

Towers Perrin

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November 16, 2000

Ms. Pam Butler
Director, Compensation
Enron Corp.
1400 Smith Street
Room EB 1668
Houston, TX 77002-7361

Dear Pam:

As requested, Towers Perrin has prepared this letter to document the results of a recent marketplace compensation analysis for the top two executives (Mr. Lay and Mr. Skilling) at Enron Corp. The following sections describe our study methodology and findings.

Methodology

In this analysis, we have prepared the following alternative compensation scenarios, contingent upon the roles which both Mr. Lay and Mr. Skilling may assume with Enron in the future:

- Mr. Lay paid as Chief Executive Officer (CEO)
- Mr. Skilling paid as Chief Operating Officer (COO)
- Mr. Lay paid as Chairman of the Board.

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Towers Perrin developed marketplace compensation rates for the top 2 positions at Enron in terms of the following components of compensation:

- Base salary;
- Actual total annual compensation (base salary plus most recent annual incentive);
- Long-term incentives (annualized present value of all long-term incentive vehicles); and
- Actual total direct compensation (actual total annual compensation plus long-term incentives).

In developing compensation rates for each alternative, Towers Perrin utilized both published/private compensation survey data and peer group proxy statement data as follows:

■ **Published/Private Survey Data**

- Towers Perrin utilized compensation data available in our 2000 Executive Compensation Database to develop one set of marketplace compensation rates.
- The survey data collected for each alternative are representative of pay rates for the following positions (as appropriate for each alternative):
 - Chief Executive Officers or Chief Operating Officers in general industry companies with annual revenues of \$56 billion; or
 - Non-CEO Chairmen of the Board in general industry companies with annual revenues of about \$5 billion (the highest revenue scope available for this position). These chairmen are executive employees.

■ **Proxy Data**

- Towers Perrin analyzed compensation data available in the 2000 proxy statements for a group of twelve comparable companies, reflecting Enron's input. Eleven of these companies were included in a peer group used to assess Board of Director compensation at Enron in April 2000. The peer group companies, along with each company's net income and revenues (for the four quarters ending June 30, 2000), and total assets and market cap (at June 30, 2000), are presented in Exhibit 4. Enron compares favorably with the selected companies in terms of the financial statistics shown.
- The data collected for the selected positions are representative of pay rates for the first and second highest paid positions (based on total direct compensation) from each peer company. Exhibit 5 provides detailed compensation data for each company's two highest paid executives. Please note that Exhibit 5 presents 1999 compensation data as reported in 2000 proxy statements.

- All data (proxy and survey) were updated to January 2001 using an annual update factor of 4.5%, except for the raw proxy data provided in Exhibit 5.

Long-Term Incentive Valuation Methodology

The published/private survey expected present value of stock options and other long-term incentive grants has been calculated using the Black-Scholes option pricing model. This model enables Towers Perrin to calculate the estimated price a trader would pay for a stock option or other long-term incentive on a present-value basis.

The expected present value of long-term incentive grants for the comparable companies were calculated in a similar manner, except that Towers Perrin used a three-year average of awards from 1997 to 1999 as provided in 2000 proxy filings for each company. For Enron, Towers Perrin calculated a three year average as well, but utilized data from 1998 to 2000 (2000 data was provided by the Company).

No adjustment was made for risk of forfeiture during the long-term incentive vesting period for Enron or for the peer companies.

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Competitive Findings

Our competitive findings are presented in the following attached exhibit:

- Exhibit 1 presents marketplace pay data for the CEO.
- Exhibit 2 presents marketplace pay for the COO.
- Exhibit 3 presents marketplace pay for the Executive COB.

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Pam, I hope this information meets your needs. Please call with any questions or comments.

Sincerely,



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Attachments

Exhibit 1

**Enron Corp.
Competitive Compensation Analysis
Current Enron Corp. Compensation Compared to Market (Lay – Chief Executive Officer)**

Proxy Peer Group Data – Highest Paid Executive

Compensation Element	Enron Current (\$000)	January 2001 Marketplace Statistics			Enron as Percent of Marketplace		
		50 th %ile (\$000)	75 th %ile (\$000)	90 th %ile (\$000)	50 th %ile (%)	75 th %ile (%)	90 th %ile (%)
Base Salary	\$1,300	\$960	\$1,329	\$2,194	135%	98%	59%
Actual Total Annual Compensation	\$5,200	\$4,738	\$9,406	\$13,494	110%	55%	39%
Long-Term Incentive	\$16,680	\$16,201	\$41,607	\$44,149	103%	40%	38%
Actual Total Direct Compensation	\$21,880	\$27,892	\$46,918	\$54,891	78%	47%	40%

Published/Private Compensation Survey Data – Chief Executive Officer

Compensation Element	Enron Current (\$000)	January 2001 Marketplace Statistics			Enron as Percent of Marketplace		
		50 th %ile (\$000)	75 th %ile (\$000)	90 th %ile (\$000)	50 th %ile (%)	75 th %ile (%)	90 th %ile (%)
Base Salary	\$1,300	\$1,417	\$1,729	\$2,072	92%	75%	63%
Actual Total Annual Compensation	\$5,200	\$3,567	\$4,803	\$6,298	146%	108%	83%
Long-Term Incentive	\$16,680	\$12,246	\$21,532	\$35,602	136%	77%	47%
Actual Total Direct Compensation	\$21,880	\$15,813	\$26,335	\$41,900	138%	83%	52%

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Exhibit 2

**Enron Corp.
Competitive Compensation Analysis
Current Enron Corp. Compensation Compared to Market (Skilling – Chief Operating Officer)**

Proxy Peer Group Data – Second Highest Paid Executive

Compensation Element	Enron Current (\$000)	January 2001 Marketplace Statistics				Enron as Percent of Marketplace			
		50 th %ile (\$000)	75 th %ile (\$000)	90 th %ile (\$000)	90 th %ile (\$000)	50 th %ile (%)	75 th %ile (%)	90 th %ile (%)	90 th %ile (%)
Base Salary	\$850	\$614	\$745	\$1,064	\$1,064	138%	114%	80%	80%
Actual Total Annual Compensation	\$3,850	\$2,509	\$3,609	\$6,094	\$6,094	153%	107%	63%	63%
Long-Term Incentive	\$12,250	\$10,537	\$14,612	\$19,390	\$19,390	141%	101%	76%	76%
Actual Total Direct Compensation	\$16,100	\$15,939	\$20,291	\$21,918	\$21,918	117%	92%	86%	86%

Published/Private Compensation Survey Data – Chief Operating Officer

Compensation Element	Enron Current (\$000)	January 2001 Marketplace Statistics				Enron as Percent of Marketplace			
		50 th %ile (\$000)	75 th %ile (\$000)	90 th %ile (\$000)	90 th %ile (\$000)	50 th %ile (%)	75 th %ile (%)	90 th %ile (%)	90 th %ile (%)
Base Salary	\$850	\$1,059	\$1,272	\$1,505	\$1,505	80%	67%	56%	56%
Actual Total Annual Compensation	\$3,850	\$2,272	\$3,064	\$4,024	\$4,024	169%	126%	96%	96%
Long-Term Incentive	\$12,250	\$7,153	\$12,691	\$21,129	\$21,129	207%	117%	70%	70%
Actual Total Direct Compensation	\$16,100	\$9,425	\$15,755	\$25,153	\$25,153	198%	118%	74%	74%

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**Enron Corp.
Competitive Compensation Analysis
Current Enron Corp. Compensation Compared to Market (Lay – Chairman of the Board)**

Proxy Peer Group Data – Second Highest Paid Executive

Compensation Element	Enron Current (\$000)	January 2001 Marketplace Statistics			Enron as Percent of Marketplace		
		50 th %ile (\$000)	75 th %ile (\$000)	90 th %ile (\$000)	50 th %ile (%)	75 th %ile (%)	90 th %ile (%)
Base Salary	\$1,300	\$614	\$745	\$1,064	212%	175%	122%
Actual Total Annual Compensation	\$5,200	\$2,509	\$3,609	\$6,094	207%	144%	85%
Long-Term Incentive	\$16,680	\$10,537	\$14,612	\$19,390	158%	114%	86%
Actual Total Direct Compensation	\$21,880	\$15,939	\$20,291	\$21,918	137%	108%	100%

Published/Private Compensation Survey Data – Chairman of the Board (non-CEO)

Compensation Element	Enron Current (\$000)	January 2001 Marketplace Statistics			Enron as Percent of Marketplace		
		50 th %ile (\$000)	75 th %ile (\$000)	90 th %ile (\$000)	50 th %ile (%)	75 th %ile (%)	90 th %ile (%)
Base Salary	\$1,300	\$839	\$1,178	\$1,603	155%	110%	81%
Actual Total Annual Compensation	\$5,200	\$1,534	\$2,374	\$3,631	339%	219%	147%
Long-Term Incentive	\$16,680	\$2,047	\$3,817	\$6,656	815%	437%	251%
Actual Total Direct Compensation	\$21,880	\$3,581	\$6,190	\$10,187	611%	353%	215%

Exhibit 4

**Enron Corp.
Peer Group Companies Financial Data
Dollars in Millions**

Company Name	Revenues 4 Qtrs Ending June 2000	Company Name	Net Income 4 Qtrs Ending June 2000	Company Name	Total Assets Ending June 2000	Company Name	Market Cap Ending June 2000
Exxon Mobil	\$187,802	Exxon Mobil	\$12,482	GE Company	\$424,040	Exxon Mobil	\$273,259
GE Company	\$122,217	GE Company	\$11,712	Merrill Lynch	\$355,108	IBM Corp	\$196,427
IBM Corp	\$86,325	IBM Corp	\$7,311	American Express	\$148,553	GE Company	\$174,590
Merrill Lynch	\$39,607	WorldCom	\$4,928	Exxon Mobil	\$146,618	Sun Microsystems	\$144,265
WorldCom	\$39,104	Merrill Lynch	\$3,275	WorldCom	\$97,373	WorldCom	\$131,154
American Express	\$23,984	American Express	\$2,650	IBM Corp	\$82,949	Merrill Lynch	\$44,228
Dynegy Inc	\$20,293	Sun Microsystems	\$1,854	Qwest comm.	\$69,848	Qwest Comm.	\$43,527
Sun Microsystems	\$15,721	Williams Cos	\$802	AES Corp.	\$29,000	Level III Comm.	\$32,146
Qwest Comm.	\$13,614	Qwest Comm.	\$585	Williams Cos	\$28,397	American Express	\$23,180
Williams Cos	\$9,943	AES Corp.	\$455	Dynegy Inc	\$15,724	Williams Cos	\$18,414
AES Corp.	\$4,989	Dynegy Inc	\$255	Level III Comm.	\$14,691	Dynegy Inc	\$9,567
Level III Comm.	\$718	Level III Comm.	(\$890)	Sun Microsystems	\$14,152	AES Corp.	\$9,435
75 th Percentile	\$51,287	75 th Percentile	\$5,324	75 th Percentile	\$147,102	75 th Percentile	\$151,846
50 th Percentile	\$22,139	50 th Percentile	\$2,252	50 th Percentile	\$76,399	50 th Percentile	\$43,878
25 th Percentile	\$12,696	25 th Percentile	\$553	25 th Percentile	\$25,229	25 th Percentile	\$21,988
Enron Corp.	\$52,839	Enron Corp.	\$1,176	Enron Corp.	\$45,566	Enron Corp.	\$47,217

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**Enron Corp.
Proxy Statement Compensation Analysis**

Position: Highest Paid Executive

Company	Incumbent	Title	1999 Base Salary (\$000)	1999 Total Cash (\$000)	1999 LTI Value ⁽¹⁾ (\$000)	1999 Total Direct (\$000)
Qwest Comm.	Nacchio	Chairman & CEO	\$680	\$1,543	\$81,245	\$82,788
GE Company	Welch	Chairman & CEO	\$3,325	\$13,325	\$39,310	\$52,635
IBM Corp	Gerstner, Jr.	Chairman & CEO	\$2,000	\$9,200	\$42,350	\$51,550
Level III Comm.	Crowe	President & CEO	\$350	\$1,350	\$41,330	\$42,680
WorldCom	Ebbers	President & CEO	\$935	\$8,435	\$31,171	\$39,606
Exxon Mobil	Raymond	COB & CEO	\$2,110	\$16,010	\$17,213	\$33,223
Merrill Lynch	Kornarsky	Chairman & CEO	\$700	\$8,934	\$11,225	\$20,159
American Express	Golub	Chairman & CEO	\$1,000	\$3,400	\$13,794	\$17,194
Dynegy Inc	Watson	COB & CEO	\$1,030	\$5,330	\$7,193	\$12,522
Sun Microsystems	McNealy	Chairman & CEO	\$116	\$3,739	\$7,888	\$11,627
AES Corp.	Bakke	CEO & President	\$0	\$0	\$3,691	\$3,691
Williams Cos	Bailey	Chairman, President & CEO	\$903	\$903	\$2,021	\$2,923
Peer Group 90 th Percentile			\$2,099	\$12,913	\$42,248	\$52,527
Peer Group 75 th Percentile			\$1,272	\$9,001	\$39,815	\$44,897
Peer Group 50 th Percentile			\$919	\$4,534	\$15,503	\$26,691

Exhibit 5

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**Enron Corp.
Proxy Statement Compensation Analysis**

Position: Second Highest Paid Executive

Company	Incumbent	Title	1999 Base Salary (\$000)	1999 Total Cash (\$000)	1999 LTI Value ⁽¹⁾ (\$000)	1999 Total Direct (\$000)
Qwest Comm.	Mohebbi	President & COO	\$459	\$770	\$22,598	\$23,368
WorldCom	Sidmore	Vice COB	\$600	\$3,360	\$17,733	\$21,093
Exxon Mobil	Noto	Vice Chair	\$1,048	\$9,647	\$10,253	\$19,900
Level III Comm.	Bradbury	EVP & CFO	\$260	\$610	\$18,646	\$19,256
GE Company	Opie	Vice Chair & Executive Officer	\$1,233	\$3,733	\$12,733	\$16,466
Merrill Lynch	O'Neal	EVP & President, US Priv Client G	\$300	\$6,065	\$9,913	\$15,978
American Express	Chenault	President & COO	\$700	\$2,500	\$12,027	\$14,527
Sun Microsystems	Zander	President & COO	\$750	\$2,380	\$9,002	\$11,382
IBM Corp	Palmisano	President & COO	\$575	\$1,350	\$7,728	\$9,078
Dynegy Inc	Bergstrom	President & COO	\$652	\$2,422	\$5,247	\$7,669
Williams Cos	Janzen	Pres & CEO, Williams Comm Grp	\$452	\$678	\$2,045	\$2,723
AES Corp.	Sharp	SVP & CFO	\$240	\$590	\$616	\$1,206
Peer Group 90 th Percentile			\$1,019	\$5,832	\$18,555	\$20,974
Peer Group 75 th Percentile			\$713	\$3,453	\$13,983	\$19,417
Peer Group 50 th Percentile			\$588	\$2,401	\$10,083	\$15,252

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