

STATEMENT OF RAYMOND C MILES

THANK YOU, MR CHAIRMAN AND MEMBERS OF THE  
COMMITTEE.

SINCE MARCH 2000, I HAVE BEEN THE SENIOR ANALYST AT SALOMON SMITH BARNEY FOR THE INTEGRATED POWER AND NATURAL GAS SECTOR. BEFORE THAT, AND SINCE 1997, I WAS THE SENIOR ANALYST FOR THE INTEGRATED POWER AND NATURAL GAS SECTOR AT SCHRODER. I COVERED ENRON AT BOTH SCHRODER AND AT SALOMON SMITH BARNEY.

AS AN ANALYST, MY JOB IS TO REPORT TO INVESTORS ABOUT BUSINESS AND MARKET DEVELOPMENTS IN MY INDUSTRY SECTOR. I ALSO DEVELOP AND COMMUNICATE TIMELY AND DETAILED RECOMMENDATIONS ABOUT PARTICULAR COMPANIES IN THAT SECTOR.

IN ORDER TO DO THIS JOB, I WORK WITH PUBLICLY AVAILABLE INFORMATION TO DEVELOP FINANCIAL MODELS, EARNINGS ESTIMATES, AND PRICE TARGETS FOR THE STOCKS OF THE COMPANIES THAT I FOLLOW. I ALSO FOLLOW AND ANALYZE INDUSTRY TRENDS, SUCH AS POWER PRICES, SPARK SPREADS, GENERATING CAPACITIES, THE TREND TOWARD DEREGULATION, AND SIMILAR ITEMS. PART OF MY JOB IS TO FORECAST THE IMPACT ON INDIVIDUAL STOCK PRICES OF THE SUPPLY AND DEMAND FOR ELECTRICITY AND NATURAL GAS, THE OVERALL HEALTH OF THE NATIONAL ECONOMY AND SUCH VARIABLES AS THE [WEATHER](#). IN PERFORMING THESE ANALYSES, I MAKE USE OF COMPUTER MODELING TECHNIQUES, ECONOMIC THEORY, AND OTHER TOOLS.

AT THE HEART OF MY WORK ARE THE FINANCIAL STATEMENTS OF THE COMPANIES THAT I FOLLOW. I REVIEW, AND ANALYZE, A COMPANY'S FINANCIAL STATEMENTS, PRESS RELEASES, AND PUBLIC FILINGS BEFORE MAKING A RECOMMENDATION. I ALSO GO BEYOND THE PAPER RECORD, AND PARTICIPATE IN REGULAR CONFERENCE CALLS HELD FOR ANALYSTS BY SENIOR AND FINANCIAL MANAGEMENT OF THE COMPANIES THAT I COVER. I VISIT THE COMPANIES, AND CALL ON COMPANY PERSONNEL TO OBTAIN CLARIFICATION AND CONTEXT REGARDING THE COMPANY'S FINANCES AND BUSINESS PROSPECTS.

**ALTHOUGH I COLLECT AND ANALYZE A GREAT DEAL OF INFORMATION, I MUST STRESS THAT ALL OF THE INFORMATION I USE IS AND MUST BE PUBLIC INFORMATION. UNDER SEC RULES, A COMPANY CANNOT MAKE SELECTIVE DISCLOSURE OF CONFIDENTIAL INFORMATION ONLY TO CERTAIN ANALYSTS.**

**ALSO, INVESTMENT BANDS THAT TRADE SECURITIES ESTABLISH INFORMATION BARRIERS, SO THAT CONFIDENTIAL INFORMATION THAT MAY BE KNOWN TO A COMPANY'S BANKERS DOES NOT REACH THE ANALYSTS AND SALES PERSONS WHO MAY BE RECOMMENDING OR TRADING THAT COMPANY'S STOCK- THEREFORE, WHEN I ISSUE A REPORT ON A COMPANY ON BEHALF OF SALOMON SMITH BARNEY, I AM PREVENTED BY RULES AND REGULATIONS, AS WELL AS BY FIRM POLICY, FROM ASKING MY BANKING COLLEAGUES ABOUT THEIR NONPUBLIC DEALINGS WITH THE COMPANY THAT IS THE SUBJECT OF MY REPORT.**

**IF AN ANALYST IS EVER BROUGHT "OVER THE WALL" TO RECEIVE NONPUBLIC INFORMATION, HE IS NOT PERMITTED TO MAKE RECOMMENDATIONS WITH RESPECT TO THE PARTICULAR COMPANY UNTIL THE INFORMATION LEARNED BY THE ANALYST BECOMES STALE OR HAS BEEN DISCLOSED PUBLICLY.**

**WITH THIS BACKGROUND, I WOULD LIKE TO SUMMARIZE FOR THE COMMITTEE MY REPORTS CONCERNING ENRON.**

**I INITIATED COVERAGE OF ENRON IN JANUARY 1998, WHEN I WORKED AT SCHRODER. I DEVELOPED MY OWN METHODOLOGY FOR FORECASTING ENRON'S EARNINGS. BASED ON MY ANALYSIS OF THE COMPANY'S REPORTED FINANCIAL RESULTS AND BUSINESS PROSPECTS, I PLACED ENRON ON THE FIRM'S "RECOMMENDED LIST."**

**IT WAS MY PROFESSIONAL OPINION THAT ENRON WAS WELL POSITIONED TO TAKE ADVANTAGE OF THE DEREGULATION OF THE ELECTRICITY INDUSTRY\_ BY THAT TIME, ENRON HAD BUILT A REPUTATION AND ACHIEVED DOMINANCE IN THE COMPETITIVE NATURAL GAS INDUSTRY.**

**IT WAS ALSO MY PROFESSIONAL OPINION THAT ENRON'S CORE MERCHANT ENERGY BUSINESS MODEL WAS SOUND. UNDER THAT MODEL, ECONOMIES OF SCALE, INNOVATIVE MARKETING AND STRINGENT RISK MANAGEMENT COULD ALLOW ENRON TO OFFER CHEAPER AND MORE CUSTOMIZED ENERGY-RELATED SERVICES THAN THOSE PROVIDED BY ITS COMPETITORS. I BELIEVED THAT ENRON'S OBJECTIVE -- USING RISK MANAGEMENT PRODUCTS AND LONG-TERM CONTRACTS TO ADDRESS THE NEEDS OF WHOLESALE ENERGY CUSTOMERS IN THE VOLATILE COMMODITY MARKETS - WAS A**

SUCCESSFUL PARADIGM. THE STRENGTH OF ENRON'S REPORTED RESULTS APPEARED TO CONFIRM THE CORRECTNESS OF THIS OBJECTIVE AND ENRON'S SUCCESS IN ACHIEVING IT.

WHILE I WAS AT SCHRODER, ENRON'S PERFORMANCE IN THE GAS AND ELECTRICITY COMMODITY MARKETS WAS DAPRESSIVE. I BELIEVED THAT ENRON'S CORE PLATFORM COULD BE APPLIED TO OTHER INEFFICIENT MARKETS FOR COMMODITIES THAT WERE DELIVERED OVER A NETWORK, SUCH AS BANDWIDTH.

IN MARCH 2000, JUST BEFORE OUR FIRMS MERGED, I JOINED SALOMON SMITH BARNEY AS A SENIOR ANALYST. I ISSUED MY FIRST REPORT ON ENRON AT SALOMON SMITH BARNEY IN APRIL 2000. AT THAT TIME, I RATED ENRON AS A "1H," WHICH MEANS A BUY RECOMMENDATION, WITH HIGH RISK ATTACHED TO IT. THE "HIGH RISK" NOTATION REFERRED TO BUSINESS RISK SUCH AS ENRON'S POSITION AS THE FIRST MOVER IN NEW MARKETS.

I CONTINUED TO RECONEVIEND ENRON DURING THE REST OF **2000** AND WELL INTO 2001.

IN A REPORT DATED AUGUST 14, 2001, SHORTLY FOLLOWING AN ANNOUNCEMENT THAT DAY THAT ENRON'S CEO, JEFF SKILLING, HAD RESIGNED, I NOTED THAT ALTHOUGH SKILLING HAD BEEN THE ARCHITECT OF THE COMPANY'S MERCHANT ENERGY STRATEGY, I BELIEVED THAT THE SOUNDNESS OF ENRON'S BUSINESS MODEL WOULD SUSTAIN THE COMPANY. I NOTED, HOWEVER, THAT MY POSITIVE OPINION ASSUMED THAT THERE WOULD BE NO FURTHER DISCLOSURES OF MATERIAL EVENTS.

BEGINNING IN OCTOBER 2001, ENRON BEGAN TO MAKE PUBLIC DISCLOSURE OF THE TRANSACTIONS AND FINANCIAL RESTATEMENTS AND WRITEOFFS THAT EVENTUALLY LED TO ITS BANKRUPTCY. I MADE TIMELY REPORTS AS THE SIGNIFICANT FACTS WERE ANNOUNCED.

ON OCTOBER 16, 2001, I NOTED ENRON' S DECISION TO TAKE \$2.2 BILLION IN CHARGES, BUT REPORTED THAT THE CHARGES, AS DESCRIBED BY ENRON, DID NOT RELATE TO ITS CORE MERCHANT ENERGY BUSINESS. ACCORDINGLY, I CONTINUED TO RATE THE COMPANY AS A "BUY," WITH "HIGH RISK."

ON OCTOBER 19, 2001, WHEN ENRON STOCK WAS STILL TRADING AT OVER \$32 PER SHARE, I ISSUED A REPORT WHICH NOTED THAT THE COMPANY'S "COMPLEX OFF-BALANCE SHEET VEHICLES HAVE RAISED CONCERN," THAT FURTHER WRITE-OFFS WERE LIKELY, AND THAT MOODY'S HAD PUT ENRON'S SENIOR DEBT ON REVIEW FOR A POSSIBLE

**DOWNGRADE. I ALSO NOTED THAT, WHILE I STILL CARRIED ENRON AS A BUY, "WE ARE EVALUATING THESE ISSUES:"**

**IN A SUPPLEMENTAL REPORT ISSUED THAT SAME DAY, I SIGNALLED THAT MY VIEW OF ENRON COULD CHANGE "GIVEN THE COMPLEXITY OF ITS OFF-BALANCE SHEET FINANCING VEHICLES" AND - THE UNCERTAINTY AND MAGNITUDE OF POTENTIAL WRITE-OFFS."**

**I DOWNGRADED MY RATING TO 1-S, OR "BUY, SPECULATIVE," ON OCTOBER 25, AND LOWERED IT AGAIN TO 3-S, OR "NEUTRAL, SPECULATIVE," ON THE FOLLOWING DAY. IN THAT OCTOBER 26 REPORT, I NOTED THAT MANAGEMENT HAD TO ADDRESS ISSUES AS TO CREDIT AND LIQUIDITY, AND PARTICULARLY THE USE OF OFF-BALANCE SHEET FINANCING.**

**GIVEN EVERYTHING THAT HAS HAPPENED SINCE LATE OCTOBER, IT IS APPROPRIATE TO QUESTION WHY THE ANALYST COMMUNITY - AT LEAST THE VAST MAJORITY OF ITS MEMBERS - MISSED THE MARK ON ENRON.**

**THE SHORT ANSWER, MR. CHAIRMAN, IS THAT WE NOW KNOW WE WERE NOT PROVIDED WITH ACCURATE AND COMPLETE INFORMATION.**

**A COMPANY'S PUBLIC CERTIFIED FINANCIAL STATEMENTS ARE THE BEDROCK OF ANY ANALYSIS OF THE VALUE OR THE PROSPECTS OF THAT COMPANY'S STOCK**

**IT IS NOW COMMON KNOWLEDGE THAT ENRON'S FINANCIAL STATEMENTS, WHICH HAD BEEN CERTIFIED BY ITS INDEPENDENT AUDITOR, DID NOT REPRESENT THE COMPANY'S TRUE FINANCIAL CONDITION. THE ANALYST COMMUNITY RELIED ON THOSE CERTIFIED FINANCIAL STATEMENTS, WHICH ENRON ITSELF HAS SINCE RESTATED.**

**WHEN ANALYSTS LOOK AT CERTIFIED FINANCIAL STATEMENTS, WE ASSUME THAT THEY ARE ACCURATE, AND THAT THEY FAIRLY AND COMPLETELY PRESENT THE COMPANY'S FINANCIAL CONDITION. IN ENRON'S CASE, THAT CORE ASSUMPTION TURNED OUT TO BE INVALID.**

**AS ANALYSTS, OUR REPUTATION, AND ULTIMATELY OUR LIVELIHOOD, DEPENDS ON OUR MAKING TIMELY AND CORRECT CALLS. I DID NOT WANT TO GET THIS WRONG. I RECOMMENDED ENRON'S STOCK BECAUSE I BELIEVED IN THE COMPANY'S CORE BUSINESS MODEL, AND I TRUSTED THE INTEGRITY OF THE COMPANY'S CERTIFIED FINANCIAL STATEMENTS AND THE REPRESENTATIONS OF ENRON'S MANAGEMENT. AT ALL TIMES, I EXERCISED, AND COMMUNICATED TO INVESTORS MY**

BEST PROFESSIONAL JUDGMENTS, BASED ON THE INFORMATION  
THAT WAS AVAILABLE TO ME.

THANK YOU, MR. CHAIRMAN AND MEMBERS OF THE  
COMMITTEE.

**Raymond C Niles, Director (212) 816-2807 INTEGRATED POWER & NATURAL GAS**

**Mr. Niles is director of the Integrated Power/Gas research team at Salomon Smith Barney, and oversees coverage of Power Producers, Energy Merchants and Integrated Utilities. He joined SSB in 2000 from Schroders, where he covered this sector for three years. Prior to that, he worked at Smith Barney (electric utilities) and Goldman Sachs (retailing). Mr. Niles holds an NLBA in Finance and Economics from New York University. Mr. Niles' research focuses on the growth opportunities emerging from deregulation of the electricity industry, the largest ever to be deregulated. Coverage focuses on electric energy from an *integrated* electricity/gas perspective, including utilities, power generation and merchant energy.**