

ENRON EXECUTIVE COMPENSATION PROGRAM

"WHITE PAPER" (Updated, January, 1998)

During 1986, the Compensation Committee, with the assistance of Hewitt Associates, developed the compensation philosophy, objectives, and comprehensive executive compensation program for senior Enron executives to be implemented January 1, 1987. The Compensation Committee and the full Board of Directors approved it on December 8, 1986, subject to ongoing review and change.

Compensation Philosophy and Objectives

Enron's compensation philosophy for its senior management team includes the following tenets:

- Total Compensation consists of base salary, annual bonus, long-term incentive pay, benefits, and perquisites.
- Individuals have the opportunity to earn at the 75th percentile or higher level relative to peer companies, subject to obtaining performance at the 75th percentile or higher. Higher achievement provides higher payouts, while lesser performance decreases total compensation. In order to assure that individual compensation is tied to performance, more dollars of total compensation are placed at risk, tied to Enron absolute performance, and performance relative to its peers.
- Program design promotes teamwork by tying a significant portion of compensation to subsidiary and Enron Corp. performance.

Table A outlines the compensation targets for the Enron Program that flow from this philosophy.

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TABLE A
Compensation Objectives

<u>Component</u>	<u>Enron Target</u>
Base Salary	50th Percentile
Target Annual Bonus for Outstanding Performance	"Gap" between Total Direct Target and Base Salary
Total Direct Compensation	Commensurate with Company Performance - Target of 75th Percentile
Long-Term Incentive Pay	Grants at 75th Percentile - Payouts Commensurate with Company Performance
Benefits	Same as All-Employee Benefits Target
Perquisites	50th Percentile

Peer Company Comparison - Performance and Compensation

Management and the Compensation Committee have determined that the companies listed in Table B best represent Enron's peers in the pipeline/diversified energy industry. Annual bonuses and long-term incentive pay, therefore, are based, in large part, on how well Enron performs relative to this group of peer companies.

TABLE B
Peer Companies for Performance Comparison

Amoco
British Gas
El Paso Energy
Coastal Corp.
Columbia Gas
Consolidated Natural Gas
Natural Gas Clearinghouse
Occidental Petroleum
Duke Energy Corp
Sonat Inc.
Williams Cos.

Ideally, these companies would be used to develop the comparable compensation information for Enron's executive group. However, four of the eleven companies do not provide compensation information to Hewitt. The remaining group of seven companies is too small for meaningful statistical comparisons. To obtain a statistically significant group of companies for compensation information, we have selected an additional eight energy companies from Hewitt Associates' comprehensive list of over 600 companies that participate in Hewitt's annual compensation surveys. The list of companies used for compensation information are listed in Table C.

TABLE C
Hewitt Data Base Energy Companies

Amoco Corp.
ARCO
BP America Inc.
Burlington Resources Inc. (Meridian Oil)
Chevron Corp.
Consolidated Natural Gas Co.
El Paso Energy
NorAm Energy Corp. (Houston Industries)
Occidental Petroleum Corp.
Duke Energy Corp.
Shell Oil Co.
Sonat Inc.
Sun Company, Inc.
USX Corp.
The Williams Cos., Inc.

Because all 15 companies vary in size and organizational structure, Hewitt uses regression analysis to make adjustments to compensation data so comparisons of salaries and organizational position/title more closely match Enron. Hewitt's statistical procedures are well tested and have been successfully used for years. However, sensitivities due to acquisitions, divestitures, and diversification by Enron and the other companies require a regular assessment of the data to assure equitable comparisons.

To determine how Enron's executives compare in total compensation to the executives of those companies listed in Table C, we look at 30 - 35 benchmark positions every other year. The total compensation items compared are the base salary, annual incentive award, long-term incentive pay, benefits and perquisites. This information is also used to set the salary ranges.

Participation

Approximately 78 Enron executives participate in the program. These 78 executives include Management Committee members, operating company presidents, corporate officers, and selected key line and staff officers in the operating companies. These 78 executives represent approximately 1% of the total Enron employee population.

Base Salary

Target for base salary is the 50th percentile of market data. The salary range midpoints are set at the 50th percentile for the executive positions. The annual merit increase budget is set to maintain Enron's market position.

Annual Incentive Plan

The primary objective of the annual incentive plan is to promote outstanding performance by Enron in absolute terms, as well as in comparison to its peer companies. The plan is funded as a percent of after-tax net income as approved by the Compensation Committee each year. Payout under the program will be made in the year following the year of performance. The payout will be based upon Enron's performance against pre-established goals, as well as subsidiary and individual performance.

Annual bonus payouts are based upon Enron's performance measured against the Operating Plan as approved by the Board of Directors. Key performance criteria such as cash flow, return on equity, debt reduction, earnings per share improvements, and other relevant factors will be considered at the option of the Compensation Committee. A Performance Review Report is presented to the Compensation Committee in January. This report summarizes management's view regarding whether and to what extent the key performance criteria were attained. The Performance Review Report also discusses any other significant, but unforeseen factors that positively or negatively affect Enron's performance. The Compensation Committee verifies Enron's actual after-tax net income, reviews management's funding level recommendation and approves the resulting award fund.

The market target is the "gap" between the base salary and the total direct target based on company performance relative to the peer group. Individual performance is measured against a set of supervisor approved individual goals and objectives established no later than the end of January of the bonus year. Also, for employees whose compensation is disclosed in the proxy statement, the Compensation Committee establishes an individual target award level, expressed as a percent of after-tax net income, at the beginning of each year. Subsidiary or operating company performance is measured against the appropriate operating company annual plan. After the Board determines the overall funding level, the Office of the Chairman determines the allocations for each operating group based on performance. Individual awards are also based on the employee's individual performance and teamwork contribution and can range from \$0 to an unlimited maximum. However, for employees whose compensation is disclosed in the proxy statement, in no event will the actual payout exceed the individual target level established at the beginning of each year. Generally, the Compensation Committee will review the individual recommendations for the 78

executive compensation participants and Management Committee members. The Office of the Chairman approves the recommendations for all other participants.

Long-Term Incentives

Enron's long-term incentive program is designed to tie executive performance directly to the creation of stockholder wealth over a four year period. Accordingly, the payout is based upon how well Enron's stock price performs absolutely and how well it performs against the stock prices of its peer companies.

Each participant will be assigned a "Targeted Grant Value" coincident with selection for participation in the program and in December of each year thereafter. The "Targeted Grant Value" will be determined by the results of the Hewitt Compensation Survey.

Grants are targeted at the 75th percentile. One half of the grants are paid in non-qualified stock options to foster shareholder returns. The remaining one half is granted in the form of performance units to be paid within six weeks after the close of books for the fourth year (See Attachment I for an example). The Compensation Committee has the option to substitute any other long-term compensation vehicles that they deem appropriate (e.g., restricted stock).

The initial value of a performance unit is \$1.00, but units are revalued at the end of the four year period. For example, the value of the performance units granted in 1998 is determined by calculating the total shareholder return (TSR) of Enron and of each company in the peer group through 2001 as follows:

$$\frac{(\text{Stock Price End of Period}) - (\text{Stock Price Beginning of Period}) + \text{Dividends}}{\text{Stock Price Beginning of Period}}$$

The TSR's for the peer group over the 4 year period are then ranked from highest to lowest. The performance unit revaluation is determined by reference to Table D.

TABLE D
LTIP Performance Unit Revaluation Factors

Enron's TSR Position	Revaluation Factor
1	\$2.00
2	\$1.50
3	\$1.00
4	\$0.75
5	\$0.50
6	\$0.25
7-12	\$0.00

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Notwithstanding the above, Enron's TSR must be above the return on 90 day U.S. Treasury Bills over the same time period before any payout is made for performance units. The intent is to relate executive performance/management results directly with the creation of shareholder wealth.

If, over the four year period, Enron ranks first in total shareholder return and exceeds the 90 day Treasury Bill rate for the same period, the performance units double in value. If Enron ranks seventh or lower, the performance units are worth zero. The Compensation Committee has reserved the right to adjust payouts downward or eliminate them altogether if absolute stockholder returns are deemed to have been inadequate.

Payment for the revalued performance units are made at the close of the performance period, providing that the participant is then in the company's employment. In the event that a participant dies, retires, becomes disabled or is involuntarily terminated during the performance period, such participant's performance units shall be revalued as of the close of the quarter preceding that event, and the result shall be prorated on the basis of the completed quarters in the performance period divided by 16. The result thereof shall be paid to the participant (or his estate) as soon as practical.

If an unapproved change of control occurs, the performance period closes and full payouts are made based on Enron's TSR compared to peer companies as of the close of the quarter preceding the change of control.

In the event of a participant's termination of employment for any reason other than involuntary termination, death, retirement, or disability, the participant's performance units will be canceled.

Benefits

Executives selected to participate in the comprehensive compensation program will have the same benefit plans as other Enron employees. In addition, they may have supplemental benefits to restore lost benefits due to government imposed statutory limits and IRS regulations.

Perquisites

The program provides each executive with Enron FlexPerq Dollars equal to 3% of midpoint. These dollars can then be used to purchase business related perquisites best suited to individual needs. A list of pre-authorized perquisites is provided to executives and accounting so that duplicate payments do not occur.

Summary

The Enron Executive Compensation Program is designed to promote excellence in both team and individual performance. The program is reviewed biannually for market competitiveness. It is also reviewed periodically to determine if changes in philosophy, targets or compensation vehicles are necessary.

ATTACHMENT I

Long-Term Incentives

EXAMPLE

Grant Year	1998
Individual Salary Range Midpoint	\$150,000
Targeted Grant Value	\$ 75,000

PERFORMANCE UNITS

1998 Grant of 1/2 Targeted Grant Value = 37,500 Performance Units

These performance units will be revalued in 2001, based upon the TSR performance, over the 1998 - 2001 time period. If Enron ranks first, the performance units double in value to \$75,000. If Enron ranks fourth, the performance units decrease in value to \$28,125 ($0.75 \times 37,500$). If Enron ranks seventh or lower, the performance units decrease to a value of zero. Enron's TSR must be greater than the return on 90 day U.S. Treasury Bills over the same four year period.

STOCK OPTIONS

1998 Grant of 1/2 Targeted Grant Value = \$37,500
Value of Enron Stock Option = \$9.75*

Stock Options: $\frac{\$37,500}{\$9.75/\text{Share}} = 3,846.20$ Shares, Rounded to 3,850

- * The value of an Enron stock option is based upon the value of Enron stock at the time of the grant and upon many other factors, including stock price volatility, dividend rate, option term, vesting schedule, long-term interest rates, differential income tax treatment, etc. All these factors are taken into account in establishing a value at time of grant.

In summary, in this example the Enron executive would be granted for 1998, the following:

Performance Units	37,500 To be revalued in 2001
Stock Options	3,850 Granted December 31, 1997