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ENRON: THE JOINT COMMITTEE ON TAXATION'S INVESTIGATIVE REPORT Testimony before the Senate Committee on Finance (108th Congress – First Session) S. Hrg. 108-117 February 13, 2003

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[110] Good morning Chairman Grassley and members of the Committee. I appreciate the opportunity to be a part of today's hearing regarding the Joint Committee on [111] Taxation's (JCT) report about Enron. I would like to make some comments regarding tax shelters, disclosure of taxable income, and Enron.

I. Tax Shelters

Given what appears to be the ever increasing use of overly aggressive tax shelters it is fairly clear that some shelter promoters and business managers have not demonstrated the ability to determine when a tax shelter crosses the line from a legitimate and ethical tax planning device to an abusive tax shelter. Without some established guidance of where this line is, or where it should be, the line of demarcation will probably continue to drop. On this 'slippery slope,' one shelter will be compared to another in terms of its legality. The prevalence of abusive corporate tax shelters potentially puts corporate managers in compromising positions. They are faced with this question: should management elect to utilize a tax shelter of questionable legal merits in order to better compete with foreign competitors that may have lower tax costs and/or with domestic firms that engage in more aggressive tax sheltering transactions? There needs to be a line to evaluate what is acceptable and what is not acceptable with respect to tax shelters. Given the myriad of facts associated with various court decisions and the inability of tax shelter promoters to self-regulate, legislation may be the only way to establish this line. However, we also must ensure that U.S.-based firms are not placed at a competitive disadvantage in the international economy due to the U.S. income tax system.

II. Disclosure of taxable income

Under current accounting rules (GAAP) and SEC standards there is no requirement that a corporation disclose its reported U.S. taxable income. Statement of Accounting Standards No. 109 (SFAS 109) specifies the method--deferred tax accounting--to compute and to report tax expense for financial accounting purposes. Further, SFAS 109 and SEC pronouncements specify items that should be disclosed in the financial statements. Unfortunately, it is often difficult to accurately estimate a corporation's taxable income from the information provided in the financial statements.¹ Modifying the current disclosure rules to require the disclosure of U.S. taxable income might allow investors, creditors, and other interested parties to assess the extent to which a corporation uses abusive tax shelters to reduce taxable income and/or aggressive accounting methods to increase reported earnings.

Since corporate managers generally have incentives to report higher financial accounting income and lower taxable income, one measure can be used to evaluate the other. While differences may not necessarily indicate abusive tax sheltering or aggressive financial reporting, large differences are consistent with such activity and should result in additional scrutiny of the reported income numbers by outside parties. Given that the magnitude of the divergence between taxable and financial accounting income could raise a red flag, management would have an incentive to voluntarily explain items that created the difference. Failure to adequately explain the difference could result in skepticism about management and the reported income amount and could increase the corporation's cost of capital and negatively affect the corporation's stock price.

Thus, the disclosure of the best estimate of taxable income in the financial statements could mitigate both aggressive financial reporting and abusive tax sheltering. The next section compares Enron's reported pre-tax book income and an estimate of Enron's taxable income. Over the 1996-1999 period the difference between Enron's reported pre-tax book income and taxable income estimate was substantial.

¹ Robert Willins, an accounting analyst for Lehman Brothers, states that "...figuring out how much tax a company actually pays is almost impossible" and that "tax disclosure is just inscrutable." [from *Tax Dodging: Enron Isn't Alone*, by Gleckman, H., D. Foust, M. Arndt, and K. Kerwin, Business Week, March 4, p. 40]. Willins also states that the tax information provided in financial statements under SFAS 109 is a "total black box" and that he has never met a stock analyst who has any idea what deferred tax accounting is. [from *Two Birds, One Stone: Would Firm Inflate Earnings if it Meant More Taxes*, by Carnahan, I. and J. Novack, Forbes Magazine, March 4, 2002, p. 40].

III. Enron

Since there are no requirements that corporate tax returns be publicly disclosed, publicly available information, such as 10-K filings, need to be utilized to draw inferences about a corporation's tax position. This analysis (see attached table) is completed using data from Enron's financial statements and relies upon the integrity of the reported tax-related numbers.

From Enron's financial statements, it appears likely that Enron paid only a small amount of federal income taxes over the 1996-2000 period. An analysis of Enron's income tax disclosures reveals that Enron generated tax net operating losses (i.e., negative taxable income) in each year from 1996-1999. This observation is based on the fact that Enron discloses a U.S. tax net operating loss (NOL) carryforward [112] in 1996 (\$222 million) and that the NOL increases each year through 1999.² Absent a corporate acquisition, a tax NOL carryforward will increase only if taxable income is negative for the year. Since it appears Enron's regular taxable income was negative for each year during the 1996-1999 period, it is likely Enron paid little or no regular corporate income tax during these years. The fact that the reported NOL falls from \$2.9 billion at the end of 1999 to \$65 million at the end of 2000 implies that Enron's taxable income for 2000 was \$2.835 billion (1999 NOL carryforward of \$2.900 billion less 2000 NOL carry-forward of \$65 million).³ However, Enron was able to use the \$2,900 million NOL to offset its 2000 taxable income and therefore likely paid no regular tax in 2000. It appears that Enron paid some federal tax due to the alternative minimum tax provisions.⁴ An analysis of Enron's tax footnote suggests that Enron actually paid at least \$34 million in federal alternative minimum tax for the 2000 taxable year.⁵ Evidence of Enron's \$34 million AMT payment comes from the fact that Enron's disclosed AMT credit carryforward increased from \$220 million in 1999 to \$254 million in

² The tax net operating loss rules provide for a carry-back and carry-forward period to eliminate inequities caused by the annual tax-paying period when income fluctuates year-to-year. A tax rebate generated by a NOL carryback simply returns a taxpayer's previously paid taxes (without any interest earned on the tax payment).

³ The taxable income could exceed this estimate if the remaining \$65m NOL relates to an acquired entity. If this is the case, the remaining NOL could be subject to restrictions under IRC §382 which limit the extent to which acquired NOLs can offset taxable income of the acquiring company (i.e., Enron).

⁴ The AMT is a parallel income tax system to the regular income tax system. AMT is paid in years where the tax liability under the AMT system exceeds that under the regular tax system.

⁵ In a recent article in the Washington Post, Karen Denne, an Enron spokeswoman, states that Enron paid \$112 million in federal income taxes in 2000 [G. Kessler, *Enron Appears to Have Paid Taxes*, Washington Post, Feb. 3, 2002, P. A10).

2000.⁶ In addition to the AMT payment in 2000, analysis of changes to the AMT credit carryforward suggests that AMT was paid in 1996 and 1997 (see income tax carryforwards section of the attached table).⁷ Thus, it appears Enron paid some federal income tax, albeit a relatively small amount, in three of the five years during the 1996-2000 period. The net taxes paid due to the AMT during the 1996-2000 period is, based on the disclosed information, probably around \$23 million (compare the 1995 AMT credit carryforward of \$231 [not reported on the table] and the 2000 AMT credit carryforward of \$254).

The above federal tax payment analysis suggests that Enron, despite recording substantial pre-tax financial accounting income, paid very little federal income taxes during the 1996-2000 period. It is common to have a difference between taxable income and financial accounting income because each system has a different set of objectives and set of rules. What sets Enron apart, however, from a more typical situation are the magnitudes of the annual differences between taxable and financial accounting income. While corporations are not required to disclose taxable income, corporations with significant NOL carryforwards are supposed to disclose the amount of such carryforwards and also whether or not they are subject to tax law restrictions. So for firms with an NOL carryforward, an approximation of reported U.S. taxable income is available by examining the changes in the disclosed NOL carryforward amount.

I use the changes in the reported U.S. NOL to measure Enron's annual U.S. taxable income. The attached table shows the regular U.S. tax NOL for each year during the 1996-2000 period and an implied U.S. taxable income based on these changes. The estimate of Enron's taxable income for each year during the 1996-99 period (beginning with 1996) is -\$222, -\$523, \$-655, and -\$1,500 million. These estimated taxable income figures sharply diverge from the reported pre-tax book income amounts during these same years: \$855, \$15, \$878, and \$1,128 (see table). The difference between estimated U.S. taxable income and reported pre-tax book income for the 1999 year alone is a staggering \$2.628 billion (see table). The cumulative difference over the 1996-1999 period is nearly \$5.8 billion. Almost as stunning as the 1996-99 difference is the reversal of this trend in 2000. Enron's implied U.S. taxable income for the 2000 year is \$2,835 million (see table), while reported pre-tax total book income is \$1,413 million. Thus, fiscal

⁶ In years where the AMT exceeds the regular corporate income tax a credit is generated that can be used in years in which the regular corporate income tax exceeds the AMT.

⁷ The AMT credit carryforward disclosed in the 1995 annual report was \$231m.

2000's estimated taxable income exceeds reported pre-tax book income by approximately \$1,400 million.

As mentioned above, taxable income may differ from financial accounting income for reasons other than abusive tax shelters and aggressive financial reporting. One important difference between financial accounting and U.S. tax accounting deals with the overall reporting entity. For financial accounting purposes, controlled entities [113] are generally consolidated for financial statement purposes (unless they are unconsolidated special purpose entities). For tax purposes, however, only entities where the parent controls at least 80% are consolidated and foreign subsidiaries are generally not included in the consolidated U.S. tax return. This does not mean that foreign operations of U.S.-based companies permanently escape U.S. taxation. The timing of the tax consequences associated with foreign operations depends on the *type* of entity that is used to conduct the foreign operations. If the entity is not classified as a corporation for U.S. tax purposes, any income (or loss) from the entity flows to the U.S. parent's tax return on an annual basis. If the entity is classified as a corporation for tax purposes, the U.S. tax is deferred until the foreign earnings are actually remitted to the US parent or deemed remitted through the operation of Subpart F (applies to passive sources of income). Unfortunately, it is not a simple exercise to compute how much foreign income is included on the U.S. parent's tax return using financial statement data. However, even if all \$1,675 million of Enron's foreign source income during the 1996-99 period is excluded from pre-tax financial accounting income (to make it comparable to taxable income if no foreign earnings are subject to tax), the difference between the foreign-income-adjusted pre-tax income and taxable income is still \$4,125 million.⁸ Another interesting aspect of Enron's international operations is that while recording positive financial accounting income from foreign sources, Enron's tax footnote shows that non U.S. tax net operating losses (i.e., foreign NOLs) increased to \$874 million at the end of 1999 (\$1,200 million at the end of 2000). Thus, there also appears to be a large difference between reported foreign income and foreign taxable income.

A second significant difference between taxable income and financial accounting income relates to the treatment of certain stock options. For tax purposes, a deduction is allowed for the difference between the exercise price of a nonqualified stock option and the stock's price the day the option is exercised. Under the permissible stock option accounting method used by Enron

⁸ Enron's reported balance for foreign earnings deemed permanently reinvested (\$1,200 million in 1999) suggests that much of Enron's foreign earnings were not repatriated to the U.S.

(and most corporations), no expense is recognized in connection with most stock option awards. The tax benefit associated with the exercise of incentive stock options is reflected in stockholder's equity. The stock option difference, however, does not explain the huge difference between tax and financial accounting income during the 1996-1999 period (see implied federal tax deduction from stock options on the table). Based on a computed stock option tax benefit figure, the total tax deduction associated with stock options over the 1996-99 period was \$594 million. Thus, stock option expense represents only a small portion of the \$5.8 billion cumulative 1996-99 book-tax difference.

It is not clear what is responsible for the large divergence between financial accounting and taxable income. What is relatively clear is that Enron, given its large regular tax net operating loss during the 1996-99 period, had little incentive to further reduce taxable income. Thus, it seems likely that Enron's large divergence between taxable income and reported income is primarily due to aggressive financial reporting and not abusive tax shelters. The difference could be partly due to the different revenue recognition rules for tax and financial accounting purposes. For financial accounting purposes, Enron used estimates to value long-term energy contracts and changes to these estimated values affected reported book income. In contrast, for tax purposes, gains and losses on these contracts would not have been recognized until the contract was settled.

IV. Summary

Is it possible that information disclosed in tax footnotes could be used to determine firms that are using abusive tax shelters and/or making aggressive financial accounting reporting decisions? Could the disclosure of reported taxable income improve investor ability to detect abusive tax shelter and aggressive financial reporting? If Enron's taxable income was disclosed more prominently, would Enron's aggressive financial reporting practices been detected sooner?

Given what we know now about Enron (it appears to have lost substantial sums of money) it is not surprising that it paid very little in taxes over the 1996-2000 period. What is surprising is the magnitude of the divergence between taxable income and reported book income for Enron. More surprising is the fact that information necessary to compute this divergence was effectively disclosed each year but it raised no red flags. Taxable income is likely to be a more conservative measure of income than financial accounting income because an extra dollar of

taxable income costs \$0.35 in taxes. In Enron's case, the estimated taxable income figures paint a considerably different picture than the reported book income figures do.

[114] If stock analysts utilized information contained in the tax footnote, or alternatively if Enron's tax information was made more transparent, maybe Enron's financial accounting gimmicks could have surfaced earlier. Who knows how much wealth could have been preserved by earlier detection? Perhaps analysts and investors should become better equipped to use information in the tax footnote. Perhaps the FASB or SEC should mandate improved tax disclosures and/or require the disclosure of U.S. taxable income. How many more Enrons are out there? Perhaps the tax footnote is a useful place to begin this examination.

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Enron Inc. Federal Income Tax Analysis - J Seida

amounts in millions of dollars

	2000	1999	1998	1997	1996
<i>Reported pretax book income:</i>					
U.S.	640	357	197	96	551
Foreign	773	771	681	(81)	304
Total	<u>1,413</u>	<u>1,128</u>	<u>878</u>	<u>15</u>	<u>855</u>
<i>Reported book income tax expense:</i>					
Current					
Federal	112	29	30	29	16
State	22	6	8	9	11
Foreign	93	48	50	46	37
Total current	<u>227</u>	<u>83</u>	<u>88</u>	<u>84</u>	<u>64</u>
Deferred					
Federal	13	(159)	(14)	(39)	174
State	14	23	11	(42)	(1)
Foreign	180	157	90	(93)	34
Total deferred	<u>207</u>	<u>21</u>	<u>87</u>	<u>(174)</u>	<u>207</u>
Total book income tax expense	<u>434</u>	<u>104</u>	<u>175</u>	<u>(90)</u>	<u>271</u>
<i>Cash paid for income taxes (net of refunds)</i>	62	51	73	68	89
<i>Income tax carryforwards:</i>					
Regular U.S. tax net operating loss (NOL)	65	2,900	1,400	745	222
Alternative minimum tax credit	254	220	238	247	235
Non-U.S. net operating loss	1,200	874	353	300	nr
<i>Implied U.S. taxable income before NOL carry-back or carry-forward^a</i>	2,835	(1,500)	(655)	(523)	(222)
<i>Estimated federal tax payment^b</i>	34	0	0	12	4
<i>Difference between pre-tax book income and implied U.S. taxable income</i>	(1,422)	2,628	1,533	538	1,077
<i>Federal income tax benefits from stock options:</i>	(390)	(134)	(43)	(12)	(19)
<i>Implied federal tax deduction (tax benefit/.35)^c</i>	(1,114)	(383)	(123)	(34)	(54)
<i>Deferred tax asset (liabilities):</i>					
Assets:					
AMT credit carryforward	254	220	238	247	235
NOL carryforward	369	1,302	605	361	(a)
Other	189	188	111	218	143
Total deferred tax assets	<u>812</u>	<u>1,710</u>	<u>954</u>	<u>826</u>	<u>378</u>
Liabilities:					
Depreciation, depletion, and amortization	(1,813)	(1,807)	(1,940)	(2,036)	(1,622)
Price risk management activities	182	(1,133)	(645)	(457)	(536)
Other	(963)	(782)	(700)	(588)	(638)
Total deferred tax liabilities	<u>(2,594)</u>	<u>(3,722)</u>	<u>(3,285)</u>	<u>(3,081)</u>	<u>(2,796)</u>
Net deferred tax assets (liabilities)	<u>(1,782)</u>	<u>(2,012)</u>	<u>(2,331)</u>	<u>(2,255)</u>	<u>(2,418)</u>

nr - indicates amount not reported.

^a - the implied U.S. taxable income is computed by examining changes in the NOL c/f amount (the amount for 1996 reflects

the minimum reported current year NOL since it is possible some of the 1996 NOL was carried-back to prior years).

^b - the estimated U.S. corporate income tax for 1996, 1997, and 2000 is due to the alternative minimum tax.

^c - the implied tax deduction for stock option is computed as the reported or estimated stock option tax benefit divided by 35%.

Unless otherwise stated the information is from Enron's annual 10-Ks (prior to restatements).

Enron Corp. and Subsidiaries Consolidated Income Statement

(In millions, except per share amounts)	Year ended December 31,		
	2000	1999	1998
Revenues			
Natural gas and other products	\$ 50,500	\$19,536	\$13,276
Electricity	33,823	15,238	13,939
Metals	9,234	-	-
Other	7,232	5,338	4,045
Total revenues	100,789	40,112	31,260
Costs and Expenses			
Cost of gas, electricity, metals and other products	94,517	34,761	26,381
Operating expenses	3,184	3,045	2,473
Depreciation, depletion and amortization	855	870	827
Taxes, other than income taxes	280	193	201
Impairment of long-lived assets	-	441	-
Total costs and expenses	98,836	39,310	29,882
Operating Income	1,953	802	1,378
Other Income and Deductions			
Equity in earnings of unconsolidated equity affiliates	87	309	97
Gains on sales of non-merchant assets	146	541	56
Gains on the issuance of stock by TNPC, Inc.	121	-	-
Interest income	212	162	88
Other income, net	(37)	181	(37)
Income Before Interest, Minority Interests and Income Taxes	2,482	1,995	1,582
Interest and related charges, net	838	656	550
Dividends on company-obligated preferred securities of subsidiaries	77	76	77
Minority interests	154	135	77
Income tax expense	434	104	175
Net income before cumulative effect of accounting changes	979	1,024	703
Cumulative effect of accounting changes, net of tax	-	(131)	-
Net Income	979	893	703
Preferred stock dividends	83	66	17
Earnings on Common Stock	\$ 896	\$ 827	\$ 686
Earnings Per Share of Common Stock			
Basic			
Before cumulative effect of accounting changes	\$ 1.22	\$ 1.36	\$ 1.07
Cumulative effect of accounting changes	-	(0.19)	-
Basic earnings per share	\$ 1.22	\$ 1.17	\$ 1.07
Diluted			
Before cumulative effect of accounting changes	\$ 1.12	\$ 1.27	\$ 1.01
Cumulative effect of accounting changes	-	(0.17)	-
Diluted earnings per share	\$ 1.12	\$ 1.10	\$ 1.01
Average Number of Common Shares Used in Computation			
Basic	736	705	642
Diluted	814	769	695

Enron Corp. and Subsidiaries Consolidated Statement of Comprehensive Income

(In millions)	Year ended December 31,		
	2000	1999	1998
Net Income	\$ 979	\$ 893	\$ 703
Other comprehensive income:			
Foreign currency translation adjustment and other	(307)	(579)	(14)
Total Comprehensive Income	\$ 672	\$ 314	\$ 689

The accompanying notes are an integral part of these consolidated financial statements.

4 MERCHANT ACTIVITIES

An analysis of the composition of Enron's merchant investments and energy assets at December 31, 2000 and 1999 is as follows:

(In millions)	December 31,	
	2000	1999
Merchant investments ^(a)		
Energy	\$137	\$ 516
Energy-intensive industries	63	218
Technology-related	99	11
Other	302	341
	<u>601</u>	<u>1,086</u>
Merchant assets ^(b)		
Independent power plants	53	152
Natural gas transportation	36	35
	<u>89</u>	<u>187</u>
Total	\$690	\$1,273

(a) Investments are recorded at fair value in "Other Assets" with changes in fair value reflected in "Other Revenues."

(b) Amounts represent Enron's investment in unconsolidated equity affiliates with operating earnings reflected in "Equity in Earnings of Unconsolidated Equity Affiliates."

Enron provides capital primarily to energy and technology-related businesses seeking debt or equity financing. The merchant investments made by Enron and certain of its unconsolidated affiliates (see Note 9) are carried at fair value and include public and private equity, government securities with maturities of more than 90 days, debt and interests in limited partnerships. The valuation methodologies utilize market values of publicly-traded securities, independent appraisals and cash flow analyses.

Also included in Enron's wholesale business are investments in merchant assets such as power plants and natural gas pipelines, primarily held through equity method investments. Some of these assets were developed, constructed and operated by Enron. The merchant assets are not expected to be long-term, integrated components of Enron's energy networks.

For the years ended December 31, 2000, 1999 and 1998, respectively, pre-tax gains from sales of merchant assets and investments totaling \$104 million, \$756 million and \$628 million are included in "Other Revenues," and proceeds were \$1,838 million, \$2,217 million and \$1,434 million.

5 INCOME TAXES

The components of income before income taxes are as follows:

(In millions)	2000	1999	1998
United States	\$ 640	\$ 357	\$197
Foreign	773	771	681
	<u>\$1,413</u>	<u>\$1,128</u>	<u>\$878</u>

Total income tax expense is summarized as follows:

(In millions)	2000	1999	1998
Payable currently			
Federal	\$112	\$ 29	\$ 30
State	22	6	8
Foreign	93	48	50
	<u>227</u>	<u>83</u>	<u>88</u>
Payment deferred			
Federal	13	(159)	(14)
State	14	23	11
Foreign	180	157	90
	<u>207</u>	<u>21</u>	<u>87</u>
Total income tax expense^(a)	\$434	\$104	\$175

(a) See Note 11 for tax benefits related to stock options exercised by employees reflected in shareholders' equity.

The differences between taxes computed at the U.S. federal statutory tax rate and Enron's effective income tax rate are as follows:

	2000	1999	1998
Statutory federal income tax provision	35.0%	35.0%	35.0%
Net state income taxes	2.5	1.8	1.7
Foreign tax rate differential	(2.4)	(7.0)	0.8
Equity earnings	5.3	(10.1)	(4.3)
Basis and stock sale differences	(11.9)	(10.8)	(14.2)
Goodwill amortization	1.6	1.6	2.0
Audit settlement related to Monthly Income Preferred Shares	-	(1.8)	-
Other	0.6	0.5	(1.0)
	<u>30.7%</u>	<u>9.2%</u>	<u>20.0%</u>

The principal components of Enron's net deferred income tax liability are as follows:

(In millions)	December 31,	
	2000	1999
Deferred income tax assets		
Alternative minimum tax credit carryforward	\$ 254	\$ 220
Net operating loss carryforward	369	1,302
Other	189	188
	<u>812</u>	<u>1,710</u>
Deferred income tax liabilities		
Depreciation, depletion and amortization	1,813	1,807
Price risk management activities	(182)	1,133
Other	963	782
	<u>2,594</u>	<u>3,722</u>
Net deferred income tax liabilities^(a)	\$1,782	\$2,012

(a) Includes \$138 million and \$118 million in other current liabilities for 2000 and 1999, respectively.

Enron has an alternative minimum tax (AMT) credit carryforward of approximately \$254 million which can be used to offset regular income taxes payable in future years. The AMT credit has an indefinite carryforward period.

Enron has a net operating loss carryforward applicable to U.S. subsidiaries of approximately \$65 million, which will begin to expire in 2011. Enron has a net operating loss carryforward applicable to non-U.S. subsidiaries of approximately \$1.2 billion, of which \$1.0 billion can be carried forward indefinitely. The remaining \$200 million expires between the years 2001 and 2010. Deferred tax assets have been recognized on the \$65 million domestic loss and \$1.0 billion of the foreign losses.

U.S. and foreign income taxes have been provided for earnings of foreign subsidiary companies that are expected to be remitted to the U.S. Foreign subsidiaries' cumulative undistributed earnings of approximately \$1.8 billion are considered to be permanently reinvested outside the U.S. and, accordingly, no U.S. income taxes have been provided thereon. In the event of a distribution of those earnings in the form of dividends, Enron may be subject to both foreign withholding taxes and U.S. income taxes net of allowable foreign tax credits.

6 SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for income taxes and interest expense, including fees incurred on sales of accounts receivable, is as follows:

(In millions)	2000	1999	1998
Income taxes (net of refunds)	\$ 62	\$ 51	\$ 73
Interest (net of amounts capitalized)	834	678	585

Non-Cash Activity

In 2000, Enron acquired all minority shareholders' interests in Enron Energy Services, LLC and other businesses with Enron common stock. See Note 2.

In 2000 and 1999, Enron entered into various transactions with related parties, which resulted in an exchange of assets and an increase in common stock of \$171 million in 2000. See Note 16.

In 2000, a partnership in which Enron was a limited partner made a liquidating distribution to Enron resulting in a non-cash increase in current assets of \$220 million, a decrease of \$20 million in non-current assets and an increase in current liabilities of \$160 million.

During 2000 and 1999, Enron received the rights to specific third-party fiber-optic cable in exchange for the rights on specific fiber-optic cable held for sale by Enron. These exchanges resulted in non-cash increases in assets of \$69 million and \$111 million, respectively.

During 1999, Enron issued approximately 7.6 million shares of common stock in connection with the acquisition, by an unconsolidated equity affiliate, of interests in three power plants in New Jersey.

In December 1998, Enron extinguished its 6.25% Exchangeable Notes with 10.5 million shares of EOG common stock.

7 CREDIT FACILITIES AND DEBT

Enron has credit facilities with domestic and foreign banks which provide for an aggregate of \$1.4 billion in long-term committed credit, of which \$150 million relates to Portland General, and \$2.4 billion in short-term committed credit. Expiration dates of the committed facilities range from February 2001 to May 2005. Interest rates on borrowings are based upon the London Interbank Offered Rate, certificate of deposit rates or other short-term interest rates. Certain credit facilities contain covenants which must be met to borrow funds. Such debt covenants are not anticipated to materially restrict Enron's ability to borrow funds under such facilities. Compensating balances are not required, but Enron is required to pay a commitment or facility fee. At December 31, 2000, \$290 million was outstanding under these facilities.

Enron has also entered into agreements which provide for uncommitted lines of credit totaling \$420 million at December 31, 2000. The uncommitted lines have no stated expiration dates. Neither compensating balances nor commitment fees are required, as borrowings under the uncommitted credit lines are available subject to agreement by the participating banks. At December 31, 2000, no amounts were outstanding under the uncommitted lines.

In addition to borrowing from banks on a short-term basis, Enron and certain of its subsidiaries sell commercial paper to provide financing for various corporate purposes. As of December 31, 2000 and 1999, short-term borrowings of \$15 million and \$330 million, respectively, and long-term debt due within one year of \$1,303 million and \$670 million, respectively, have been reclassified as long-term debt based upon the availability of committed credit facilities with expiration dates exceeding one year and management's intent to maintain such amounts in excess of one year. Weighted average interest rates on short-term debt outstanding at December 31, 2000 and 1999 were 6.9% and 6.4%, respectively.

Detailed information on long-term debt is as follows:

(In millions)	December 31,	
	2000	1999
Enron Corp.		
Senior debentures		
6.75% to 8.25% due 2005 to 2012	\$ 262	\$ 318
Notes payable ^(a)		
7.00% exchangeable notes due 2002	532	239
6.40% to 9.88% due 2001 to 2028	4,416	4,114
Floating rate notes due 2000 to 2005	92	79
Other	242	34
Northern Natural Gas Company		
Notes payable		
6.75% to 7.00% due 2005 to 2011	500	500
Transwestern Pipeline Company		
Notes payable		
9.20% due 2004	11	15
Portland General		
First mortgage bonds		
6.47% to 9.46% due 2000 to 2023	328	373
Pollution control bonds		
Various rates due 2010 to 2033	200	200
Other	282	129
Other	414	204
Amount reclassified from short-term debt	1,318	1,000
Unamortized debt discount and premium	(47)	(54)
Total long-term debt	\$8,550	\$7,151

^(a) Includes debt denominated in foreign currencies of approximately \$955 million and \$525 million, respectively, at December 31, 2000 and 1999. Enron has entered into derivative transactions to hedge interest rate and foreign currency exchange fluctuations associated with such debt. See Note 3.

The indenture securing Portland General's First Mortgage Bonds constitutes a direct first mortgage lien on substantially all electric utility property and franchises, other than expressly excepted property.

The aggregate annual maturities of long-term debt outstanding at December 31, 2000 were \$2,112 million, \$750 million, \$852 million, \$646 million and \$1,592 million for 2001 through 2005, respectively.

In February 2001, Enron issued \$1.25 billion zero coupon convertible senior notes that mature in 2021. The notes carry a 2.125 percent yield to maturity with an aggregate face value of \$1.9 billion and may be converted, upon certain contingencies being met, into Enron common stock at an initial conversion premium of 45 percent.

8 MINORITY INTERESTS

Enron's minority interests at December 31, 2000 and 1999 include the following:

(In millions)	2000	1999
Majority-owned limited liability company and limited partnerships	\$1,759	\$1,773
Elektro ^(a)	462	475
Other	193	182
	\$2,414	\$2,430

^(a) Relates to the respective parents of Elektro, which had minority shareholders in 2000 and 1999.

Enron has formed separate limited partnerships and a limited liability company with third-party investors for various purposes. These entities are included in Enron's consolidated financial statements, with the third-party investors' interests reflected in "Minority Interests" in the Consolidated Balance Sheet.

In October 2000, Enron contributed approximately \$1.0 billion of net assets to a wholly-owned limited liability company. A third party contributed \$500 million for a preferred membership