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Attachment B

November 14, 2001

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

Dear Dr. LeMaistre:

As requested by Enron, Towers Perrin has prepared this letter addressing potential strategies Enron may want to consider in dealing with 2001 bonus allocations and possible ways to retain key employees during the period before the merger with Dynegy is completed. We have also outlined our understanding of how Enron's Compensation Committee is impacted by the announced merger.

Special Merger-Related Decision-Making Considerations

Before discussing specific compensation strategies, we want to remind the Compensation Committee about the extra importance of its decisions in light of the Company's "in-play" status and other pending litigation. We believe it is critical that the Compensation Committee understand how the announced merger needs to impact is decision-making. This input reflects our extensive experience as compensation consultants and advisors to Enron and its board, but should not be taken as legal advice. **TOWERS PERRIN DOES NOT ENGAGE IN THE PRACTICE OF LAW, SO THE COMPANY SHOULD SEEK LEGAL COUNSEL'S OPINION ON THESE ISSUES.**

Also note that lawyers and courts do not always interpret these matters in exactly the same way. What we're outlining here reflects what we have seen as mainstream interpretations of law firms with which we deal.

Under most circumstances, Compensation Committee actions are governed by the Business Judgment Rule. Under this rule, Compensation Committee (and full Board) decisions are not to be second-guessed if good processes have been used in making decisions, even if the impact of the decisions turn out to be unfavorable. A helpful

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condition for demonstrating sound business judgment is the use of reputable professional experts (such as compensation consultants in the case of making compensation decisions).

However, once a company is "in play" a higher standard of decision-making may apply. Many legal experts believe the burden of proof that the decisions taken by a Board of Directors are reasonable shifts to a higher standard. This standard, in essence, is that decisions made must be directly in the shareholders' interest. Consequently, actions taken by a Compensation Committee during this period are scrutinized much more closely and documentation of the reasons for decisions taken is critical. At such a time, company should not be making significant increases in pay or other program changes unless it can substantiate a compelling business rationale for doing so. Otherwise, charges of Corporate Waste or other breach of fiduciary duty could be levied.

Enron Compensation Issues

Enron faces a variety of critical compensation issues in light of the announced merger with Dynegy. In our opinion, it is critical that these decisions be made recognizing the following facts:

- Enron's financial performance for the year (as measured by recurring net income) is likely to be good. However, its stock price has dropped dramatically.

- Enron's greatest value is in its core trading, other commercial and pipeline businesses. With respect to the trading and other commercial businesses, the value imbedded in the business resides largely in the intellectual capital of the employees. Therefore, it is critical that key people associated with these businesses be retained in order for the Company pre- and post-merger to have value to shareholders. This is particularly true of key commercial people who, in our opinion, can find other job opportunities with equivalent pay opportunities instantly.

To deal with these concerns, Towers Perrin has developed some suggested parameters for Enron to consider in making 2001 compensation decisions. We will address possible 2002 compensation structure issues at a later date.

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Suggested 2001 Compensation Decision Parameters

Given the announced merger, Enron's financial performance, Enron's stock price performance, and the fact that Enron's commercial talent has highly portable skills, Towers Perrin suggests that Enron make its 2001 compensation decisions within the following parameters:

- *Equity Compensation* – In most companies, immediate vesting of equity compensation takes place upon a change-in-control. In Enron's case, the equity plans only accelerate vesting in the event of a hostile takeover. (It is our understanding that the Dynegy merger does not represent a hostile takeover.)

  This lack of vesting complicates matters for Dynegy following the merger. Specifically, Dynegy's stock overhang (i.e., the percentage of shares reserved for stock-based pay) is about 10% while Enron's overhang is about 15%. With no acceleration of vesting (which is typically coupled with a requirement that options be exercised or cancelled within 3 months of the change-in-control), Dynegy will inherit Enron's overhang. What is more, this overhang may exist for years since Enron's stock options are deeply underwater. (However, this overhang problem may decline if there are significant employee terminations.)

  In addition, since most companies accelerate vesting of equity incentives in the event of a change-in-control, there is little precedence for making any new equity grants to the acquired company's employees once a merger is announced.

  Given these issues, Towers Perrin recommends that Enron generally not make additional equity grants to its employees. The one exception to this rule is in the case of employees who have equity award guarantees within their employment agreements. In this case, Enron may want to buy-out the equity award portion of the contract with deferred cash payouts over the next year. However, unless contract employees agree to a buyout, we believe Enron must honor its contracts.

- *2001 Annual Incentives* – Enron's annual incentive plan is funded with up to 24.5% of recurring after-tax net income. This funding level was established based on market 75th percentile norms of 16% of EBIT for energy trading and marketing organizations, converted to a percentage of after-tax net income using an assumed tax rate of 35%. Enron then allocates bonuses to individuals based on targeting market 75th percentile bonus awards for comparable positions, adjusted

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for performance.

Towers Perrin understands that Enron expects to have a 2001 bonus pool of about $280 million for 2001 performance. (Note: We believe this figure is based on recurring net income levels and does not reflect restatements of earnings or write-downs. The Committee clearly should consider the impact of these one-time events on the size of the bonus pool.) While we understand that the merger agreement with Dynegy allows Enron's Compensation Committee to make 2001 bonus (and other pay) decisions, we recommend that the following parameters be considered in the bonus allocation process:

— The CEO and other key corporate officers named in the proxy and/or directly involved in the ongoing SEC investigation should receive no bonus for the year. This recommendation is based on the dramatic decline in Enron's share price and the fact that questions exist regarding the actions (or inactions) of these officers that led to the market decline.

— Key commercial (e.g., trading) and pipeline employees who have contributed to Enron's profitability and who are key to its ongoing success should be receiving bonuses fully commensurate with their market value and performance.

— Certain officers (including those who may have recently become proxy-named executives) who have been, and continue to be, critical to the past and future success of the core pipeline and commercial business should receive bonuses based on their market value and performance, but adjusted in the case of newly-named proxy officers to reflect the time spent in commercial roles.

— Other key staff support people (e.g., IT, Accounting, Risk Control) who played a critical role in Enron's 2001 success and who are critical to maintaining the current systems required to run the company should receive competitive bonuses, adjusted to reflect their performance.

In considering the timing of bonus payouts, Enron should note that most companies pay the full bonus with no mandatory deferrals based upon audited financial results (e.g., late February or early March of the year following the performance period). The one notable exception to this practice exists within energy trading and marketing units. Approximately 60% of the major energy trading and marketing groups defer a

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portion of trader/originator bonuses in excess of some threshold amount over a 2-year period. A conservative model for this deferral would be to defer 50% of any bonus over $1 million over two years, with one-half of this amount payable one year after the initial payout and the remainder payable two years after the initial payout. This deferral feature is intended to help retain key trading talent. We recommend that Enron consider deferring a portion of its 2001 commercial employee bonuses for at least a one to two year period to aid in retaining key talent, which should aid in employee retention. However, we recognize that the Company will need to handle this issue with great care, since it has not deferred these bonus payouts in the past and since its best commercial employees have tremendous market opportunities.

Finally, to help Enron in making bonus allocations to key commercial talent, please note that while the data contained in Towers Perrin's 2001 Energy Trading and Marketing Survey provides a good starting point for determining competitive bonus levels, market practice varies widely based on performance. Specifically, the survey shows statistics based on the average pay rates reported by a company for all employees in a given position. Therefore, intra-company pay differences among employees in a given job are not shown.

While Towers Perrin has not conducted a formal survey of individual incumbent pay levels among energy trading and marketing units, we know from our consulting experience that many individuals who are not corporate officers received annual bonuses in excess of $1 million in 2001 for 2000 performance. We also were told by one company that they paid a bonus of about $10 million to their leading trader, and that a small number of traders received bonuses of $5 million to $9 million. We are not providing this information to recommend any specific pay actions for Enron, but to simply give you the information you need to compete in today's commercial market.

Other Retention Issues

Given that most of Enron's businesses are based largely on the intellectual capital of its people, retention of key talent is critical in order to ensure that shareholder value is maximized in the merged entity. Since the merger will impact both Enron and Dynegy employees (and since Dynegy has infused significant capital into Enron), we believe that any significant retention strategies should be discussed jointly between Enron and Dynegy.

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Nevertheless, Towers Perrin believes Enron faces some immediate and significant retention issues as a result of having no current positive spread in its stock options, the fact that many of its best employees are questioning whether they will be paid for their contributions in 2001 or 2002, and the Company's history of relying heavily on stock-based pay. We believe Enron and Dynegy need to move quickly to address the retention of key employees that will be needed during the merger transition period and beyond.

The traditional tools used to retain employees are restricted stock grants, contracts and/or change-in-control agreements, and stay bonuses. Enron has already used restricted stock to provide 50% of the expected value of long-term incentives in recent years. However, while this stock has some retention value, this value has been vastly diminished as a result of Enron's stock price decline. Enron also has hundreds of employment agreements that provide severance pay and contain non-compete clauses, which should help with retention, as well.

However, we believe these devices alone will not likely hold all of the employees Enron needs to continue operating and to provide value to shareholders in the newly merged company. To effectively retain key employees, we believe Enron and Dynegy need to work together quickly to:

- Identify critical functions and people that need to be retained until the merger is closed and after closing;
- Determine (based on current pay and market opportunities) the magnitude of the handcuffs required to lock in key staff, considering the value of existing employment contracts and unvested restricted stock; and
- Consider establishing a stay bonus plan for critical employees who do not have sufficient retention hooks through existing devices.

In evaluating the need for a stay bonus plan, Enron should note that the 2nd Annual Retention Bonus Survey conducted by WorldatWork showed that 45% of 550 companies adopted retention bonus programs in the last year and that eligibility was extended to key employees in technical, professional, and management positions. While the data from this survey show a wide range of practices in terms of the size of awards, Towers Perrin believes that awards would need to be in the following ranges

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to have meaning to Enron employees (given historical pay practices and market conditions).

Employee Group/Level	Potential Stay Bonus as % of Base Pay
Executives/Key Commercial	100% to 200%
Key Technical	50% to 100%
Key Staff Support	20% to 40%

These payout ranges assume the retention period is one year, so the numbers would need to be reduced for a shorter retention period on a pro-rata basis. Also, the value of any employment contracts should be netted out against the value of stay bonuses. Finally, Towers Perrin believes that a properly designed 2002 annual bonus program may mitigate the need for stay bonuses to some degree. We plan to work with Enron on this issue in the coming weeks.

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Dr. LeMaistre, I hope this letter is helpful. However, Towers Perrin re-emphasizes the need to coordinate retention pay issues with Dynegy's Top Management and Board. In the overall scheme of the merger, Dynegy's plans for the core business of Enron will have a major impact on the number of key employees they will want to retain. Please call me with any questions.

Sincerely,

CEE:mhm

cc: Mary K. Joyce – Enron
John Ellerman – Towers Perrin/Dallas
Paula Todd – Towers Perrin/Stamford

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