officer Kenneth L. Lay's testimony before the House Subcommittee on Energy and Power's May 15, 1996 oversight hearing on *Electricity Regulation: A Vision for the Future* would be of interest to you.

In his testimony, Dr. Lay discusses the tremendous impact that retail competition in the electric utility industry would have on the U.S. economy. Quite notably, he estimates that retail competition is the "sleeping giant" of consumer issues and that bringing retail competition to the electric utility industry could produce annual savings of between \$60 - 80 billion per year for consumers and businesses--this represents the equivalent of one of the largest tax cuts in history.

Please call me if you have any questions or would like further information on this issue.

Sincerely,



A



The Secretary of Energy
Washington, DC 20585

June 4, 1996

Mr. Terry Thorn
Senior Vice President, Government Affairs
ENRON
P.O. Box 1188
1400 Smith Street
Houston, TX 77251

Dear Mr. Thorn:

The Department of Energy is assisting the Government of Pakistan to arrange a meeting between U.S. companies and Mr. Shahid Hasan Khan, Special Assistant to the Prime Minister of Pakistan. The purpose of the meeting is to discuss the Pakistani Government's plans to privatize its electricity distribution sector and to attract investment in that sector by U.S. companies.

I had the privilege of heading a U.S. trade mission to Pakistan in September 1994. Since that time the Department of Energy has been working with the Pakistani Government to develop stronger commercial ties between our nations, particularly in the energy sector. The Pakistani Government has made great strides in developing pro-competition policies and a stable investment climate for its energy sector. Agreements on several major projects in Pakistan's electricity sector involving U.S. companies were completed recently.

As the key contact within the Pakistani Government for privatization, a meeting with Mr. Shahid Hasan Khan provides an unprecedented opportunity to explore options for expanding the range of investment opportunities for U.S. firms in the Pakistan electricity sector. His visit to Washington, D.C., is planned for July 8-10, 1996, with the meeting with U.S. companies scheduled for July 9. I also plan to meet with Mr. Shahid Hasan Khan during his visit and hope that you, or an appropriate representative of your company, can make arrangements to participate in this important visit.

Mr. Russell Profozich of the Department of Energy will contact you to inquire about your availability.

Sincerely,

A handwritten signature in cursive script that reads "Hazel R. O'Leary".

Hazel R. O'Leary

19

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

**RUSH
PRIORITY**

Office of the Secretary of Energy

IMPORTANT
ES NUMBER: ES96-011760
EXTERNAL

DATE OF DOC: 07/16/96 REC'D: 07/17/96 CONTROLLED: 07/17/96 DUE:

FROM: LAY, KENNETH L TX 0 NOTES AREA:
ENRON CORP

SUBJECT: INVITES SECRETARY TO ATTEND A
SUMMARY: RECEPTION IN HONOR OF THE
REPUBLIC OF SOUTH AFRICA --
JULY 23, 1996

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF: SCHEDULING AND LOGISTICS

ACTION TO: SCHEDULING AND LOGISTICS
ACTION TYPE: Appropriate action
ACTION OFFICER:

CURRENT COPIES TO:
FORMATION COPIES TO: PO SL ES1 TEAM

CURRENTS COMPLETED:

EX-101
DIS-101
SECRETARIAT
MAY 17 1996 2 48

MARKS:

EXECUTIVE SECRETARIAT CONTACT: Lisa Alston

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
TED CODE/NUMBER:
ACCTS NUMBER:

SPECIAL INT. CODE: MR
SPECIAL INT. DATE: 07/23/96

FILE CODE: PMLAY-ES96011760

COMPLETION DATE: 07/17/96

INFORMATION GENERATED ON 07/17/96 AT 14:40

20

Kenneth L. Loy
Chairman and
Chief Executive Officer

P. O. Box 1188
Houston, Texas 77251-1188
(713) 853-6773
Fax: (713) 853-5313

July 16, 1996

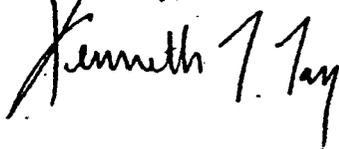
The Honorable Hazel O'Leary
Secretary
Department of Energy
1000 Independence Avenue, S.W.
Room 7A-257
Washington, D.C. 20585

Dear Secretary O'Leary:

I am hosting a reception in honor of the Republic of South Africa and United States delegations to the Binational Commission meeting on Tuesday, July 23, 1996 from 5:30 p.m. to 7:30 p.m. at the Metropolitan Club of Washington, located at 1700 H Street, N.W. and would be pleased to have you attend.

Please respond by calling our Washington office at (202)828-3360.

Sincerely,



U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER: ES96-011877
EXTERNAL

DATE OF DOC: 07/22/96 REC'D: 07/22/96 CONTROLLED: 07/24/96 DUE:

FROM: LAY, KENNETH L O
ENRON CORP O
HARRISON, KEN L O
PORTLAND GENERAL CORPORATION

NOTES AREA:

SUBJECT: PROVIDES INFORMATION
SUMMARY: CONCERNING THE MERGER OF
PORTLAND GENERAL CORPORATION &
RQSTS SECRETARY ATTEND, 7/22

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF:

ACTION TO: OFFICE OF THE SECRETARY
ACTION TYPE: Appropriate action
ACTION OFFICER: WALLACE

CONCURRENCE COPIES TO:
INFORMATION COPIES TO: ES1 TEAM

CONCURRENCES COMPLETED:

EXCUTIVE SECRETARIAT
DISPATCH UNIT
JUL 21 2 35

REMARKS: ORIGINAL LETTER & ENCLOSURES WAS GIVEN CAROLYN WALLACE.

EXECUTIVE SECRETARIAT CONTACT: G Holloway

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
RELATED CODE/NUMBER:
ACCRTS NUMBER:

SPECIAL INT. CODE:
SPECIAL INT. DATE:

FILE CODE: PMMULTI-ES96011877

COMPLETION DATE: 07/24/96

INFORMATION GENERATED ON 07/24/96 AT 12:41

21

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER: ES96-012163
EXTERNAL

DATE OF DOC: 07/24/96 REC'D: 07/25/96 CONTROLLED: 07/25/96 DUE: 08/15/96

FROM: HILLINGS, E JOSEPH DC O NOTES AREA:
ENRON CORP

SUBJECT SUMMARY: JIM BANNANTINE , PRESIDENT
ENRON DOS BRAZIL REQUESTS A
MEETING WITH THE SECRETARY --
NO DATE MENTIONED

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: FAX

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF: SCHEDULING AND LOGISTICS

ACTION TO: SCHEDULING AND LOGISTICS
ACTION TYPE: Reply direct
ACTION OFFICER:

CONCURRENCE COPIES TO:
INFORMATION COPIES TO: PO SL SP/ACK ES1 TEAM
CONCURRENCES COMPLETED:

EXECUTIVE SECRETARIAT
DISPATCH UNIT
1996 JUL 25 A 9:53

REMARKS:

EXECUTIVE SECRETARIAT CONTACT: Lisa Alston

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
RELATED CODE/NUMBER:
ACCRTS NUMBER:

SPECIAL INT. CODE: MR
SPECIAL INT. DATE:

FILE CODE: PMHILLINGS-ES96012163

COMPLETION DATE:

INFORMATION GENERATED ON 07/25/96 AT 09:40

22

ENRON
Washington, Inc.

750 17th Street, N.W. 4th Floor Washington, D.C. 20006-4607 (202) 828-3360 Fax (202) 828-3372

TELECOPY MESSAGE

TO: Hazel O'Leary

DATE: 7.24.96

FR: Joe Hillings

PAGES: 2

MESSAGE: _____

A

**ENRON
CORP**

E. Joseph Hillings
Vice President
Federal Government Affairs

750 17th Street, N.W., 4th Floor
Washington, D. C. 20006-4607
(202) 466-9145
Fax (202) 828-3372

July 24, 1996

Fax: 586-7644

The Honorable Hazel O'Leary
Secretary of Energy
Department of Energy
1000 Independence Avenue, SW
Washington, DC 20585

Dear Secretary O'Leary:

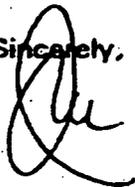
A request has been made through the U.S. Embassy in Bolivia for you to grant a meeting to Jim Bannantine, President, Enron dos Brasil. Mr. Bannantine, who heads Enron Development in Latin America will be in LaPaz for the Hemisphere Energy Ministers Meeting.

Enron has extensive energy development opportunities in Bolivia and Brasil, as well as significant facilities in Argentina, Guatemala and Venezuela. Jim would like to discuss these opportunities as they impact on the Ministerial meetings.

Our manager in LaPaz, Bolivia is Mr. Laine Powell whose telephone number number is 591 2 430199, or cell phone 59 12 93018. You may also make arrangement through my office at 202/828-3360.

I thank you for your consideration of this request.

Sincerely,



cc: Jim Bannantine
Laine Powell

CREATING ENERGY SOLUTIONS WORLDWIDE

B

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER: ES96-016208
EXTERNAL

DATE OF DOC: 08/27/96 REC'D: 09/16/96 CONTROLLED: 09/16/96 DUE: 10/07/96

FROM: SUTTON, JOSEPH W NY O
ENRON DEVELOPMENT CORPORATION

NOTES AREA:

SUBJECT INVITES THE SECRETARY TO
SUMMARY: ATTEND THE FIFTH ANNUAL
INDEPENDENT ENERGY FORUM --
OCTOBER 21-22, 1996

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF: SCHEDULING AND LOGISTICS

ACTION TO: SCHEDULING AND LOGISTICS
ACTION TYPE: Reply direct
ACTION OFFICER:

INCURRENCE COPIES TO:
INFORMATION COPIES TO: SL ES1 TEAM

INCURRENCES COMPLETED:

EXECUTIVE SECRETARIAT
DISPATCH
16 SEP 16 4 41 20

MARKS:

EXECUTIVE SECRETARIAT CONTACT: Lisa Alston

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
STANDARD CODE/NUMBER:
ACCRTS NUMBER:

SPECIAL INT. CODE: MR
SPECIAL INT. DATE: 10/21/96

FILE CODE: PMSUTTON-ES96016208

COMPLETION DATE:

INFORMATION GENERATED ON 09/16/96 AT 09:52

23

ENRON
Development Corp.

Joseph W. Sutton
President and COO

Direct Dial:
(713) 646-6586
FAX (713) 646-6088

August 27, 1996

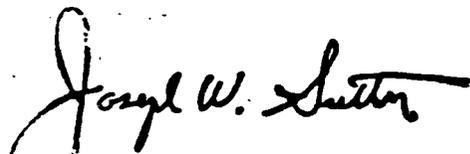
Dear Colleague:

As the co-chairman of the *Independent Energy* Forum, I would like to extend to you a personal invitation to attend this important conference on October 21 & 22 at the Sheraton New York Hotel in New York City. Joining us will be a special delegation from China, and distinguished representatives from companies around the globe.

This conference has earned the reputation of a premier event which attracts authoritative speakers who will examine the issues facing the independent power industry today.

I look forward to seeing you in New York.

Sincerely yours,



Joseph W. Sutton
President & COO

A

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
CORRESPONDENCE CONTROL TICKET

IMPORTANT
ES NUMBER: ES96-015424
EXTERNAL

DATE OF DOC: 09/04/96 REC'D: 09/09/96 CONTROLLED: 09/11/96 DUE:

FROM: O'HARA, JAMES E TX 0 NOTES AREA:
ENRON DEVELOPMENT CORP.

SUBJECT SUMMARY: COMMENDS DOE ON A JOB WELL
DONE AT THE DOE-SPONSORED
ENERGY MISSION TO CENTRAL
AMERICA

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF:

ACTION TO: POLICY
ACTION TYPE: For your information
ACTION OFFICER:

CONCURRENCE COPIES TO:
INFORMATION COPIES TO: ES1 TEAM

CONCURRENCES COMPLETED:

REMARKS:

EXECUTIVE SECRETARIAT CONTACT: G Holloway

----- EXEC SEC INTERNAL USE -----

SUBJECT CROSS REF:
RELATED CODE/NUMBER:
ACCRTS NUMBER:

SPECIAL INT. CODE:
SPECIAL INT. DATE:

FILE CODE: PMO'HARA-ES96015424

COMPLETION DATE: 09/11/96

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24

ENRON
Development Corp.

4 September 1996

The Honorable Hazel R. O'Leary
Secretary of Energy
1000 Independence Avenue, SW
Washington, D.C. 20585

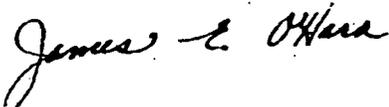
Dear Secretary O'Leary,

Recently, I attended a DOE- sponsored Energy Mission to Central America and I would like to commend the Department of Energy on a job well done. The conference was organized by the Office of Policy Analysis, Trade and Investment for the Americas, Asia and Africa and was held in San Salvador, August 11-13.

I felt that this mission was very helpful in terms of providing the opportunity to meet with Central American officials from all of the isthmus countries, as well as the chance to discuss common issues with other U.S. energy firms working in the area and the commercial attaches from all six embassies. The participation of the IDB was also very interesting and raised awareness of some regional issues, such as the SIEPAC transmission grid, which I believe is fundamental in the development of the region's energy infrastructure.

As a result of this mission, I found a new opportunity for a power project, as well as receiving the most up-to-date statistical information on the regional electricity sector from the IDB. This regionally-focused mission, concentrating specifically on the electricity energy sector, was a very good idea, in addition to being well-organized and well-executed by the DOE.

Yours very truly,



James E. O'Hara
Vice President
Central America and the Caribbean

CC: Marc Chupka
Acting Assistant Secretary for Policy and International Affairs

Ann K. D. Walls
International Relations Specialist

A

U.S. DEPARTMENT OF ENERGY
OFFICE OF THE EXECUTIVE SECRETARIAT
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ESSENTIAL
ES NUMBER: ES96-017422
EXTERNAL

DATE OF DOC: 10/07/96 REC'D: 10/08/96 CONTROLLED: 10/09/96 DUE: [REDACTED]

FROM: HARTSOE, JOSEPH TX O
ENRON POWER MARKETING, INC.

NOTES AREA:

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MADE WITH THE OFFICE OF FOSSIL
ENERGY--S/CC

SOURCE: PUBLIC MAIL

DOCUMENT TYPE: LETTER

ADDRESSED TO: SECRETARY
FOR SIGNATURE OF:

ACTION TO: FOSSIL ENERGY
ACTION TYPE: Appropriate action
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REMARKS: SECRETARY'S COURTESY COPY OF ATTACHED FILING ON BEHALF OF
ENRON POWER MARKETING, INC., ADDRESSED TO ANTHONY J. COMO
DIRECTOR, OFFICE OF COAL & ELECTRICITY.

EXECUTIVE SECRETARIAT CONTACT: Rose Pryor

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**ENRON
CORP**

October 7, 1996

Honorable Hazel R. O'Leary
Department of Energy
Forrestal Building
Room 7A-257
Washington, DC

Dear Secretary O'Leary:

Attached is a filing Enron made with the Office of Fossil Energy. I wanted you to see a copy in case it is written up by the press.

Terry Thorn

750 17th Street, N. W., 4th Fl

Washington, D. C. 20006-4607

Phone: (202) 828-3360

25A

ENRON
Power Marketing, Inc.

P. O. Box 1188 Houston, Texas 77251-1188 (713) 853-6161

October 7, 1996

Anthony J. Como
Director, Office of Coal & Electricity,
Office of Fuels Programs,
Office of Fossil Energy
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Re: Enron Power Marketing, Inc, and El Paso Electric Company
FE Docket No. EA-102 FE Docket No. EA-48-I

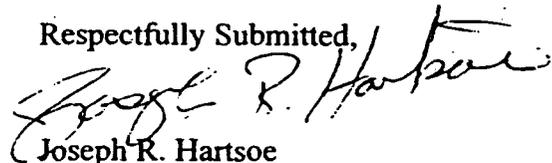
Dear Mr. Como:

Enclosed for filing on behalf of Enron Power Marketing, Inc. are an original and 14 conformed copies of the Emergency Application of Enron Power Marketing, Inc. for Supplemental Orders Authorizing Electricity Export to Mexico. Attached to the filing is a notice of this filing suitable for publication in the *Federal Register*.

EPMI concurrently is personally serving a copy of this application directly on counsel for El Paso Electric Company and by tracked, overnight mail on the Public Utilities Commission of Texas, the New Mexico Public Service Commission, all public utilities subject to Order No. 888 in the two states, all parties listed by the Secretary of the Federal Energy Regulatory Commission ("FERC") on the official service list in the complaint proceeding initiated by EPMI in FERC Docket No. EL96-74-000, and all parties listed on the official service list in FE Docket No. EA-102.

Also included is a diskette copy of the application and the Notice for publication.

Respectfully Submitted,



Joseph R. Hartsoe
Counsel For
Enron Power Marketing, Inc.

B

**UNITED STATES OF AMERICA
BEFORE THE
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY**

Enron Power Marketing, Inc.)

FE Docket No. EA-102

El Paso Electric Company)

FE Docket No. EA-48-1

**EMERGENCY APPLICATION OF ENRON
POWER MARKETING, INC. FOR SUPPLEMENTAL
ORDERS AUTHORIZING ELECTRICITY EXPORT TO MEXICO**

Pursuant to Section 202(e) of the Federal Power Act ("FPA"), 16 U.S.C. § 824a(e) (1994), and section 205.305(c) of the Department of Energy's ("Department") procedures for application for authorization to transmit electric energy to a foreign country, 10 C.F.R. § 205.305(c) (1996),¹ Enron Power Marketing, Inc. ("EPMI") moves the Office of Fossil Energy ("OFE") to supplement its February 6, 1996, Order authorizing EPMI to export electricity to Mexico (Order No. EA-102) and its April 16, 1992, Order authorizing El Paso Electric Company ("El Paso") to export electricity to Mexico (Order No. EA-48-1), and any other relevant orders in the above-captioned dockets to require El Paso to provide EPMI nondiscriminatory transmission access over the U.S. portion of the lines connecting the Diablo and Escarte substations in the United States with the Insurgentes and Riverena

¹ Section 205.305(c) provides:

The [OFE] may at any time subsequent to the original order of authorization, after opportunity for hearing, issue such supplemental orders as it may find necessary or appropriate.

10 C.F.R. § 205.305(c) (1996).

substations in Mexico. EPMI also requests that the OFE amend El Paso's Presidential Permits, PP-48 (Escarte) and PP-92 (Diablo), to the extent necessary to grant EPMI's request.

Granting EPMI's application to supplement these Orders is necessary to implement the conclusions reached by the Federal Energy Regulatory Commission ("FERC" or "Commission") in its October 4, 1996, decision ("FERC Order") ordering El Paso to provide transmission service to EPMI, *Enron Power Marketing, Inc. v. El Paso Electric Company*, Docket No. EL96-74-000, slip op. at 10-11 (Oct. 4, 1996) (Appendix A), and is required by the FPA's prohibition against undue discrimination. EPMI also asks the Department to adopt, to the extent necessary, an expedited procedural schedule so that the requested supplemental orders may be issued no later than Friday, October 11, 1996. This expedited action is necessary to permit EPMI to prepare and submit a bid in competition with El Paso to supply electricity to the Comisión Federal de Electricidad ("CFE"), the government-owned national electric utility of Mexico, by the CFE's deadline of October 14, 1996. In support, EPMI respectfully shows:

**I.
SERVICE AND CORRESPONDENCE**

Communications and correspondence regarding this proceeding shall be directed to:

Richard S. Shapiro
Enron Power Marketing, Inc.
1400 Smith Street (77002)
Post Office Box 1188
Houston, Texas 77251-1188
(713) 853-3407
(713)646-8160 (fax)

Joseph R. Hartsoe
Enron Washington, Inc.
750 17th Street, N.W.
Suite 400
Washington, D.C. 20006-4607
(202) 466-9150
(202) 466-3450 (fax)

II. BACKGROUND

In Order No. EA-102 authorizing EPMI to export electric energy to Mexico, the OFE stated that EPMI would need to take two actions to satisfy the terms of the Order: (1) schedule the transaction with the appropriate control areas, and (2) obtain sufficient transmission access to transmit the electricity from the generating source to the border. *Enron Power Marketing, Inc.*, FEA Docket No. EA-102, Order No. EA-102 at 6 (Feb. 6, 1996) (Appendix A, Attachment 2). The Order further stated that "[i]n order to obtain sufficient transmission access to wheel the electricity to the border, ENRON must come to terms with the affected transmission systems and obtain any necessary regulatory approvals." *Id.*

Consistent with the Department Order, EPMI requested transmission service under El Paso's open access transmission tariff on July 18, 1996 (Appendix B, Attachments 3-7). EPMI intends to submit a bid in response to the CFE's request for proposals ("RFP") from power suppliers to meet its electric needs starting in 1997 (Appendix B, Attachment 1). To be considered, the bids must be submitted by October 14, 1996. El Paso, however, refused to provide the transmission service despite repeated requests by EPMI and despite the fact that it has an open-access transmission tariff on file with the Commission (Appendix B, Attachment 8). EPMI then filed a complaint with FERC on September 13, 1996, seeking an order of the Commission immediately directing El Paso to provide transmission service to deliver power across the U.S.-Mexican border.

On October 4, 1996, the Commission granted relief to EPMI, ordering El Paso to comply with its open access tariff by agreeing to provide transmission service to EPMI. In its Order, the Commission concluded that "the cross-border electric trade ought to be subject to the same principles

of comparable open access and non-discrimination that apply to the interstate electric industry." Slip op. at 11. The Commission therefore held that it has jurisdiction to order El Paso to provide transmission service from EPMI's designated points of receipt on El Paso's transmission system to El Paso's two substations near the United States-Mexico border. *Id.* at 10-11. The Commission recognized, however, that the authority to order transmission service from the two substations to and across the border lies with the Department. *Id.* at 12. The FERC Order found that the Department has jurisdiction under FPA section 202(e) to issue a supplemental order directing El Paso to provide transmission access to and across the border, and it recommended that EPMI seek such an order from the Department. *Id.*²

III. ARGUMENT

OFE should exercise its authority under FPA section 202(e) to supplement Order EA-102 and Order EA-48-I to require that El Paso provide EPMI comparable transmission access over the U.S. portion of the lines connecting the Diablo and Escarte substations in the United States with the Insurgentes and Riverena substations in Mexico. This supplemental action is required because only

² EPMI has sufficient standing to make this request. When EPMI originally sought authorization to export electricity to Mexico, El Paso intervened and protested, asserting that EPMI did not have standing to apply for an electricity export authorization under section 202(e) of the FPA. FE Docket No EA-102, Order No. EA-102 at 6. In granting EPMI export authorization, the OFE rejected this argument, stating that "the interpretation and implementation of the statutory and regulatory requirements governing exports of electricity, including the apparent favorable statutory presumption, should be consistent and account for these changes in the evolving electricity marketplace," such as the emergence of electricity marketers. *Id.* at 5-6. See e.g. House Report No. 1318 on S-2796, dated June 24, 1935; Final Rule implementing section 202 of the Federal Power Act, 45 Fed. Reg. 71,559 (1982).

the Department has authority to order transmission service from the two El Paso substations to and across the border into Mexico. Slip op. at 11-12.

FPA section 202(e) provides the Department authority over the U.S. portion of the transmission lines leading from the Diablo and Escarte substations to and across the U.S.-Mexican border. Section 202(e) permits the Department to authorize an application to transmit electricity to a foreign country and provides that the Department

may by its order grant such application in whole or in part, with such modifications and upon such terms and conditions as the [Department] may find necessary or appropriate, and may from time to time, after opportunity for hearing and for good cause shown, make such supplemental orders in the premises as it may find necessary or appropriate.

16 U.S.C. § 824a(e). This section therefore provides the Department with continuing jurisdiction to monitor the conditions and limitations included in its orders approving applications to transmit electric power to foreign countries. The Department should now condition both EPMI's and El Paso's export authority on compliance with the principle of comparable open access and nondiscrimination in access to border transmission facilities. Such action would be entirely consistent with FERC's determination that "it would be appropriate for DOE to condition export authorizations and Presidential permits (pursuant to supplemental orders if necessary) on the provision of comparable open-access transmission over the U.S. portion of transmission lines that cross the international border." Slip op. at 12.

It is understandable that OFE did not address comparable open-access transmission when it issued its February 6 Order authorizing EPMI to export electricity to Mexico. At the time, FERC had not yet issued Order No. 888, *Promoting Wholesale Competition through Open Access Non-Discriminatory Transmission Services by Public Utilities*, 61 Fed. Reg. 21,540 (May 10, 1996)

[hereinafter "*Order No. 888*"]. Now that FERC has fully implemented the mandates of sections 205 and 206 of the Federal Power Act to ensure that utilities provide comparable transmission access to third parties, the Department should supplement EPMI's export authorization, Order No. EA-102, in addition to El Paso's export authorization, Order No. EA-48-I, to provide that the principles of comparable open access and nondiscrimination apply equally to U.S. transmission lines crossing international borders. The requirement of comparable transmission access articulated under sections 205 and 206 of the FPA apply equally to the DOE's application of FPA section 202(e), in addition to the FPA's other statutory provisions, because service across the border is service under the FPA.

In the FERC Order, the Commission ordered El Paso to provide transmission service to EPMI, finding that "it would be inconsistent with Order No. 888 and contrary to the principles of non-discrimination contained in the Federal Power Act if the owners of these facilities are able to block access for competitors to the cross-border trade." Slip op. at 12. Failure to follow FERC's determination and grant EPMI's motion would reward El Paso's anticompetitive denial of service by making it impossible for EPMI and possibly others to compete for the CFE sale. Now that EPMI has obtained the "necessary regulatory approvals" from FERC to gain transmission access necessary to transmit power from the U.S. generating sources to El Paso's substations, OFE must use its authority to order El Paso to provide comparable transmission access over the U.S. portion of the lines connecting the Diablo and Escarte substations in the United States with the Insurgentes and Riverena substations in Mexico.

Issuance of supplemental orders directing El Paso to provide comparable transmission access on its facilities up to and across the border into Mexico also would be consistent with the comments the Department submitted in support of the Commission's Notice of Proposed Rulemaking on

promoting competition through open-access non-discriminatory transmission services by public utilities. As the Commission acknowledged in its final rule, Order No. 888, the Department submitted comments fully supporting the measures FERC felt necessary to assure comparable open-access transmission. See Order No. 888, 61 Fed. Reg. at 21,551.

IV. REQUEST FOR EXPEDITED ACTION

As the FERC Order stated, "[g]iven the time constraints in this particular case, we encourage DOE to act expeditiously to use its authority to ensure that El Paso will provide the access necessary to allow all potential bidders to participate in CFE's RFP." Slip. op at 12. Expedited action on this emergency motion is necessary because the CFE's outstanding RFP requires that bids must be submitted to CFE by October 14, 1996 -- a mere 7 days from now. As transmission on El Paso's system is essential to perform any agreement with CFE pursuant to the RFP, El Paso's refusal to transmit power effectively eliminates EPMI and other potential competitors for this sale. El Paso must not be allowed to succeed in its exclusionary practices. For these reasons, supplemental orders directing El Paso to transmit electric power to and across the Mexican border should issue no later than Friday, October 11, 1996 in order to allow EPMI sufficient time to prepare a bid in competition with El Paso for the RFP issued by CFE.

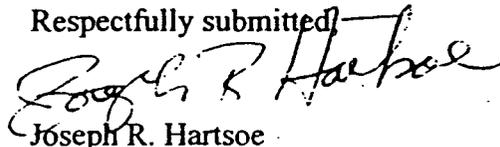
In light of the need for expedition as discussed above, and to the extent DOE believes it needs to provide notice before it can act, EPMI is submitting a notice sufficient for publication in the *Federal Register*, including an electronic copy on diskette, and requests that OFE notice this emergency motion immediately (Appendix C). If OFE notices this application, EPMI requests that OFE shorten the response period for filing comments, protests, or requests to intervene to three days,

or by October 10, 1996, in order to permit OFE to issue the requested supplements to Order Nos. EA-102 and EA-48-I no later than October 11, 1996.

V.
CONCLUSION

WHEREFORE, EPMI respectfully asks the OFE to grant its application for supplementation of the above-captioned orders and indicated Presidential Permits to require El Paso to provide EPMI comparable transmission access over the U.S. portion of the lines connecting the Diablo and Escarte substations in the United States with the Insurgentes and Riverena substations in Mexico, and to grant EPMI any other relief the Department deems necessary and appropriate.

Respectfully submitted,



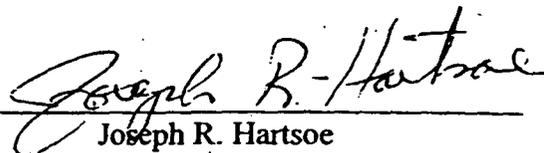
Joseph R. Hartsoe
Enron Power Marketing, Inc.
750 17th Street, N.W.
Suite 400
Washington, D.C. 20006-4607
(202) 466-9150

October 7, 1996

CERTIFICATE OF SERVICE

Joseph R. Hartsoe, being first duly sworn, hereby states that on October 7, 1996, a copy of the foregoing Emergency Application of Enron Power Marketing, Inc., together with all of its attachments, was served by hand delivery on counsel for Respondent El Paso Electric Company, James K. Mitchell, Reid & Priest, L.L.P., 701 Pennsylvania Avenue, N.W., Market Square, Suite 800, Washington, D.C. 20004, and by tracked, overnight delivery on El Paso Electric Company, the Public Utilities Commission of Texas, the New Mexico Public Service Commission, all public utilities subject to Order No. 888 in the two states, all parties listed by the Secretary of the FERC on the official service list in the complaint proceeding initiated by EPMI in FERC Docket No. EL96-74-000, and all parties listed on the official service list in FE Docket No. EA-102.

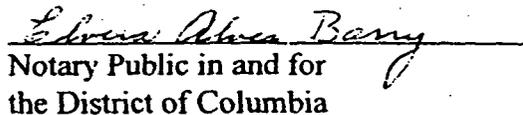
Dated: October 7, 1996



Joseph R. Hartsoe

WASHINGTON, §
DISTRICT OF COLUMBIA §

SWORN AND SUBSCRIBED before me this 7th day of October, 1996.



Notary Public in and for
the District of Columbia

My Commission Expires March 14, 2000



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Community Energy Alternatives	Multitrade Group, Inc.	UBS Securities LLP
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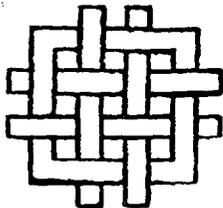
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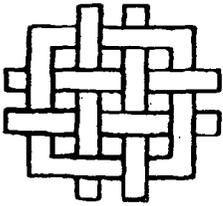
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Date: December 9, 1996

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Marcia Aronoff	BDF	(212) 505-2375
Bruce Babbitt	Dept. Of Interior	(202) 208-6956
Jim Pipkin	Dept. Of Interior	(202) 219-1220
Adela Backiel	USDA	(202) 690-4915
Frances Beinecke	NRDC	(212) 727-1773
Scott Bernstein	Center for Neigh.	(312) 278-3840
Rob Bradley	Enron	(713) 853-3062
Carol Browner	US EPA	(202) 260-0279
Robert Wolcott	US EPA	(202) 260-0275
Henry Cisneros	HUD	(202) 619-8257
Marc Weiss	HUD	(202) 619-8257
Diane Dillon-Ridgely	Citizens Network	(319) 338-2090
Randall Franke	Commissioner	(503) 588-5237
Jerry McNeil	Nat'l Asso. Of Cts.	(202) 737-0468
Samuel Johnson	SC Johnson	(414) 260-3414
Jane Hutterly	SC Johnson	(414) 260-2183
Mickey Kantor	Commerce	(202) 482-2741
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December 9, 1996

**TO: Members of the President's Council on Sustainable Development
cc: PCSD Liaisons, E4E members of Ad Hoc Working Group, J. Ehrmann**

FROM: Donna Wise *DW*

**SUBJECT: Report of the WRI-Enron Working Group on a Fiscal Policy and Subsidy
Commission**

As you will recall, WRI and Enron Corp sponsored an ad-hoc working group to consider the PCSD recommendation for a commission on fiscal policy and subsidies. Working outside of PCSD, but including interested PCSD members as well as members of Enterprise for the Environment, a collaborative process chaired by Bill Ruckelshaus, the Working Group met to develop a more detailed mandate for a Commission. At the request of PCSD members, WRI and Enron agreed to bring the results of the working group's deliberations back to the PCSD for a full discussion at the December meeting.

The attached paper was developed as a summary of the working group's considerations. We will discuss the paper at our luncheon, beginning at noon on December 12.

WRI-ENRON WORKING GROUP ON A FISCAL POLICY AND SUBSIDY COMMISSION

December 5, 1996 Draft

Introduction

A Working Group made up of people representing a wide range of views but sharing an interest in exploring issues concerning the relationship of tax and subsidy policy to sustainable development was brought together by the World Resources Institute (WRI) and Enron Corp. The group focused on the recommendation of the President's Council on Sustainable Development for a Commission to review federal tax and subsidy policies. Liaisons of the WRI-Enron Working Group on a Fiscal Policy and Subsidy Commission met on October 15 and on November 12. On December 4, members of the Working Group continued the discussion with several prominent economists.

Four issue areas were discussed: criteria a Commission should consider in evaluating proposals; the nature of the Commission's work regarding subsidies; the nature of the Commission's work regarding taxes; and how the Commission should be set up and organized. The following is a description of the views of the group at the conclusion of the three meetings. It also does not necessarily represent consensus or the views of WRI, Enron, nor of any of the other organizations represented at the meeting.

Criteria

As envisioned by the President's Council on Sustainable Development, the Commission would consider tax changes intended to support sustainable development, and not to raise revenues. As such, any tax shift should be revenue neutral in that it would not increase the overall tax burden. This would allow a Commission to focus on the merits of proposed changes and not on deficit reduction.

The President's Council on Sustainable Development recommended that tax and subsidy reform efforts meet the criteria listed below:

- o be fair, proportionate to environmental impact, and not place a disproportionate burden on lower income individuals;
- o promote savings and investment, employment and economic growth; and
- o provide for enhanced environmental performance.

There is general agreement with these criteria. In addition, the Working Group identified several other criteria that the Commission should consider using to evaluate proposals on fiscal policy and subsidies. They agree that in order to be adopted proposals should:

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- o increase the simplicity, efficiency, effectiveness, and transparency of the tax system;
- o be administratively feasible;
- o improve the stability, predictability, and practicality of the tax system;
- o be phased in over a period of time;
- o increase the efficiency of the US tax code so that the competitive position of U.S. enterprise is enhanced; and
- o be used only when fiscal policy is the best approach for achieving the intended policy objective.

Some of these criteria may not be applicable to subsidies as they are to fiscal policy.

Subsidies

The Working Group suggests that the purpose of reducing subsidies should be to eliminate those subsidies that are harmful to the goals of sustainable development and especially those that provide incentives for environmental degradation, and should not be to reduce deficits or raise revenue. The group notes that in many cases the original public policy purpose of many existing subsidies may no longer be valid. The continued need for environmentally detrimental subsidies should be reviewed to ascertain the justification for their continued existence.

The Working Group acknowledges that definitions of subsidies vary considerably. Under some definitions there is a very large range of federal policies that are sometimes considered subsidies, including government purchasing and regulatory measures that may interfere with markets. The group recommends that the Commission focus on budgetary subsidies including, on the expenditure side, direct transfers of money to private parties and goods or services provided at less than market price. On the revenue side, the group recommends looking at preferential tax treatment. This definition would have workable boundaries and would be consistent with the intent of the PCSD recommendations.

The PCSD report said that a tax shift should be revenue neutral, but it was silent on the matter of neutrality regarding subsidies. The group discussed whether revenue neutrality or budget deficit neutrality was appropriate for a tax shift and subsidy reform when looked at together. For example, a commission might want to have the flexibility to consider recommending replacing environmentally harmful subsidies with others that might enhance environmental performance or balancing tax changes with subsidy reform so that changes overall are budget neutral.

The group acknowledges that while there are strong environmental arguments for eliminating some subsidies, there may be powerful political forces that support any one of the many subsidies that a Commission might want to target for elimination. The Working Group notes the possibility that by targeting for elimination numerous subsidies in concert, the potential uses of the revenue savings could create political momentum of their own for elimination of subsidies.

The Group recognizes that there is a need to discourage overuse of publicly held resources that currently are being offered for development at below market prices. The suggestion was made that the Commission consider transferring public resources to private ownership at fair market value, with appropriate conservation easements to assure continued public benefit. As an alternative, it was suggested that the Commission consider auctioning off or selling use rights to obtain fair market value.

The Working Group feels that there may be a number of transition issues that the Commission should address having to do with dislocation effects as subsidies are being eliminated.

The Working Group notes that there has been much work in this area and there are several published reports that look at subsidies, their revenue impacts and how they affect societal goals. The group recommends that the Commission should collect and review existing literature on subsidies.

Taxes

The sense of the group is that taxes represent a powerful driver of individual and corporate behavior. Current taxes fall heavily on work and investment, and a shift to taxes more closely aligned with overall societal goals could produce significant societal benefits. The fundamental premise of the PCSD recommendation on taxes and for the Working Group is that there are serious environmental problems which can be addressed, at least in part, through environmental taxes. By recycling the revenues from those taxes to maintain revenue neutrality, it is possible to make additional changes to the tax system - tax shift - to encourage savings, investment and employment and to improve social equity.

The group felt that the goal of such a tax shift should be to promote sustainable development by enhancing economic prosperity and social equity as well as environmental improvement, and that all three of these areas are important. The Commission should consider the substitution of taxes that discourage pollution, inefficient use of resources and habitat destruction, for taxes that discourage employment, savings and investment (including investment in human and physical capital) with overall regard to issues of fairness. The Working Group recognizes that tax changes

that improve environmental performance may include changes beyond simply the addition of environmental taxes as other taxes can have positive (or negative) effects on behavior that impact the environment.

The group recommended that the Commission adopt the three principles of an efficient tax system, laid out by the Norwegian Tax Commission. Those principles state that a government should first and as far as possible, impose taxes that promote efficiency. These are taxes that correct externalities and thereby improve the functioning of the economy. Thereafter a government should impose taxes that are neutral in that they do not generate efficiency effects. These taxes have the characteristic that a tax payer cannot effect the amount of tax he pays by changing behavior. Finally, and only if taxes referred to above do not generate sufficient revenues, a government should impose additional taxes that have distortionary effects. In doing so these taxes should be imposed in such a way that the efficiency loss is minimized, and equity is maintained.

The group felt that tradable emissions permits, to the extent that permits are auctioned off rather than given freely, would also fall within the scope of the Commission's responsibilities. Such a system can raise revenue similar to what would be raised by environmental taxes.

The Working Group agrees that there were a number of issues that the Commission should explore. These include:

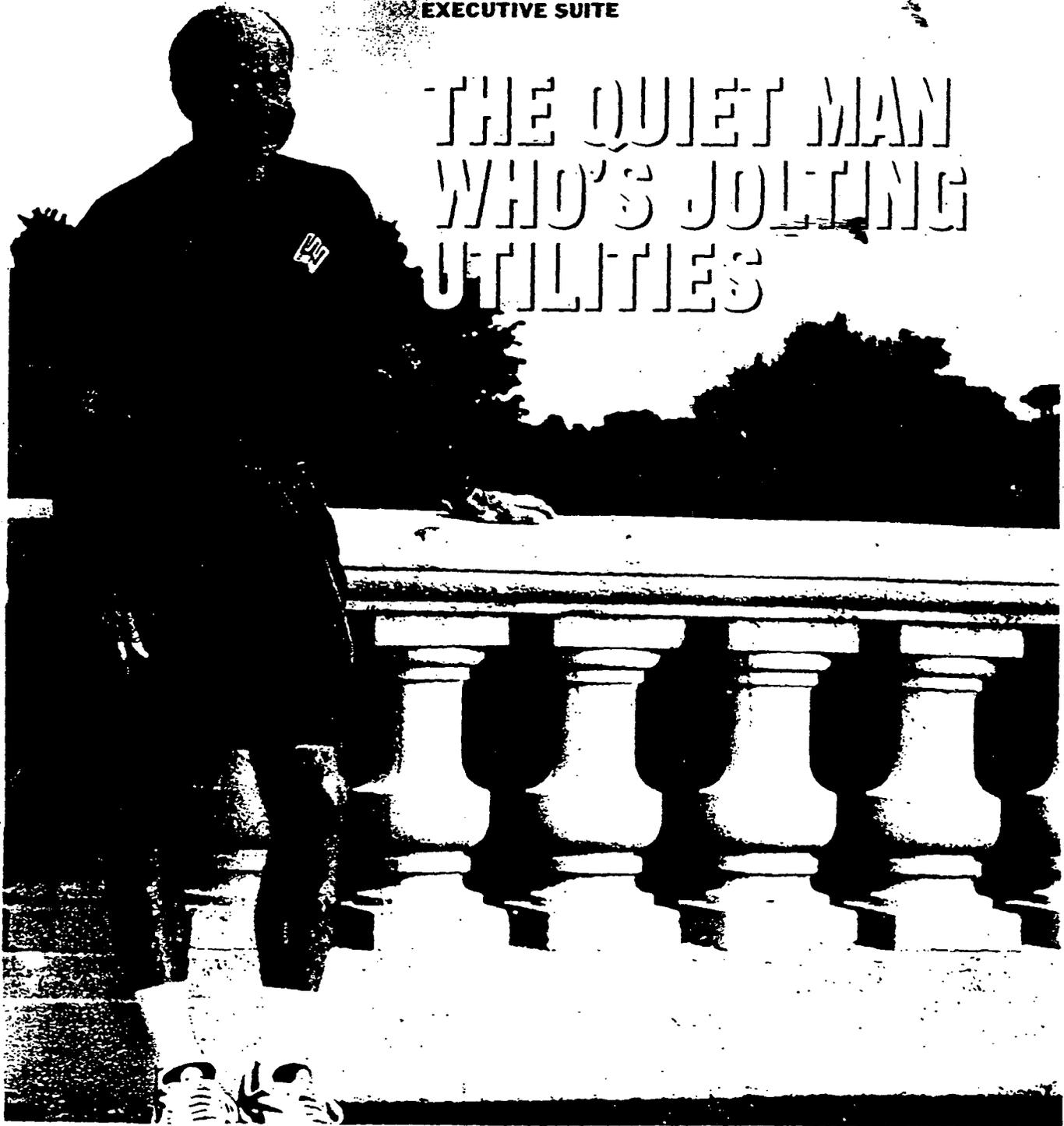
- The design of a tax system that provides for a revenue stream that is predictable but includes taxes intended to change behavior.
- The potentially regressive nature of environmental taxes and the possibilities of offsetting regressive impacts through revenue recycling;
- The limited enforceability of desired levels of environmental performance under a tax system; and
- The possibility of phasing in some of the changes associated with a tax shift so that individuals and firms can adjust to new and powerful economic drivers.

Establishing a Tax and Subsidy Commission

The Working Group has identified several issues which need to be addressed before specific recommendations can be made regarding establishment of a Commission. Issues related to determining the structure, membership, scope and authority of a Commission need to be resolved in a manner consistent with the goals and objectives of the Commission. The Working Group feels that the ideas that were discussed in these meetings are important ones that need a forum. The Group feels further that a bipartisan, multi-stakeholder forum is a useful mechanism to further the discussion of ideas that are difficult to discuss in other more partisan settings.

EXECUTIVE SUITE

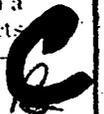
THE QUIET MAN WHO'S JOLTING UTILITIES



CEO Kenneth Lay is getting Enron ready for open electricity markets and shaking up a staid industry

He doesn't make a striking impression. Short, soft-spoken, with the big hands of the Midwest farm boy he once was, Kenneth L. Lay is unlikely to be taken for an energy mogul. Yet even though he's little known outside the insular natural-gas business, Enron CEO Lay is becoming the most visible and feared advocate of opening the nation's \$215 billion retail electricity market to competition.

Bringing to his task a missionary zeal for electric deregulation and the confidence of a master strategist, Lay, 55, has already maneuvered Houston-based Enron Corp. past the nation's largest electric utilities in wholesale markets, which were deregulated three years ago. Selling primarily to utilities and municipalities, Enron saw its power revenues jump 236% last quarter, compared with a year earlier. Altogether, Enron expects



electricity revenues to climb from \$1.2 billion in 1996 to at least \$3 billion this year, equal to a quarter of the revenues it makes in its core gas-trading business. That has put Enron in the catbird seat for the coming electric free-for-all: The company is by far the biggest player in the wholesale market; its 19% share is almost double that of its nearest rival.

Now, Lay wants a clear shot at the far larger retail market selling electricity directly to homeowners, businesses, and industrial consumers. This market has been the preserve of utilities since its inception. But traders such as Enron want to start buying cheap surplus power from utilities around the U.S., supplementing it with power from their own plants, and selling it in pricier markets.

So Lay is making the biggest gamble of his career, trying to supercharge the sputtering pace of deregulation even as he transforms Enron—a company that caters to a few big customers—into a consumer-savvy energy marketer. If deregulation roars ahead, the payoff could be huge: With the combined markets for retail gas and electricity estimated at \$320 billion, Donaldson, Lufkin & Jenrette Securities Corp. analyst Curt N. Launer figures that by 2000, Enron could add \$300 million a year to its profits for each 1% share of the retail market it gains. Enron, now a \$13.2 billion company, could easily triple in size.

A deregulation slowdown would be costly, however: Enron is spending heavily on services and infrastructure. The head of one rival expects Enron to spend up to \$500 million to develop its retail business. "If it takes 10 years to open a sizable residential market, [Enron is] toast," he says. "It'll cost too much."

"RENAISSANCE MAN." Lay's gambit comes at a critical time for the company. Setbacks in Enron's push overseas have already cooled its profit outlook, and its spending to move into electricity has forced Lay to abandon a 1995 pledge to lift profits 15% annually through 2000. Enron shares, now trading at about 40, have significantly trailed the Standard & Poor's 500-stock index for the past two years. So far this year, Enron is off 6%, while the index is up 15.5%.

Deregulation, meanwhile, moves one step forward, two back. After a strong start in California, which will open its \$20 billion electricity market next January, efforts nationwide appear to be faltering. On May 20, passage of a federal law mandating open markets was declared dead for this year by the bill's sponsor. The same day, Texas lawmakers suspended work for two years on a bill to open that state's electricity market.

Pointing out that seven states have approved legislation to open markets next year, Lay is characteristically up-

beat. "If anything, [deregulation is] going faster than we thought," he says. "There's no longer a debate on if it'll happen—it's when it happens." Such talk has made him and his company the bêtes noires of the utility world. "To listen to CEOs in the electric industry talk about Enron, you'd think they were talking about the devil incarnate," says James E. Rogers, CEO of Cincinnati gas and electric utility Cinergy Corp. and a former

Kenneth Lay

BORN Apr. 15, 1942, Tyrone, Missouri

EDUCATION University of Missouri, B.A., 1964; M.A., 1965, in economics; University of Houston, PhD in economics, 1970

CAREER

1965-68 Humble Oil: economist

1968-71 U.S. Navy: Officer Candidate School, then Pentagon

1972-74 U.S. Interior Dept.: Deputy Under Secretary

1974-81 Florida Gas: vice-president for corporate development, then president

1981-84 Transco Energy: president and COO

1984 Houston Natural Gas: CEO

1985-present Enron: CEO

MADE HIS MARK Took deregulation of natural gas as an opportunity to transform the good-ol'-boy gas business into a fast-paced financial marketplace

AVOCATION Politics: Chaired Senator Phil Gramm's 1996 Texas Presidential campaign-finance committee, President George Bush's 1990 Economic Summit

FAMILY Married 15 years to second wife, Linda

RECREATION Jogging and skiing

Enron exec. "There is genuine fear."

In nearly every state, Lay is facing off with utilities that are trying to avert or delay competition. In Texas, Enron's 10 lobbyists tangled with an army of 70 utility representatives. If opponents fear Lay, it's because no one else is pushing as fast or as hard—and because he's trying to repeat history. In the mid-1980s, Lay forced the pace of gas deregulation, then beat rivals into new mar-

kets, turning debt-laden Enron into the nation's biggest, most profitable buyer and seller of gas.

One of three kids in a Missouri farm family, Lay, who started hiring himself out as a part-time hand to local farmers at the age of 12, "learned to think on the back of tractors," says Oliver G. Richard III, CEO of Columbia Gas Systems Inc. and a former Enron executive. "I asked him once where he got his good ideas. He says, 'It's riding around on a tractor in the flat plains of Missouri.'" But Lay is no country bumpkin: Texas Senator Phil Gramm, a longtime Republican friend for whom Lay has worked as a fund-raiser, says there's "an element of the Renaissance man" about the well-read Lay, noting that he's "as comfortable talking about the ancient Greeks as he is the competitive selling of electric power." Gramm also credits Lay, who has a PhD in economics, with an ability to separate the important from the trivial. "He has the ability to step back from an issue and see the big picture, something that I don't see in a lot of people in business," says Gramm.

GAS "BANK" Lay also displays an unshakable confidence tempered by more than a decade of taking big risks and winning. In 1985, he helped create Enron, the fruit of a difficult merger between two small, struggling pipeline companies, Omaha-based InterNorth Inc. and Houston Natural Gas Corp., of which Lay was CEO. Abruptly named overall CEO because of infighting brought on by the clash of cultures, Lay quickly ended the squabbling by establishing a single headquarters in Houston.

But soon after, oil prices plummeted, siphoning off gas customers. Then the fledgling company lost \$85 million in a crude-oil trading scandal. Still, Lay moved Enron ahead, building separate units to find, transport, and market gas. Recalls John M. Seidl, president from 1986 to 1988: "He just stood up and said, 'We've got to figure out what's going on here.' He's always calm—asks, 'What are our options? Let's figure it out.'"

Lay also became known as an inspiring manager. "When you join Ken, you believe you are going to change the shape of the industry—that you're on a mission," says Cinergy's Rogers, who worked for him at HNG and Enron. W.J. "Jack" Bowen, a retired gas executive who employed Lay in two earlier energy posts, first at Florida Gas Co. and later at Transco Energy, says Lay motivates by being visible and giving managers freedom to operate, make mistakes, and grow. He reached out to employees at all levels. Bowen recalls: "He enjoyed getting out on the pipeline, going to compressor stations, talking to people, and making sure he really listened." Lay says

People

he gives managers autonomy because that's what he wants himself. "If you get involved in building things, you tend to like being your own boss and being responsible for it."

After its rough start, Enron took off as Lay created a nationwide marketing presence. A breakthrough was the concept of a gas "bank" enabling the company to guarantee firm, fixed-priced gas contracts to industrial customers in a market where prices vary by the minute and regional prices differ widely. Lay's economic insight was to pool scores of long- and short-term contracts to eliminate the supply risk and minimize the company's price risk. Although the bank itself didn't take off, pooling contracts and tracking their cash flows enabled Enron to turn them into financial instruments that could be aggressively traded. "It was the start of a new industry," says Jeffrey K. Skilling, a former McKinsey & Co. consultant who joined the company in 1990 to develop its trading business and who became Enron president in January.

As natural-gas deregulation hit its stride, Lay's economic training and Washington insider's grasp of deregulation—he had done a stint in the Interior Dept. in

the early 1970s—became Enron's greatest assets. "His economics background gives him an extra edge in taking apart a problem, figuring out the risks—and how to make money," says Seidl, an Interior Dept. colleague before he joined Enron. Recognizing early on that deregulation would turn the good-of-boy world of gas on its head, Lay snapped up former commissioners from the Federal Energy Regulatory Commission and regulatory lawyers who didn't wear the blinders of the old era.

"When you join Ken, you believe you are going to change the shape of the industry—that you're on a mission," says Cinergy's Rogers, an early member of Lay's team

Then, having triumphed in the U.S. with gas deregulation, Lay turned his attention in the early 1990s to creating new gas markets overseas, building pipelines and power plants in energy-starved countries. The plan was a hit in places such as Argentina and the Philippines. But in 1995, in Dabhol, India, Enron hit a wall. When the company's proposed \$2.8 billion power plant there became a symbol of too-lenient terms for foreigners, a new government created obstacles leading to a yearlong construction delay. Enron agreed to increase the project's output and reduce its cost, and the plant, where construction is wrapping up, should begin operation next year.

OREGON DUSTUP. Enron is still developing overseas projects, but other delays and rising competition have put it far behind more focused rivals, such as AES Inc. in Arlington, Va. "AES has just sprinted ahead of Enron," says an international energy analyst who declined to be named. One sign of the letdown: Enron on May 14 announced plans to purchase the outstanding shares of Enron Global Power & Pipelines LLC, taking private the 1994 initial public offering it created to draw profits from its international projects. Lay has responded in

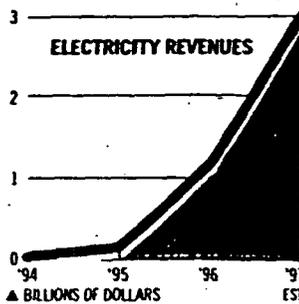


Richard Proffo, President and CEO, Computer Corp., (right) and Gary Greenfield, CEO and President, INTERSOL

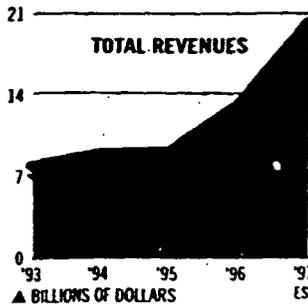
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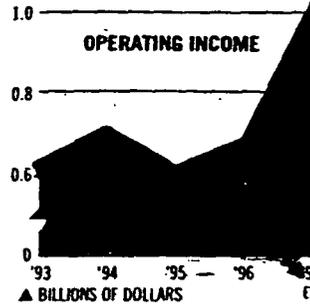
ENRON'S ELECTRICITY SALES ARE TAKING OFF...



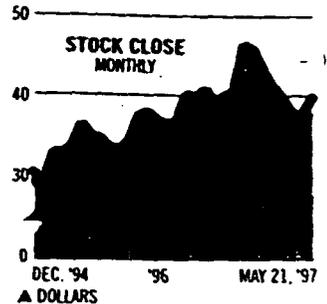
...HELPING TO PUSH UP REVENUES...



...AND EARNINGS ARE PICKING UP...



...BUT INVESTORS REMAIN SKITTISH



DATA: COMPANY REPORTS, BLOOMBERG FINANCIAL MARKETS, JEFFRIES & CO. ESTIMATES

typical fashion, emphasizing Enron's backlog of international projects even as he refocuses on the move into electricity.

But he's encountering roadblocks there as well. Earlier this year, Enron's pending \$3.2 billion bid for Oregon utility Portland General Corp. led to a bitter fight with state regulators over rate cuts the state sought for consumers. At last Lay intervened to settle the protracted fight, agreeing to compensate consumers at the rate sought by the state—but cutting the payment to Portland General stockholders.

Such dustups notwithstanding, Lay is pulling out all the stops to hasten deregulation. In April, he launched a \$25 mil-

lion-a-year nationwide ad campaign and says he'll spend up to \$200 million to argue the merits of free-market electricity. Behind the scenes, he has deployed legislative SWAT teams in front-line states such as New York, Massachusetts, and Texas. Enron lobbyists are joining with retail merchant associations and businesses such as manufacturer Cabletron Systems Inc. based in Rochester, N. H. "It seems there's an Enron person everywhere," says S. William Manteria, a vice-president at the National Retail Federation, another supporter of deregulation.

As he assaults what Enron calls the last bastion of monopoly power, Lay is planning to sell more than gas for the

stove and electricity for lights. He's promising energy-management services to help businesses switch among the cheapest fuels, "green" power for environmentally conscious homeowners, and off-peak pricing for those willing to run the dishwasher at midnight. Enron's power would flow over the existing transmission lines now controlled by utilities. But Stephen W. Bergstrom, president of rival Electric Clearinghouse Inc., a subsidiary of Houston-based NGC Corp., warns that on top of deregulation's erratic progress, customer inertia could be a problem. A decade after AT&T's long-distance telecommunications monopoly was broken up, Bergstrom notes, rivals

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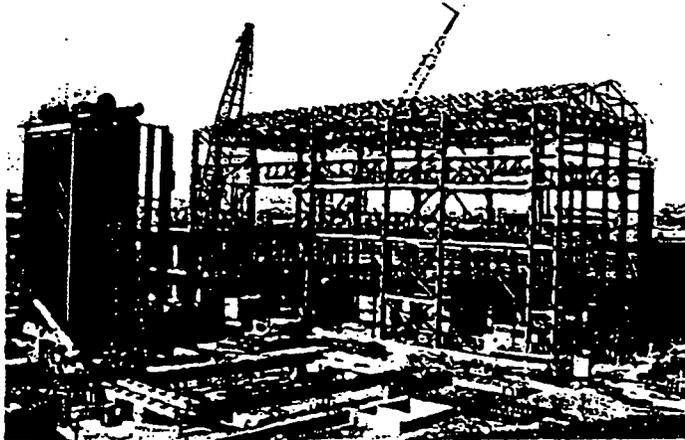


A Better Return On Information

had loosened only a third of the residential long-distance market.

Rather than ally with proven consumer marketers, Lay wants to make Enron a champion retailer. He bought an Ohio retailing outfit in 1994 and last year formed Enron Energy Services, a 600-person unit charged with developing retail services. He is also seeking new talent. In the past two years, Enron has lured 70 MBAs from such B-schools as Northwestern's J. L. Kellogg Graduate School of Management, Harvard, and Wharton. That's up from 10 MBAs prior to 1994.

The uncertainty hanging over all these moves: Will the retail market be the gold mine Lay envisions? "Yes, it's a big business," says Edward J. Casey Jr., president of Louis-



ville-based NP Energy Inc., a wholesale power marketer, "but what if competition is so fierce it does not turn out to be profitable?" Notes Howard P. Kagan, managing director at energy investment bankers McManus & Miles Inc.: "Enron enjoyed some high returns in gas deregulation, but it isn't clear that will be the case here. The prices being paid for assets are very, very high."

D.C. INSIDER. Lay says he'll overcome such hurdles by developing high-margin products and services. Just as phone companies get fat profits from services such as call-waiting, he says, Enron plans to make money on innovative services—rolling energy payments into home mortgage payments, for example, or offering longer-term, fixed contracts to offset the risk of dramatic price changes.

In a way, Lay, a lifelong hard worker, has been training for this drawn-out contest since childhood. Lay's father was a Baptist minister as well as a farmer, and both parents valued education. When Lay's older sister exhausted their savings with one year away at college, they moved close to Columbia, home of the University of Missouri, so the kids could live at home and attend classes. Lay's father went to work for a tractor dealership, his mother for a bookstore. "That shows you the benefit, support, and love we got from the family," says Lay.

Lay entered college intending to major in political science but shifted his sights to economics after taking a course taught by Professor Pinkney Walker, who be-

came his mentor and later, as a federal regulator, a Washington ally. After earning bachelor's and master's degrees, Lay in 1965 joined Humble Oil, the predecessor to Exxon Corp., as an economist. To fulfill his deferred Vietnam service, he entered U.S. Navy Officer Candidate School expecting to be assigned to a supply post. But Walker intervened, and he was sent to the Pentagon, where he was put to work devising a modern account-

ing system for military purchases. There, he exhibited a will to get his agenda passed, even at the expense of his ego: Because the project required senior officers to work for him, Lay cajoled an older, higher-ranking officer to act as his proxy in dealing with Pentagon brass, and his proposals were adopted. Later, he moved to the Interior Dept. as Deputy Under Secretary for energy matters.

When he left Washington, Lay had an abiding respect for politicians and wide contacts in the world of federal regulation, both of which served him well once he took over at Enron. But his career-boosting assignments were a matter of chance, he says: "I've never had a life plan, or a 10-year or 5-year plan. It's a

Lay quickly figured out that deregulation would turn the good-ol'-boy world of gas on its head—so he snapped up former energy regulators who didn't wear the blinders of the old era

matter that I've gone through life and a lot of good things happened to me."

These days, Lay recharges by running two or three miles a day, exploiting the solitude of jogging "to get the creative juices flowing." He and his second wife, Linda, kick back in a beach house on Galveston Island, Tex., where he gets away from it all on his 21-foot Boston Whaler. The Lays, who between them have five adult children, also have a winter home in Aspen, Colo., where they hit the slopes at least three times a year.

RISKY TURF

Politics delayed the completion of Enron's power plant in Dabhol, India, and slowed down Lay's global push

Since his Washington days, Lay has kept strong ties to players in GOP and Democratic circles. In energy, "we can't ignore our public officials even if we want to," he says. So he's an active visitor in Washing-

ton—and an active fund-raiser at home. Among Enron's directors are former Commodity Futures Trading Commissioner Wendy L. Gramm (Phil Gramm's wife) and former Deputy Treasury Secretary Charles E. Walker. Among Democrats, Lay counts Nebraska Senator Bob Kerrey and former Treasury Secretary Lloyd Bentsen as friends.

RELENTLESS. But politics is incidental to the larger field Lay increasingly wants to play on. Electricity could dramatically enlarge the scale of what Enron has been doing. The wholesale natural-gas market Lay helped spawn is now worth \$46 billion. Adding retail gas and electricity creates a market more than five times that—the reason why Lay's deregulation campaign is so relentless. For the pivotal California debate, Enron recruited technology giants Lucent Technologies, Hewlett-Packard, and Schlumberger to lobby for suppliers' right to install their own electric meters. Utilities had fought to retain existing meters as a cost savings. But Enron and its allies argued that unless new suppliers could install meters, services such as off-peak pricing or remote reading would be severely limited. They won.

That's the kind of success Lay needs to keep things on track. "We believe in markets," he says. "Sometimes there's an aberration. But over time, markets figure out value." This is one free-market advocate who can't afford to let America's last big monopoly go unchallenged.

By Gary McWilliams in Houston