ATTACHMENT D

ENRON CORP.

1994 Deferral Plan

Plan Funding Conclusions and Recommendations

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Background

In the latter part of 1993, Enron decided to offer a new deferred compensation plan to approximately 300 executives and key employees. The purpose of the plan was to provide a tax-planning vehicle with a certain level of security and flexible investment choices for executives. Deferral elections were made during the first two weeks of December, 1993. One hundred (100) persons elected to defer 1994 compensation from the following eligible sources.

1994 Salary	$ 784,923
1994 Bonus	$1,526,687
1994 Long term incentive	$ 731,000
Total deferrals	$3,042,610

We anticipate offering the same deferral opportunity for seven consecutive years, subject to further renewal after that time, according to the value of the plan.

To provide a level of security to executives and an asset to cover Enron's future payment liabilities, a Rabbi trust was approved for funding of the 1994 Deferral Plan. The use of "variable" life insurance products was also approved for investment of trust assets, because it provides tax-free buildup of earnings. During the first two years of the plan, while up front insurance fees and loads are being paid from cash values, the plan will credit a fixed 9%. Beginning in 1996, participants will be able to direct their accounts once each year among various investment choices within the life insurance product.

It was also approved that assets from the 1992 Deferral Plan, which currently credits deferrals with Enron's mid-term cost of capital, be included in the Rabbi trust, used to purchase life insurance, and that participants be allowed to direct their investments beginning in 1996.

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Product Selection

Life insurance allows Enron to pass tax-free earnings on to participants which reflect the investment choices participants have made. The policies are not only life insurance, they are also securities. There are both registered and private placement forms of these products. The private placement products are for large, sophisticated purchasers; they are priced better and deliver a better long term result than the registered versions, because the loads and insurance charges are set at lower levels. Therefore, we recommend that the trust assets be invested in a private placement product.

We evaluated the private placement products offered by the five carriers in the market. Prudential was eliminated because they require a minimum of \$10 million in annual premiums. Massachusetts Mutual was eliminated as an option because they offered only three investment choices and they required a minimum \$1 million deposit per fund.

The remaining three products, CIGNA, Hartford and Metropolitan were evaluated based on investment performance, policy performance, suitability to a deferral plan and diversity of fund options offered.

Corporate Treasury thoroughly evaluated the three products relative to investment performance, considering quality of money managers, management fees and historical performance of the managers. Metropolitan's active funds are managed by State Street Research & Management, and their indexed funds are managed by MetLife. Hartford funds are managed by Neuberger & Berman Investment Advisors. CIGNA's active funds are managed by Oppenheimer and their indexed funds are managed by Wells Fargo Nikko. All three products were deemed to be acceptable from an investment perspective.

Next, the policy performance and suitability to a deferral plan were evaluated. For deferral plan investments, it is more important that policies generate long term cash value rather than providing large death benefits. Metropolitan has higher loads than the other products. Therefore, the Metropolitan funds would have to consistently earn returns 50 basis points higher than the other funds to achieve comparable cash values within the policies. Such consistent outperformance was deemed unlikely to be achieved and Metropolitan was eliminated. CIGNA and Hartford had comparable cash values and death benefits, with the slight edge going to CIGNA.

One other factor which worked in CIGNA's favor was the low cost of borrowing within the policies. Because we expect to borrow in the future to provide cash flow for benefit payments, that cost is very important. With CIGNA it is a pass-through only of the carrier's mortality charges and expense cost, rather than a fixed and more expensive spread above policy crediting rates.

Hartford and CIGNA were then evaluated for the diversity of fund options offered. Hartford did not offer an international fund or any indexed funds.

Therefore, because of the superior policy performance and diversity of fund choices, it is recommended that CIGNA be selected as the product for trust investments. Once approved, Compensation will begin the process of purchasing life insurance policies by obtaining consent forms from participants.

Investment Choices and Asset Allocation

Starting in 1996, participants will make investment choices and their plan earnings will reflect the performance of the investment funds selected, less a basis point discount to cover insurance fees and administrative costs.

The discount off the gross fund return has not yet been decided, but is expected to be between 50 and 150 basis points. Setting the rate is subject to long-term modeling and payout assumptions and to decisions about the timing of when the insurance and administrative costs should be recovered. The decision on the discount does not have to be made until late 1995, prior to deferral and investment elections for 1996. Corporate Compensation will work with Clark/Bardes on the modeling required to make this decision and have a recommendation in the second half of 1995.

It is recommended that the following six fund choices, which are available within the CIGNA product, be offered to participants.

- Equity Fund - Actively managed for long-term capital appreciation by investing in equity securities of companies deemed to be undervalued.

- Global Equity Fund - Actively managed global investment strategy primarily involving equity securities.

- Balanced Fund - Objective is growth of capital over time by investing in common stocks, bonds and cash equivalents.

- Standard & Poors' 500 Index Fund - Designed to track the returns of the S&P 500.

- Fixed Income Fund - An actively managed portfolio of corporate bonds, U.S. government securities and/or mortgage backed debt securities.

- Money Market Fund - Investing in high quality money market instruments and corporate obligations.

These funds were chosen to provide investment flexibility to participants, based on their financial óbjectives and risk orientation. The active funds will generally mirror Oppenheimer funds quoted in the Wall Street Journal, and participants will be instructed on tracking the performance of their fund choices. Any new funds which may become available under the product prior to 1996 will be evaluated for possible addition or substitution for an existing fund.

Until 1996, Enron will need to allocate the assets in the insurance product, since the commitment is to credit a fixed rate of 9% through 1995. Corporate Compensation and Corporate Treasury will establish asset allocation procedures, including how often to review fund performance, the preferred level of risk, approval authority, etc.

Beginning in 1996, a decision which Enron will want to address periodically is whether the company will invest precisely according to the fund choices made by participants. Enron is not committed to invest deferrals according to participant fund selections, only to pay benefits according to the performance of those selections. The company could take some investment risk and try to generate earnings greater than the liability commitments to participants, earnings which Enron could retain. For example, if participants elect to invest 75% of their deferrals in a fixed income fund, Enron could choose to invest the assets entirely in equities. This choice would be made with the belief that, over time, the returns on the Enron investment allocation would exceed the return on the participants' choices.

Trust/COLI Funding Strategy

The funding which is acquired needs to take into account both the 1992 and 1994 Plans, since they will both be on the same earnings basis after 1995. Also, insurance policies should be purchased which have annual premiums that can be sustained with actual deferrals for the required seven years.

We recommend purchasing COLI policies with an annual premium of $4 million. This is based on a combination of 1994 deferrals of approximately $3 million and 1992 deferral money in $1 million increments in 1994, 1995 and 1996 ($3 million total). We are comfortable that this premium level can be sustained with actual deferrals for the required seven years. Only 100 of approximately 300 eligible participants deferred in 1994. However, a substantial percentage of the group that did not defer into the 1994 Plan currently participate in prior deferral plans that will expire during the next two years.

Even if actual deferrals fluctuate, we have selected policies which allow for varying annual premium payments, ranging from approximately $3 million to as high as $6 million, without being required to purchase new policies and incur the up-front loads and fees.