Memo

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To	The Files
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Date	November 9, 2000, as amended, October 12, 2001
Subject	Raptor 3 Transaction

Background
During the third quarter Enron structured a transaction (Raptor 3) that effectively produces the same results as the Raptor I, II and IV transactions that were previously executed during the year. Although the structure of Raptor 3 is slightly different, it provides Enron with additional capacity to hedge its exposure to certain investments.

Transaction Structure
As detailed in the attached diagram (Exhibit I), EES created EES Warrant Trust (the "Trust") with Class A and Class B Member Interests. The Class A Member Interest represents 100% of the voting interest and .01% of the economic interest of the Trust and the Class B Member Interest represents 99.99% of the economic interest. EES transferred to the Trust 120,589 warrants. that are convertible into 24,117,800 million shares in common stock of The New Power Company ("TNPC"). in return for the Class A Interest. Pronghorn, a wholly owned subsidiary of EES, holds the B-interest in the Trust.

Pronghorn transferred the Class B Member Interest, which meets the criteria of a financial asset, to a third party, Porcupine LLP. Enron's basis in the underlying assets of the Class B Member Interest, which are warrants, was $-0- prior to the transfer. In return for the Class B Member Interest, Porcupine issued a $259 million note receivable (the "Note") to Pronghorn that is solely collateralized by the Class B Member Interest.

Porcupine LLC (Porcupine) is an SPE that is capitalized by LJMII, who serves as the managing member and Pronghorn, who has a preferred LP interest. LJMII is a related party entity (See LJMII memo in 4th quarter 1999 file for an explanation of the relationship). The capital contribution of $30 million made by LJMII was contributed from equity of the entity and represents 3% of Porcupine's maximum exposure. Therefore the initial capital requirement was met. (See Exhibit II for the initial 3% test.)

Under the transaction structure shown in Exhibit I, Enron, Pronghorn and Porcupine executed a series of agreements that result in the right for Pronghorn to execute equity price swap transactions. This structure could serve as a hedging vehicle of certain investments held by Enron entities.

In addition to the transfer of the Class B Member Interest, Porcupine received a $50 million interest bearing note receivable, payable quarterly @ 7%, and a capital contribution of $1,000 from Pronghorn. Coupled with the $259 million note receivable, Pronghorn received a non-voting preferred limited liability company interest in Porcupine, and a $50 million interest bearing note receivable, payable semi-annually @ 7% from Porcupine.

The obligations under this transaction structure will terminate upon the earliest occurrence of one of the following: (1)September 27, 2005, (2)the date either Pronghorn or Porcupine wish to terminate the agreement provided the proper notice is given, and (3)a default event, as defined in the various transaction documents. Termination of this agreement by one of the above circumstances only terminates Pronghorn's right and Porcupine's obligation to execute additional derivatives. Previously executed derivative transactions will remain in effect and do not automatically terminate upon termination of the structure.

Accounting Issues

The unique accounting issue with the Raptor 3 structure is the accounting for the transfer of the Class B Member Interest. Although the Class B Member Interest qualifies as a financial asset and all the criteria of paragraph 9 of SFAS 125 "Financial Assets and Liabilities: Sales, Transfers & Extinguishments" are met, sales treatment is not appropriate. Per paragraph 33-1 of the AA Interpretation of SFAS 125, because the Note "is solely collateralized by the Class B Member Interest without recourse to the third-party investor, then, in effect, the Note represents a beneficial interest in the transferred asset that precludes sale accounting pursuant to paragraph 9 to the extent of the beneficial interest retained." Thus, the Note is treated as a retained interest and the carrying value of the retained interest is $-0- although the fair value of the retained interest is valued at approximately $259 million.

Other accounting issues related to this structure are identical to those within the other Raptor structures; therefore see the detailed discussion of accounting issues in the Raptor 1 memo.