Charles E. Essick
Principal

1 Houston Center
1221 McKinney, Suite 2600
Houston, TX 77010-1006
713 754 5416
Fax. 713 754-5462

Towers Perrin

PRIVATE & CONFIDENTIAL

January 18, 2001

Dr. Charles A. LeMaistre
Chairman, Enron Compensation Committee
Enron Corp.
7 Bristol Green
San Antonio, TX 78209

Dear Dr. LeMaistre:

As requested, Towers Perrin has prepared this letter providing alternative compensation arrangements for Ken Lay, given his shift in responsibilities to Executive Chairman of the Board, with Jeff Skilling becoming CEO of Enron. In addition, I have also attached a suggested process for "stress-testing" Enron's executive compensation program under various stock price performance scenarios.

<u>Attachment A</u> provides three alternative compensation arrangements for Ken Lay. (Note: This Attachment also shows market compensation data for Jeff Skilling in his new CEO role as a reference point. Market compensation data for the CEO, COO, and Executive Chairman of the Board positions are presented as an Appendix to this letter.)

In reviewing the alternative arrangements for Mr. Lay, please be aware that Alternatives 1 and 2 assume the Compensation Committee wants to treat 2001 as a transition year for Enron, where the Chairman will be more actively involved in the Company's day-to-day business than he will likely be in the future. Alternative 3 assumes the Committee wants to provide competitive Executive Chairman of the Board compensation to Mr. Lay. (Note: An Executive Chairman of the Board is a non-CEO who is employed by the Company, but is less active in day-to-day affairs than a CEO.) Given our previous conversation, it would appear this alternative might be more applicable for 2002 and beyond, if Mr. Lay continues as Executive Chairman after 2001.

S:\18543\01COMP\MONSONM\LLEMAISTRE02.DOC

EC 000102234

Towers Perrin

Finally, Attachment B provides a brief description of a proposed process to "stress-test" Enron's executive compensation program. Towers Perrin understands the objectives of this study are to examine the relationship between pay and performance given possible volatility in Enron's results, to ensure the Company has the ability to attract and retain talented people in good and bad times, and to help the Compensation Committee in understanding how changes in equity market conditions may affect executive compensation at Enron.

★ ★ ★ ★ ★

I hope this material is helpful. Please call me with any questions.

Sincerely,

Chuck

CEE:mhm

cc: John Duncan
Mary Joyce

S:\18543\01COMP\MONSONM\LLEMAISTRE02.DOC

EC 000102235

③ Essig market #'s for LTI have been escalating dramatically over the last few years that market in 2000 will most likely lead to a decline in LTI data which will be available mid-year.

Attachment A

Alternative Compensation Arrangements for Executive Chairman and Market Targeted Compensation for CEO

Data from ~~companies~~ Companies w/ revenues of $50 B plus $5 B. Very conservative methodology

Pay Element	Alternative COB Compensation Arrangements (All data in $000)			CEO Compensation	
	2001 Transition Year		Not Transitional		
	Alternative 1 – No Change to Current Pay	Alternative 2 – Reduce Base Salary, Target Bonus 25%	Alternative 3 – Take Total Pay to Market for Executive COB[1]	Current for Skilling as COO ($000)	CEO Market Data[1] ($000)
Base Salary	$1,300	$975	$839	$850	$1,417
Annual Bonus	$3,900[2]	$2,925	$1,535	$3,000[2]	$3,386
Long-Term Incentive	$16,680	$16,680	$3,817	$12,250	$21,532
Total Direct Compensation	$21,880	$20,580	$6,191	$16,100	$26,335

[1] Based on Enron's philosophy of 50th percentile base salary, 75th percentile total annual compensation, and 75th percentile long-term incentives.

[2] Based on bonus paid in 2000 for 1999 results. Actual bonus may be higher or lower based on market bonus levels and actual performance each year.

① Typically have a transition year when a CEO has been very successful future years dependent upon Chairman's level of involvement

② Jaedicke asked why Alter. 1 ($16.6) (Lay) LTI & LTI for CEO ($21) so different
Alt. #1 is 2000 data vs CEO data is 2001

Essig

EC 000102236

Attachment B

Proposed Process to "Stress-Test" Executive Compensation Program

Looking at relationship between pay & performance

1. Interview COB, CEO, CFO, and members of the Compensation Committee regarding Company's business direction, strategy, and possible changes in market conditions.

2. Briefly summarize current executive pay elements, how these elements relate to market and Enron's culture, and the business reason for each element (e.g., base, bonus, long-term).

3. Examine how each element of pay for three sample positions would be effected by changes in Company performance (financial and stock price). Change to 5 per Committee

4. Describe likely consequences of financial and stock price performance changes on Enron's ability to attract and retain talent, while still focusing on pay for performance.

5. Identify major impediments that may effect Enron's ability to respond to changing market conditions.

6. Meet with the Compensation and Executive Committee Chairs to review the study findings.

7. Meet with COB and CEO to review findings.

8. Meet with the Compensation Committee to review findings.

Foster: Also look at other companies where negative events have [illegible] happened to [illegible]

Note: It is anticipated that Towers Perrin and Mary Joyce will work as a team to complete this assignment. We estimate it will take 6 to 8 weeks to prepare a draft report summarizing our findings.

Joyce: We'll also look at performance against the S&P and [illegible]