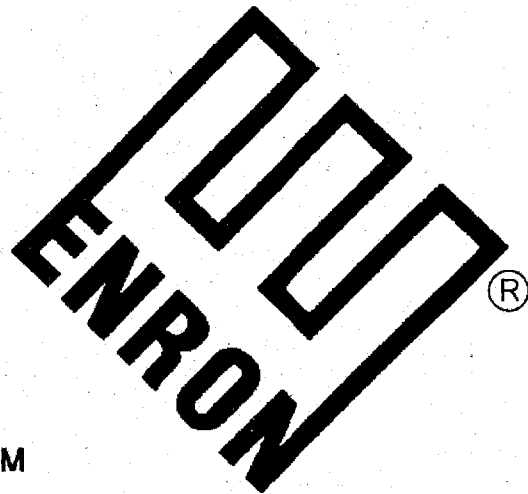


AUDIT AND COMPLIANCE COMMITTEE MEETING

October 8, 2001

Natural gas.
Electricity.
Endless possibilities.TM



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EC004397403

**GOVERNMENT
EXHIBIT
632**

Crim. No. H-04-25 (S-2)

Agenda



EC004397404

Dr. Robert K. Jaedicke, Chairman
Mr. Ronnie C. Chan
Dr. Wendy L. Gramm
Dr. John Mendelsohn
Mr. Paulo V. Ferraz Pereira
Lord John Wakeham

Agenda
Meeting of the Audit and Compliance
Committee of the
Board of Directors
Enron Corp.

October 8, 2001
3:00 pm (CDT)
Enron Corp.
50th Floor Boardroom
Houston, Texas

1. Approve minutes of meeting of the Audit Committee held on August 13, 2001 – Dr. Jaedicke.
2. Third quarter earnings update – Mr. Causey.
3. Third quarter financial reporting observations – Messrs. Duncan and Bauer, Andersen LLP.
4. Review and update on accounting for goodwill – Mr. Causey.
5. Internal control update – Messrs. Causey, Kilchrist and Parsons.
6. Physical security update – Mr. Kean.
7. Audit and Finance Committee roles in monitoring the Risk Management Policy and procedures for post transaction reviews – Messrs. Causey and Buy.
8. Review of operations under the Enron Risk Management Policy – Mr. Buy.
9. Review of Enron Compliance Report for 2000 – Mr. Derrick.
10. Other business, including executive sessions as deemed necessary – Dr. Jaedicke.
11. Adjournment.

EC004397405

Audit and Compliance Committee Calendar of 2001 Activities

	Scheduled Meetings				
	February	May	August	October	December
I. Audit Committee Composition and Meetings					
• Assess independence and financial literacy of audit committee, submit written affirmation to NYSE		X			
• Review charter (publish in proxy every 3 years)	X				
• Audit Committee Chair to approve meeting agenda	X	X	X	X	X
• Executive session with auditors, internal audit, management, committee	X	*	*	*	*
• Maintain minutes and report to Board	X	X	X	X	X
II. Audit Committee Responsibilities and Duties					
• Recommend appointment of auditors	X				
• Approve audit fees		X			
• Discuss auditor independence, obtain written statement of all relationships	X		X		
• Review plans for financial statement audit		X			
• Review annual financial statements prior to release— discuss with mgmt, auditors	X				
• Discuss quality of accounting principles—approve major changes	X	*	*	*	*
• Review adequacy of financial and EDP internal controls					X
• Review internal control plan	X				
• Discuss results of year-end audit and other matters required by SAS 61	X				
• Prepare report to shareholders to be included in the annual proxy	X				
• Review quarterly results and findings prior to filing	X	X	X	X	
• Review policies and practices for management's communications with analysts	X				
• Review/Approve for recommendation to the Board policies and procedures regarding compliance with laws and significant policy				X	
• Review credit and market risk with RAC	X	X	X	X	X
• Review legal matters with general counsel	X	*	*	*	*
• Conduct special investigations, studies or tests	*	*	*	*	*
• Review director and officer use of aircraft	X				

X = Recommended Timing
* = As Needed

EC004397406

Agenda Item 1



EC004397407

DRAFT

**MINUTES
MEETING OF THE AUDIT AND COMPLIANCE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
AUGUST 13, 2001**

Minutes of a meeting of the Audit and Compliance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), noticed to begin at 2:30 p.m., C.D.T., but actually begun at 2:40 p.m., C.D.T., on August 13, 2001 at the Enron Building, Houston, Texas.

All of the Committee members were present as follows:

Dr. Robert K. Jaedicke, Chairman
Mr. Ronnie C. Chan
Dr. Wendy L. Gramm
Dr. John Mendelsohn
Mr. Paulo V. Ferraz Pereira
Lord John Wakeham

Director Jeffrey K. Skilling, Messrs. Robert H. Butts, Richard B. Buy, Richard A. Causey, James V. Derrick, Jr., Shawn Kilchrist, Theodore R. Murphy, D. Andrew Parsons, Rex R. Rogers, and Robert H. Walls, Jr., and Ms. Rebecca C. Carter, all of the Company or affiliates thereof, and Messrs. Thomas H. Bauer, David B. Duncan, and D. Stephen Goddard, of Arthur Andersen LLP ("AA"), also attended the meeting.

The Chairman, Dr. Jaedicke, presided at the meeting, and the Secretary, Ms. Carter, recorded the proceedings.

Dr. Jaedicke called the meeting to order, noted that a draft of the minutes of the meeting of the Committee held on April 30, 2001 had been distributed to Committee members, and called for comments, additions, or corrections. There being none, upon motion duly made by Dr. Gramm, seconded by Dr. Mendelsohn, and carried, the minutes of the meeting of the Committee held on April 30, 2001 were approved as distributed.

Dr. Jaedicke called upon Messrs. Causey and Duncan to begin the financial reporting and control audit update, a copy of which is filed with the records of the meeting. Mr. Duncan presented selected observations related to the Company's second quarter, including the following: 1) increased attention was focused on the situations in India and California, 2) the Wholesale group's continuing evaluation of the Enron Energy Services, LLC ("EES") portfolio positions resulted in numerous valuation changes, 3) reserves related to the situation in California and

EC004397408

the volatility in the energy markets continued to be monitored, and 4) the difficulties in the telecommunications industry had raised the potential for certain exposures. He then noted that AA had no proposed adjusting entries for the second quarter.

Mr. Causey then began a discussion of the Company's reserves. He commented on the prudence and credit reserve and noted that it was related to the Company's entire portfolio and was reevaluated monthly. He then stated that there was an EES reserve that related to specific transactions currently on the books and he commented on certain transactions and the related reserves. He discussed the allowance for doubtful accounts and the reasons the amount had increased from the first quarter. He then noted that a reserve relating to the California tariff risk, that had been present in the first quarter, was no longer in place since the amount had been recorded during the second quarter.

Mr. Causey then provided an internal control update and commented on significant current activities, including the following: 1) the 2001 plan was on schedule and approximately 45% complete, 2) the integration of the retail and broadband portfolios into the existing wholesale structure was continuing, 3) the cash management processes had been strengthened when the new procurement and payment system was implemented, 4) security issues related to the Enron Intelligent Network had been identified and were being addressed, 5) the construction of the enterprise data center and business resumption facility would commence soon, and 6) the Company's risk management policy was being updated to incorporate current "best practices".

Dr. Jaedicke called upon Mr. Duncan to begin the independent auditor communication regarding independence. Mr. Duncan stated that AA believed that independence was not only the cornerstone of its profession but the only sound basis to its continued success. He stated that AA believed its policies surrounding independence were compliant with those required and that the scope of its practice was appropriate for the Company. He confirmed that AA was an independent accountant with respect to the Company within the meaning of the Securities Act and the requirements of the Independence Standards Board.

Mr. Causey then began a discussion of the new accounting standard for goodwill. He stated that, effective January 1, 2002, goodwill would not be amortized but rather tested for impairment annually at the "reporting unit" level. He then discussed the standard's definition of reporting unit and noted that goodwill would be tested for impairment using a two-step approach. He stated that the first step would be to compare the fair value of a reporting unit, utilizing a discounted cash flow or market multiple approach, to its carrying amount. He stated that if the fair value was less than the carrying amount then the implied fair value of the goodwill was compared to its carrying amount and if the carrying amount exceeded the implied fair value then an impairment loss, equal to the

excess, would be recognized. He commented on the transition and effective date of the new accounting standard. He then presented summaries of the Company's consolidated goodwill excluding equity method investments, the goodwill related to equity investments, and the unconsolidated goodwill on equity method investees' books and discussed areas where the preliminary assessment indicated that the fair value could be less than the carrying amount. He stated that the Company would continue its assessment of the goodwill and would update the Committee at the next meeting.

Dr. Jaedicke then called upon Mr. Buy to begin the Market Risk Update, a copy of which is filed with the records of the meeting. Mr. Buy discussed the backtesting performed on the Company's Value-at-Risk ("VAR") model and stated that per the Kupiec test since the actual occurrences of profits and losses exceeding VAR fell within the acceptable range the VAR model was deemed appropriate. He reviewed the limit violations for the second quarter by portfolio, stated that a significant number of the violations related to the North American Gas portfolio, and noted they were primarily due to price and volatility movement, combined with increased activity via EnronOnline. He reviewed the VAR, maturity/gap, and net open position limit violations for the second quarters of 2000 and 2001. He then presented a chart depicting the VAR limit utilization by portfolio over that last four quarters and noted that the North America Gas and Power portfolios had higher utilization than in previous quarters.

Dr. Jaedicke called for an executive session with AA at 3:25 p.m., C.D.T. and Messrs. Butts, Buy, Causey, Derrick, Kilchrist, Murphy, Parsons, Rogers, Skilling, and Walls and Ms. Carter left the meeting. Minutes of the executive session were not recorded for the record.

There being no further business to come before the Committee, the meeting was adjourned at 3:40 p.m., C.D.T.

Secretary

APPROVED:

Chairman

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Agenda Item 2

EC004397411

Non-Recurring Earnings

Third Quarter 2001

(\$ in millions)

	<u>Pre-tax</u>	<u>After-tax</u>	<u>E.P.S.</u>
Recurring Earnings	<u>\$ 521</u>	<u>\$ 396</u>	<u>\$ 0.43</u>
Non-Recurring Items:			
Azurix Asset Sales <i>[Impair all to AIX but worry]</i>	(310)	(310)	(0.34)
Broadband <i>Inv. Sec Content</i>	(281)	(183)	(0.20)
Loss on Investing Activities*	(711)	(462)	(0.51)
Total Non-Recurring Items	<u>(1,302)</u>	<u>(955)</u>	<u>(1.05)</u>
Anti-dilution			(0.11)
Total Earnings	<u><u>(\$781)</u></u>	<u><u>(\$559)</u></u>	<u><u>(\$0.73)</u></u>

* Pending New Power market movement

EC004397412

② • Description of New Segments

Third Quarter - Recurring Earnings by Segment

(\$ in millions)

	<u>Third Quarter</u>		<u>Nine Months</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Enron Transportation Services	\$ 83	\$83	\$ 293	\$ 288
Portland General ^② <i>regulatory</i>	(3)	74	122	241
Global Assets ^③ <i>power; load gen. supply</i>	16	26	34	140
Americas ^① <i>Very strong</i>	646	548	2,567	1,134
Retail Risk Management	43	-	(665)	-
Europe and Other Energy Mkts ^④ <i>Small, but nice ↑</i>	67	40	265	216
Energy Services ^③ <i>Very strong</i>	71	27	171	79
Broadband Services	(80)	(20)	(217)	(28)
Corporate & Other	(67)	(111)	(206)	(170)
Interest, MI, & Income Tax	(380)	(375)	(1,158)	(981)
Recurring Net Income	<u>\$ 396</u>	<u>\$ 292</u>	<u>\$ 1,206</u>	<u>\$ 919</u>

EC004397413

Enron Corp.
Reserves
(\$ millions)

	9/30/01	6/30/01	3/31/01	12/31/00	
PGE					
Sullivan plant reclamation reserve	20	20	20	20	
Allowance for doubtful accounts	25	22	19	10	
North America					
Allowance for doubtful accounts	355	559	480	106	California A/R reserves at 60% 3Q; 80% 2Q Reevaluated monthly
Credit	450	350	323	288	
Valuation - gas and power	87	277	401	435	
EES Specific Deal Reserves	415	248	-	-	
PG&E Credit Claims	50	111	-	-	
Other specific transactions	87	98	143	58	
California and N. West political risk	21	47	47	47	
Bammel monetization reserve	-	35	35	35	
California tariff risk	-	-	319	-	Reserve used in second quarter Settled first quarter 2001
TVA settlement	-	-	-	253	
	<u>1,465</u>	<u>1,725</u>	<u>1,748</u>	<u>1,222</u>	
Europe					
Credit	104	114	117	131	Reevaluated monthly
Global Exploration and Production					
Allowance for doubtful accounts	11	11	17	17	
South America					
Credit	-	-	-	33	Reevaluated monthly
CALME					
Dom Rep hotel litigation & A/R reserve	-	-	-	3	A/R written off following renegotiation of PPA
Madosa sale - deferred revenue	-	13	13	13	Amortization of call option
EIM					
Credit	25	14	-	-	
Corporate					
Tax reserve related to years under audit (a)	285	285	285	285	

② Reserve down. Biggest change:
- SOCAL base operation value changed; reduced reserves needed
- Cal ITC 80% → 60%
Approp. given reg. discussion
cautiously optimistic

③ ↓ in 3Q in reserve,
↑ overall for 2002

(a) Tax years under audit are 1996 forward.

EC004397414

Agenda Item 3



EC004397415

This agenda item will be distributed at the meeting.

EC004397416

Agenda Item 4



EC004397417

Statement of Financial Accounting Standards No. 142

Goodwill and Other Intangible Assets

- Adoption required as of January 1, 2002 as a cumulative effect of an accounting change. Disclosure of expected impact (if material) should be included in the third quarter Form 10-Q.

- Evaluating \$4.3 billion of consolidated goodwill and \$1.5 billion of unconsolidated goodwill as of June 30, 2001. Expect to assign the following goodwill to the Americas reporting unit:

- Portland General - \$750 - \$900 million
- Elektro - \$583 million
- EGPP - \$165 million

- Expect impairment of approximately \$213 million of goodwill relating to Azurix assets to be held for sale in third quarter. Expect additional disclosure for cumulative effect of accounting change of approximately \$144 million. Evaluation of Wessex goodwill (\$697 million) is ongoing.

EC004397418

Enron Goodwill Analysis
Summary by Operating Segment
As of June 30, 2001
(in millions)

Cumulative Effect of Accounting Change
 Non-Recurring Charge
 Allocated \$750MM to \$900MM to Americas
 Allocated to Americas
 Evaluation ongoing

Consolidated Goodwill (excluding equity method investments):	Transportation and Distribution	Americas	Global Markets	Industrial Markets	Europe	Global Assets	EES	EBS	Wind	TOTAL ENRON
Portland General	\$ 1,408					\$ 583				\$ 1,408
Elctro							\$ 434			583
Enron Corp. (related to FES MI Buyback)										434
Enron Europe (MG Metals)					\$ 364					364
Enron Energy Services							193			193
Wind									\$ 187	187
Enron Global Power & Pipelines LLC						165				165
Enron Internacional Panama S A (BLM)						64				64
Enron Broadband Services								\$ 55		55
HNG		\$ 36								36
Industrias Electricas de Ventane Ltd.						13				13
Global Markets			\$ 9							9
Other						12				12
Subtotals	\$ 1,408	\$ 36	\$ 9	\$ -	\$ 364	\$ 837	\$ 627	\$ 55	\$ 187	\$ 3,523
Goodwill Relating to Equity Method Investments:										
TGS						\$ 248				\$ 248
Ecoelectrica						165				165
CEG/Riogas						102				102
Gaspart						127				127
Northern Plains	\$ 72									72
Other						35				35
Subtotals	\$ 72	\$ -	\$ -	\$ -	\$ -	\$ 677	\$ -	\$ -	\$ -	\$ 749
Total Consolidated Goodwill	\$ 1,480	\$ 36	\$ 9	\$ -	\$ 364	\$ 1,514	\$ 627	\$ 55	\$ 187	\$ 4,272
Unconsolidated Goodwill:										
Azurix/Wessox										\$ 697
Azurix/Other	213									213
Stadacona				\$ 149						149
SK Enron						\$ 117				117
Pulp & Paper (Fishtail)				223						223
Transredes						31				31
Other	24					1				25
Total Unconsolidated Goodwill	\$ 934	\$ -	\$ -	\$ 372	\$ -	\$ 149	\$ -	\$ -	\$ -	\$ 1,455

EC004397419

Agenda Item 5



EC004397420



Internal Control Update

2001 Plan Status

- Approximately 80% complete

Activity Related to Issues Identified in Control Audits

- EES/EWS integration Project Management Office has been created to provide coordination and oversight for all EES transition projects. Systems integration requirements and timelines have also been developed; execution has begun
- Enron Intelligent Network security enhancements progressing on schedule and estimated for completion by fourth quarter 2001
- Construction has begun on the West Houston data center which will also serve as the cornerstone to Enron's business continuity plans; estimated for completion by second quarter 2002
- Recently completed audit of EnronOnline was positive and resulted in no findings categorized as significant **
- Re-engineering of processes and systems to strengthen supporting infrastructure for Metals business scheduled for completion by first quarter 2002
- Curve validation processes being re-examined to address issues raised with respect to functional responsibilities and consistency across business units and/or product portfolios **

Other Significant Control Related Activities

- RAC operational issues team formed to focus on operational risk exposures and techniques to identify, access, categorize, quantify and manage these exposures in all business units
- Monitoring and enforcement activities are being adjusted for newly revised Risk Management Policy

** Recently identified

EC004397421

Agenda Item 6



EC004397422

Corporate Security Update

EC004397423

Objectives

- Deter attack
- Protect in the event of attack
- Increase sense of security

EC004397424

Approach

- Identify threats
- Prioritize remediation:
 - near term v. long term
 - facilities

EC004397425

Summary

- Enron Center
 - surveillance
 - vehicle barriers
 - access control
 - increase security personnel
 - Personnel – background checks
 - Domestic facilities
 - International facilities
- } survey/audit

EC004397426

Agenda Item 7



EC004397427

Roles For Monitoring The Risk Management Policy

Audit and Compliance Committee

- Review internal controls as it relates to the operation of the Risk Management Policy
- Review limit violations and determine that actions taken by management are consistent with the Policy

Finance Committee

- Approve risk management framework and review policy issues
- Determine appropriateness of limits, correlations, profitability and liquidity based on the company's risk appetite as ratified by the Board
- Review corporate liquidity and funding plans
- Review investment returns achieved relative to expectations



EC004397428

Procedure: Post Transaction Reviews

- Post transaction reviews for transactions over \$200 Million will be performed at a minimum of 18 and 36 month intervals after closing. Additional transaction reviews will occur as directed by the Chief Risk Officer or in response to Board questions.
- “Merchant” investments will continue to be monitored by RAC and quarterly portfolio performance reported to the Finance Committee at regularly scheduled meetings.
- Compliance related issues resulting from transaction reviews will be evaluated and discussed with the Audit and Compliance Committee. All other issues resulting from transaction reviews will be discussed with the Finance Committee.
- Major strategic implications resulting from transaction reviews will be presented to the full Board.



EC004397429

Agenda Item 8



EC004397430

Market Risk Update

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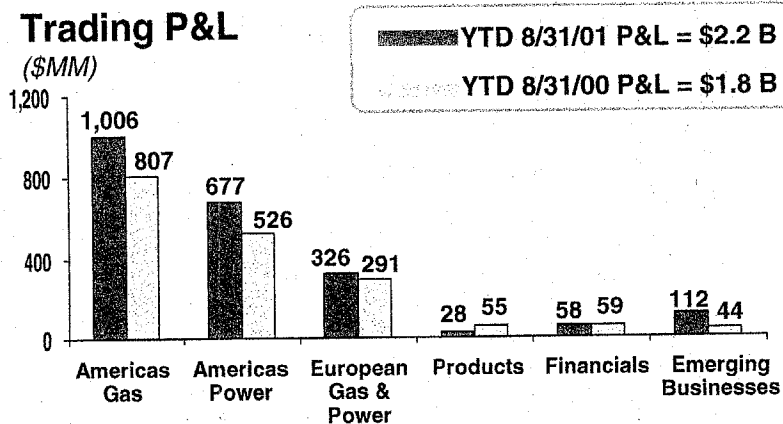
- Risk Profile
- Risk Profile by Market Concentration
- Risk Profile by Business Unit
- Backtesting of Enron Corp. Aggregate VaR
- Utilization of VaR Limits
- Market Risk Limit Violations
- Scenario Analysis
- Liquidity Risk Ratio Analysis
- Brazilian Foreign Exchange Exposure Update

EC004397431

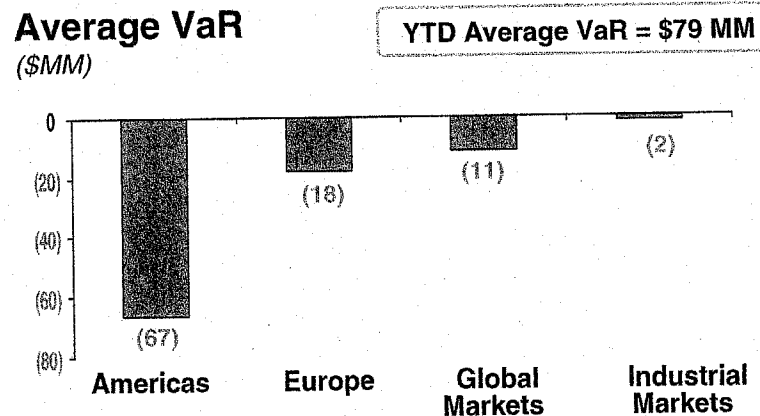
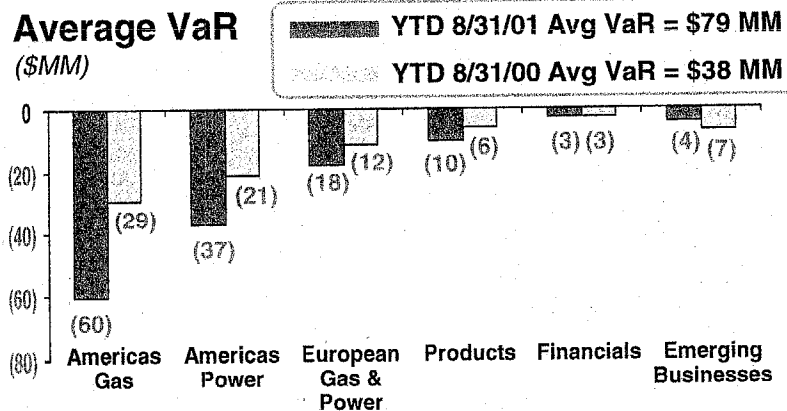
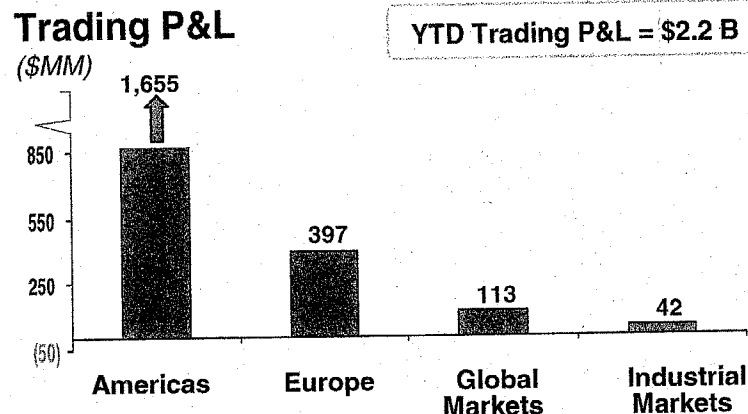
Risk Profile

Eight Months Ended August 31, 2001 and 2000

Market Concentration⁽¹⁾



Business Unit Comparison



Return on VaR - Eight Months Ended August 31

	Enron						
2001	128%	140%	141%	21%	158%	210%	214%
2000	210%	189%	192%	72%	157%	49%	352%

Return on VaR - Eight Months Ended August 31

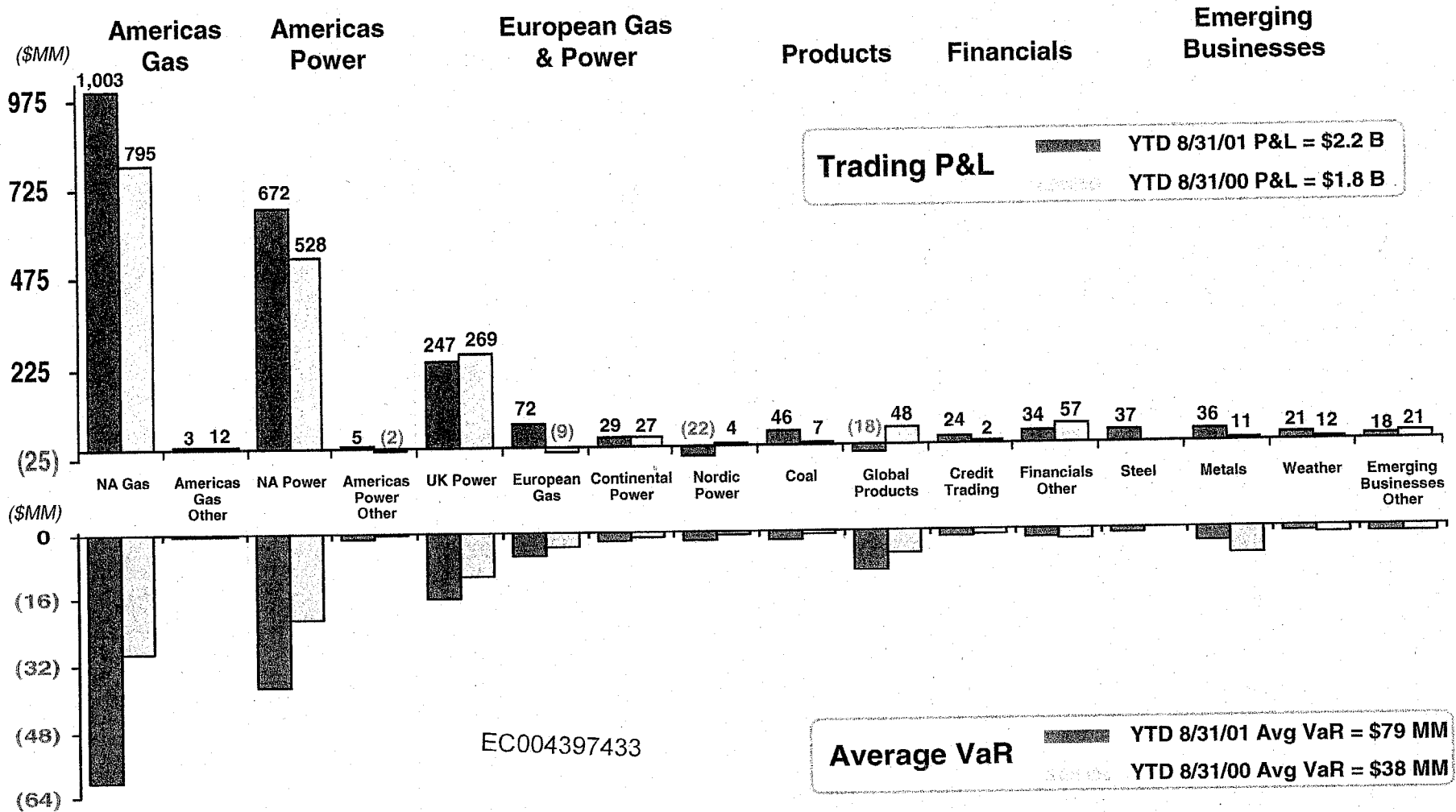
	Enron				
2001	191%	168%	78%	201%	214%
2000	281%	176%	139%	114%	352%

(1) Commodities aggregated per Concentration Limit categories

EC004397432

Risk Profile by Market Concentration

Eight Months Ended August 31, 2001 and 2000



Return on VaR - Eight Months Ended August 31

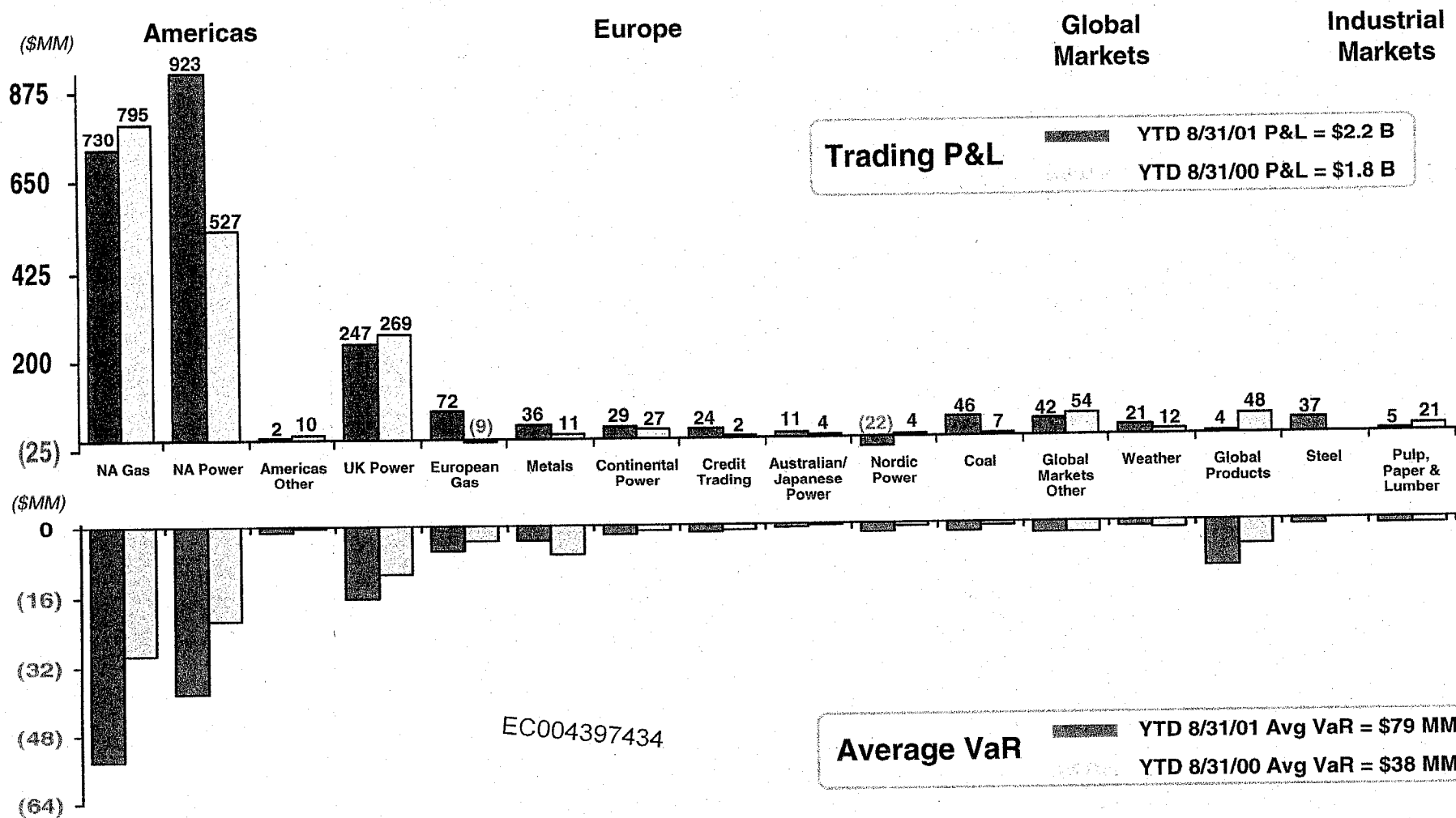
2001	129%	85%	141%	32%	115%	99%	107%	(75%)	175%	(14%)	98%	127%	244%	82%	135%	86%
2000	207%	295%	190%	(88%)	187%	(22%)	161%	30%	53%	63%	11%	166%	NA	43%	53%	105%

Total Enron RoVaR YTD 8/31/01 = 214%

Total Enron RoVaR YTD 8/31/00 = 352%

Risk Profile by Business Unit

Eight Months Ended August 31, 2001 and 2000



Return on VaR - Eight Months Ended August 31

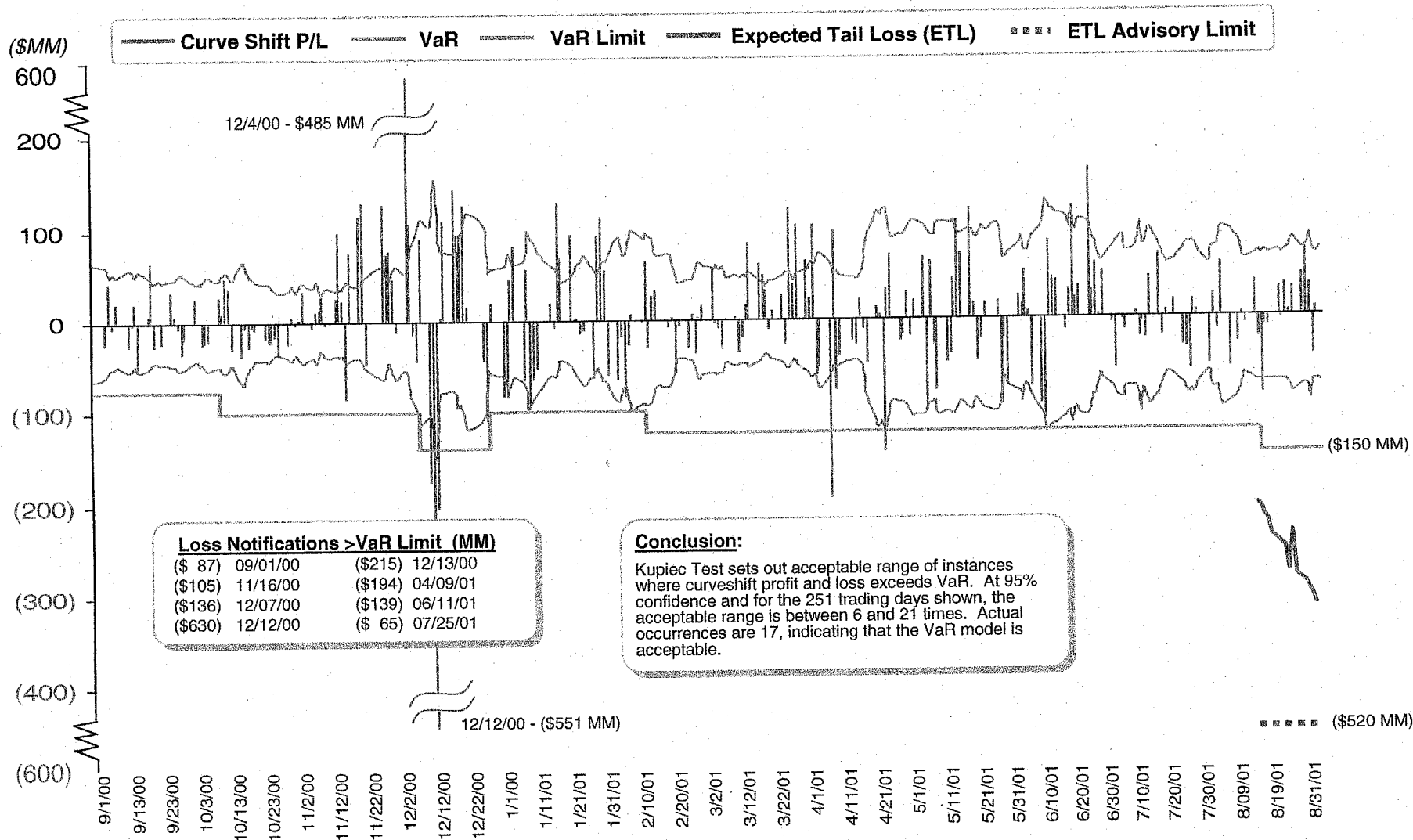
2001	104%	187%	12%	115%	99%	82%	107%	98%	135%	(75%)	166%	122%	135%	3%	244%	36%
2000	207%	190%	227%	187%	(22%)	43%	161%	11%	59%	30%	53%	154%	53%	63%	NA	114%

Total Enron RoVaR YTD 8/31/01 = 214%

Total Enron RoVaR YTD 8/31/00 = 352%

Backtesting of Enron Corp. Aggregate VaR

12 Months Ended August 31, 2001



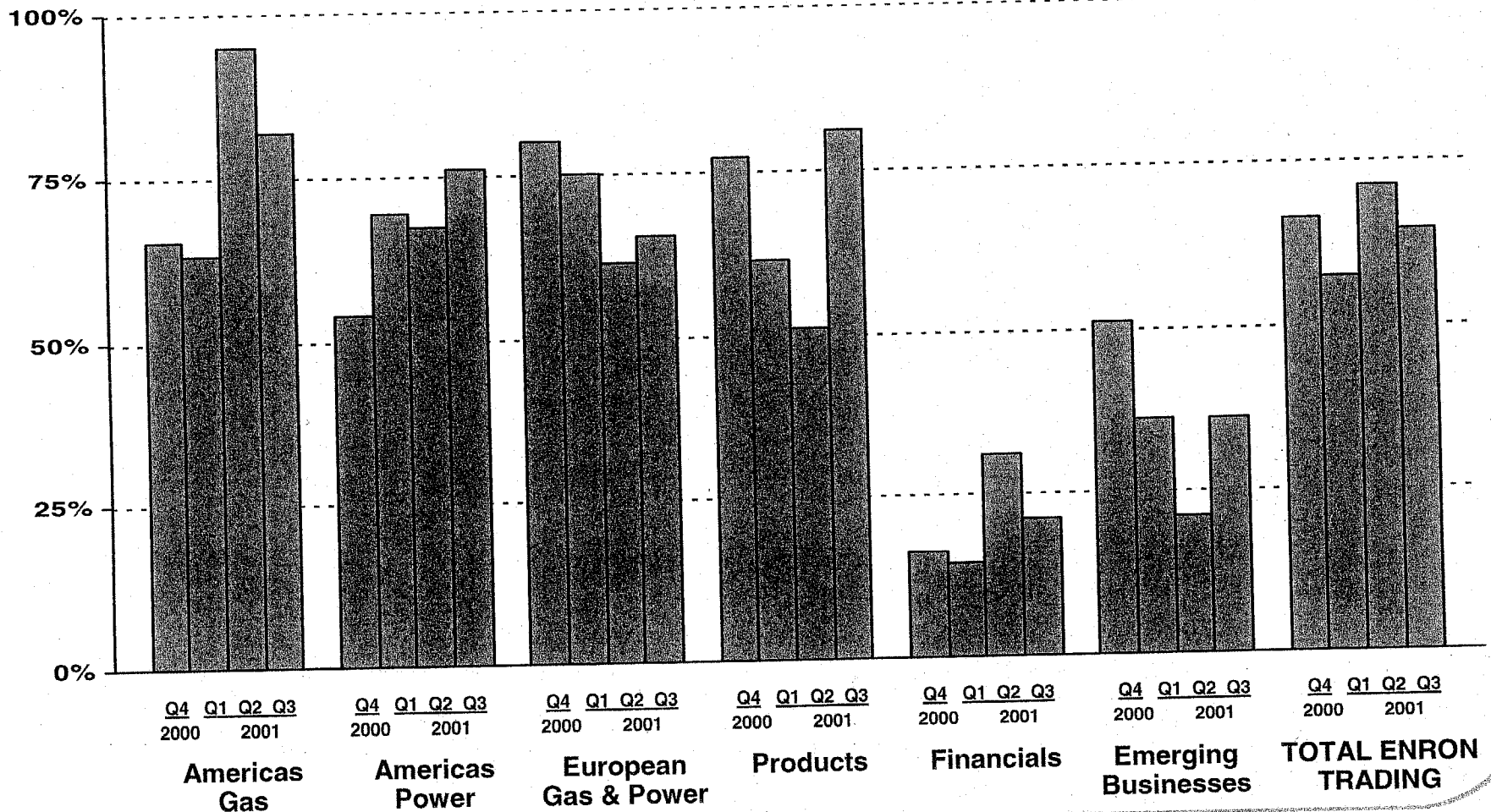
12 Month Corp. Limit Evolution:	06/01/00	10/07/00	12/07/00	12/28/00	02/13/01	08/14/01
(MM)	\$75	\$100	\$140	\$100	\$125	\$150

EC004397435

Utilization of VaR Limits Quarterly Comparison

Percentage
of VaR Limit

■ Average VaR



Note 1: Q3 2001 represented by July 1 – August 31.

Note 2: Utilization calculations were based on Commodity Group Limits, not Concentration Limits. Concentration Limits were not established until 8/14/01.

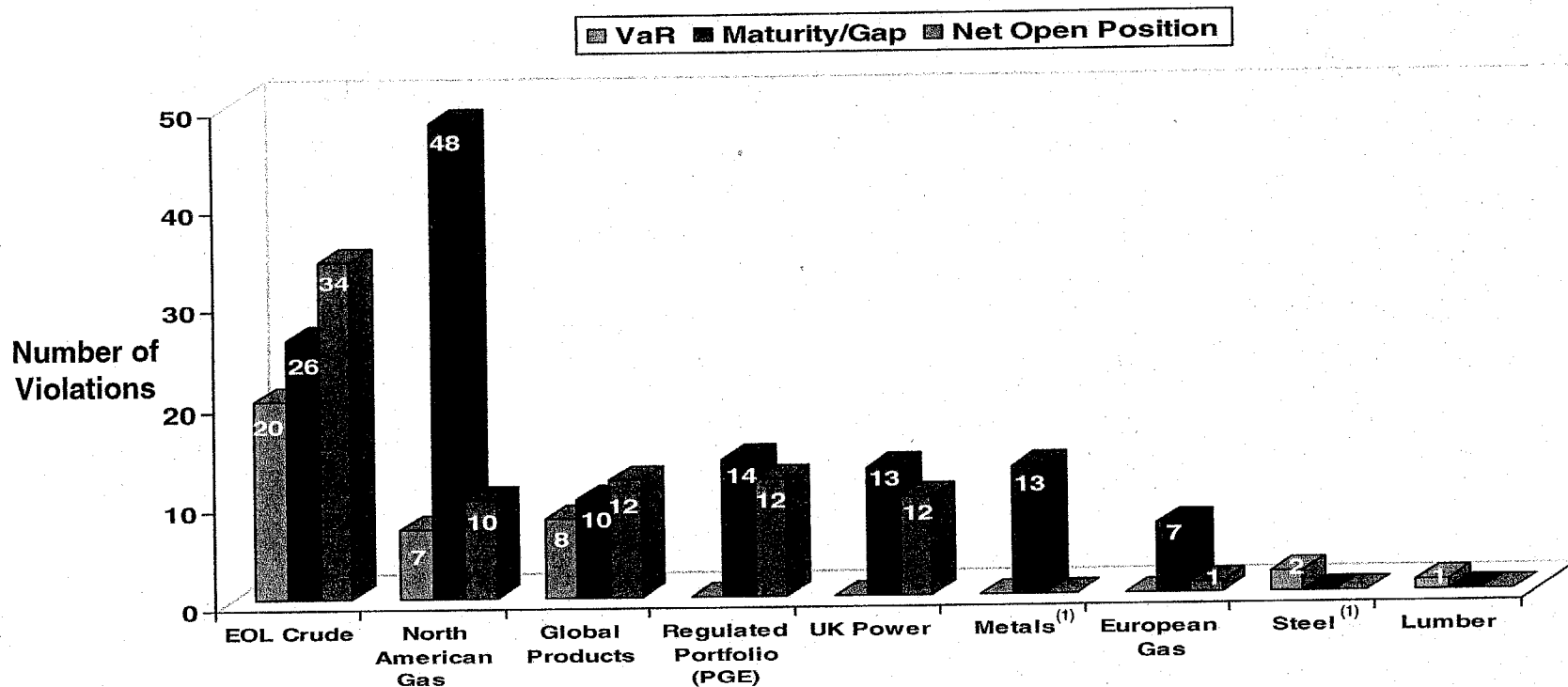
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Market Risk Limit Violations

July 1 to September 26, 2001

- ❑ No Violations of Board Approved Portfolio Limits
- ❑ No Violations of Board Approved Concentration Limits
- ❑ No Violations of Business Unit Limits
- ❑ Commodity Group Limits are established conservatively to act not as traditional "limits", but as triggers for management decision making, thereby ensuring compliance with Concentration Limits. Commodity Group Limits may be adjusted frequently in response to business needs and market dynamics.

Commodity Group Limit Violations



⁽¹⁾ Violations were the result of booking errors.

EC004397437

Scenario Analysis as of September 2001

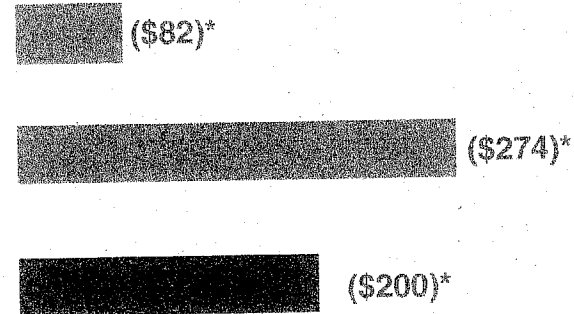
What if...

Potential Losses

(\$MM) (100) (200) (300) (400)

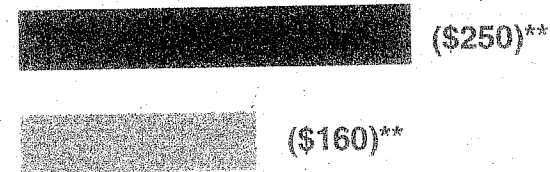
War in the Middle East Breaks Out

- Most militant Middle Eastern countries declare an oil embargo; crude prices rise to \$42 for the next four months
- A majority of the Middle Eastern countries declare an oil embargo; price of crude spikes to \$75 for the next four months
- Terrorists destroy a gas pipeline in the Gulf; gas prices increase an average of \$1 per month for the next 12 months



Recession

- Recession and war fears cause a credit crunch, reduction in volumes and foregone profits
- In addition to above, Enron realizes losses from an increase in bankruptcies



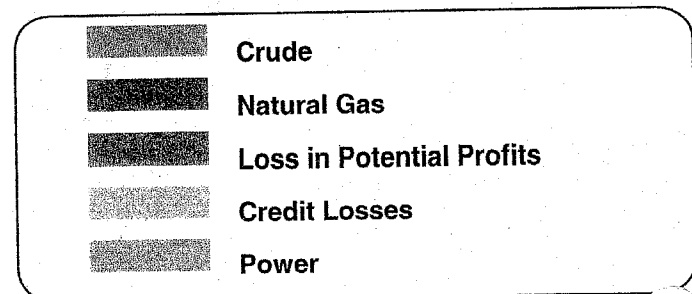
Prolonged and Unexpected Winter Freeze in the U.S.

- Gas and power prices rise due to an increased demand as a result of colder weather



* Worst case, assumes instantaneous impact on current positions.

** Losses incurred or income foregone over a 3 month period.



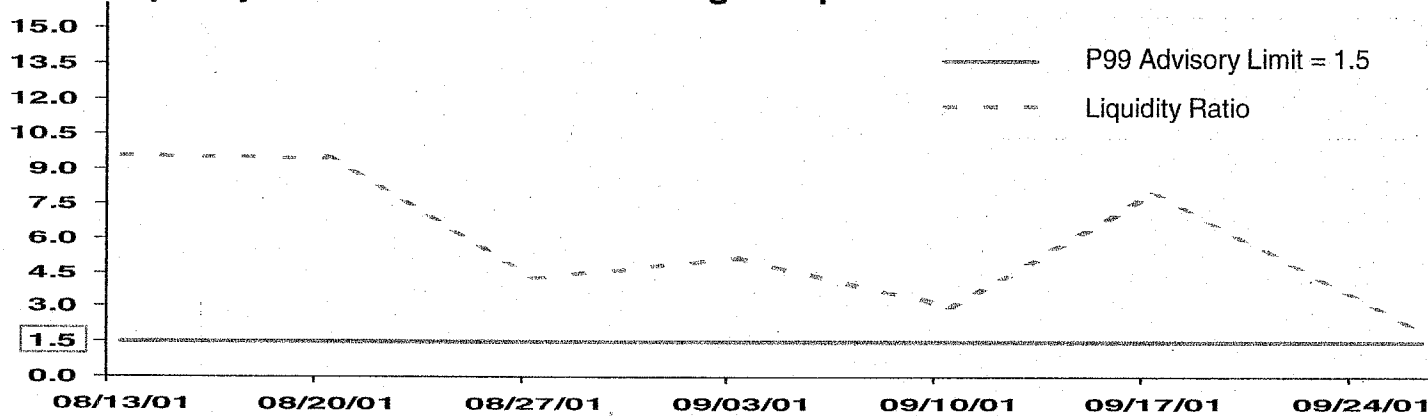
EC004397438

Liquidity Risk Ratio Analysis

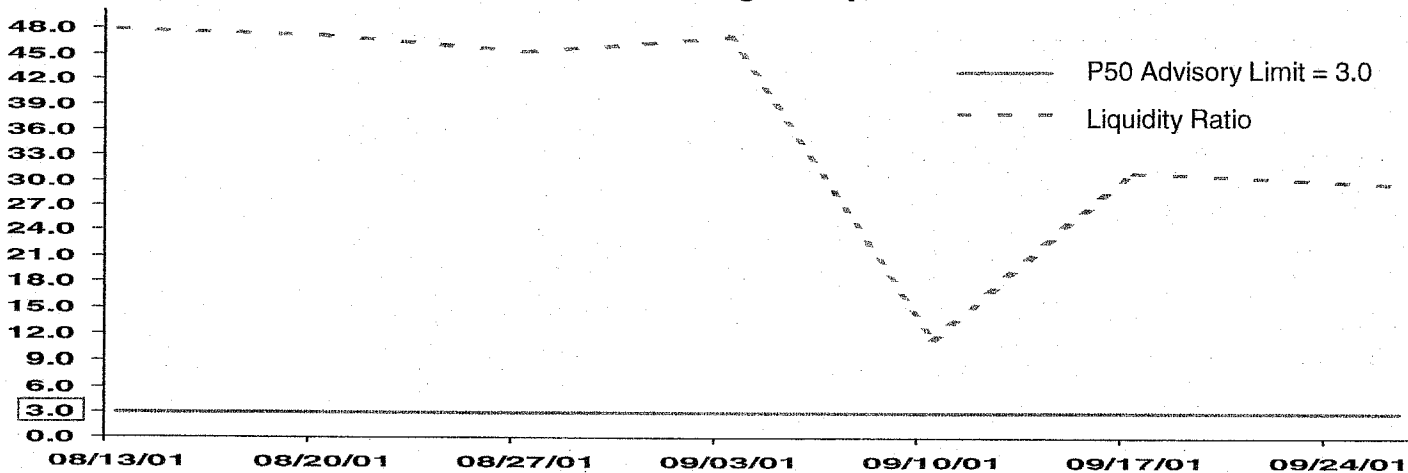
Ten Day Forward Time Horizon

$$\text{Liquidity Ratio} = \frac{\text{Future Available Cash} + \text{Borrowing Capacity}}{\text{Trading Portfolio's Potential Future Cash Requirements}}$$

Liquidity Ratio – P99 Potential Margin Exposure



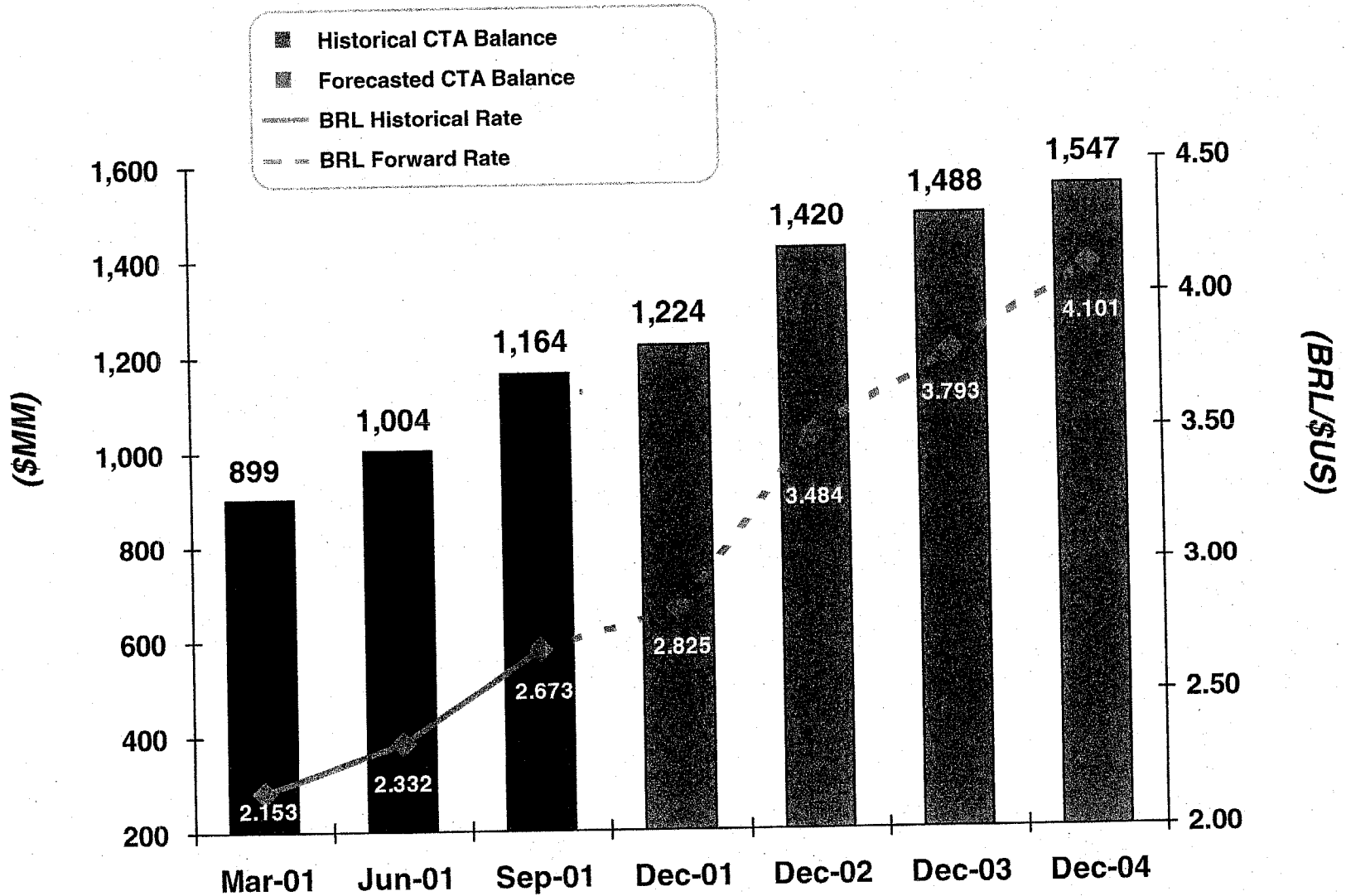
Liquidity Ratio – P50⁽¹⁾ Potential Margin Exposure



⁽¹⁾ Includes Net Accounts Receivable and Debt and Equity Shelf Registrations.

Brazilian Foreign Exchange Exposure Update

Brazilian Reais ("BRL") Cumulative Translation Adjustment (CTA) Current and Forecasted Balances



EC004397440

Agenda Item 9

EC004397441

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September 28, 2001

PRIVILEGED AND CONFIDENTIAL

Enron Corp.
1400 Smith Street
Houston, Texas 77002
Attention: Mr. James V. Derrick, Jr., General Counsel

Re: Enron Corp. Compliance Program

Reference is hereby made to the United States Sentencing Guidelines set forth in the United States Sentencing Commission, Guidelines Manual, Chapter 8 (1998) (the "Guidelines"). This written opinion is being furnished to you in connection with our involvement in the review of, and revisions to, Enron Corp.'s corporate compliance program to comply with the Guidelines.

In connection with the opinion set forth below, we have examined copies of the following documents:

- (i) Code of Business Conduct: General Policy Regarding Laws and Business Conduct, Policy No. 1.01 (the "General Policy"), adopted by the Board of Directors of Enron Corp. on August 10, 1993, as revised in September 2001 (capitalized terms used in this letter and not otherwise defined herein shall have the respective meanings given them in the General Policy, which is attached as Schedule 1 hereto);
- (ii) Enron Corp. Code of Ethics booklet (the "Ethics Booklet") dated July, 2000, which includes general standards and procedures regarding compliance with applicable laws by the employees of Enron Corp. and its affiliates (the "Company");
- (iii) Form of Acknowledgement of the Ethics Booklet and Compliance Statement attached as Schedule 2 hereto (the "Acknowledgement");
- (iv) Form of Enron Corp. Compliance Program Procedures (the "Procedures") adopted by the Enron Compliance Officer as of August 4, 1994;

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- (v) 2000 Compliance Reports for Enron Corp. and the Operating Groups (the "2000 Compliance Reports");
- (vi) Time line for submission of 2001 Compliance Reports, attached as Schedule 3 hereto (the "2002 Time Schedule"); and
- (vii) Incident log for alleged compliance-related events from Enron Corp. and the Operating Groups, Environmental Incident Log, and Summary of Incidents from Building Security and Corporate Security (collectively, the "Tracking Log").

Based upon the foregoing and subject to the qualifications set forth below, we are of the opinion that the Enron Corp. corporate compliance program generally has been designed in a manner to constitute an "effective program to prevent and detect violations of law", Guidelines § 8A1.2, cmt.(k) (an "Effective Program").

The opinion set forth above is subject to the following qualifications:

a. The Guidelines provide that whether a compliance program constitutes an Effective Program depends on a number of factors, not all of which are specified and many of which are fact specific and relate to future facts; thus, no absolute assurance can be given regarding whether a court or prosecutor would find that a particular corporate compliance program constitutes an Effective Program. Guidelines § 8A1.2, cmt.(k). The official commentary to the Guidelines lists a number of factors as being relevant as to whether a program constitutes an Effective Program. The following is a list of such factors and our analysis of how the Enron compliance program addresses such factors:

- (1) Size of organization. The requisite degree of formality of an Effective Program will vary with the size of the organization; the larger the organization is, the more formal the compliance program should be. Guidelines § 8A1.2, cmt.(k)(i). For example, a larger organization should have established written policies defining the standards and procedures to be followed by its employees and other agents. Id. Enron Corp. has such written standards and procedures, including without limitation the standards and procedures set forth in the Code of Business Conduct, the Ethics Booklet and the Procedures; the Operating Groups have additional written standards and procedures.
- (2) Likelihood that certain offenses may occur because of the nature of its business. If because of the nature of an organization's business there is a substantial risk that certain types of offenses may occur, management must have taken reasonable steps to prevent those types of offenses. Guidelines § 8A1.2, cmt.(k)(ii). Each of Enron Corp. and its Operating Groups prepared summaries of areas of law applicable to it based on the nature of its business (the "Summaries"). Enron Corp. and the Operating Groups have updated the Summaries through the 2000 Compliance Reports and are scheduled to produce the 2001 Compliance Reports

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as updates for the compliance calendar year 2001 generally according to the 2002 Time Schedule. We have been advised that the Code of Business Conduct, the Ethics Booklet and the other written standards and procedures adopted by Enron Corp. and the various Operating Groups address the material areas relevant to each of them.

- (3) Prior history of the organization. An organization's prior history may indicate types of offenses that it should have taken actions to prevent. Guidelines § 8A1.2, cmt.(k)(iii). Recurrence of misconduct similar to that which an organization has previously committed casts doubt on whether it took all reasonable steps to prevent such misconduct. Id. We regularly remind Enron Corp. and the Operating Groups to continue to consider any past misconduct, including without limitation, any criminal, civil or administrative proceedings or investigations, in formulating and communicating compliance standards and procedures, and in auditing and monitoring compliance with such standards and procedures.
- (4) Industry Practice; governmental regulations. An organization's failure to incorporate and follow applicable industry practices or the standards called for by any applicable governmental regulation weighs against a finding of an Effective Program. Guidelines § 8A1.2, cmt.(k). We have consulted with Enron Corp. and the Operating Groups about the need to take industry practice (which cannot be precisely defined) into account in formulating their programs and procedures. Enron Corp. and the Operating Groups will need to continue monitoring industry practice and applicable governmental regulations and make appropriate changes to their corporate compliance programs.

b. Although the Guidelines state that the precise actions necessary for an Effective Program will depend upon a number of factors, the Guidelines provide that an Effective Program is one "that has been reasonably designed, implemented, and enforced so that it generally will be effective in preventing and detecting criminal conduct" by its employees and other agents. Guidelines § 8A1.2, cmt.(k), introduction. The Guidelines further state that the hallmark of an Effective Program is the organization's "due diligence in seeking to prevent and detect criminal conduct by its employees and other agents." Id. Due diligence requires at a minimum that the organization must have taken the following steps:

- (1) The organization must have established compliance standards and procedures to be followed by its employees and other agents that are reasonably capable of reducing the prospect of criminal conduct. Guidelines § 8A1.2, cmt. (k)(1). As discussed above, Enron Corp. and each Operating Group prepared the Summaries and the 2000 Compliance Reports, which include a list of written standards and procedures to be followed by its employees. In connection with preparing the Summaries and the 2000 Compliance Reports, Enron Corp. and the Operating Groups were requested to review the laws applicable to their business and consider whether their standards and procedures require revisions or additions to reduce the prospect of violating such laws. We have been advised that

substantive corporate legal policies are distributed to those employees of Enron Corp. and the Operating Groups who have a need to know such policies in the course of the performance of their duties or the supervision of other employees. Each Operating Group is responsible for ensuring that such distribution occurs on an appropriate periodic basis and that employees know the location of each such policy that is applicable to them or employees supervised by them. We also understand that English (Spanish or Portuguese) versions of the Ethics Booklet have been and will be distributed annually to all personnel of Enron Corp. and the Operating Groups and that all personnel are requested to acknowledge the receipt and review thereof annually in the Acknowledgement in substantially the form of Schedule 2.

- (2) A specific individual or individuals within High-Level Personnel of the Company must have been assigned overall responsibility to oversee compliance with such standards and procedures. Guidelines § 8A1.2, cmt.(k)(2). High-Level Personnel is defined by the Guidelines as an individual who has substantial control over the organization or who has a substantial role in policy making within the organization; the term includes a director, an executive officer, and an individual in charge of a major business unit or functional unit of the organization. Guidelines § 8A1.2, cmt.(3)(b). We have been advised that Enron Corp. and each of the Operating Groups has assigned responsibility for their respective corporate compliance programs to High-Level Personnel and that such personnel are performing (or have delegated, but have maintained overall responsibility for performing) the duties listed in the General Policy and the Procedures. We understand that Enron Corp. periodically reviews the performance of such duties and makes appropriate changes (if any) in the designated personnel if indicated based on such review.

- (3) The organization must have used due care not to delegate substantial discretionary authority to individuals whom the organization knew, or should have known through the exercise of due diligence, had a propensity to engage in illegal activities. Guidelines § 8A1.2, cmt.(k)(3). The Procedures provide that (i) Enron Corp. will require the Acknowledgement in substantially the form of Schedule 2 to be completed on an annual basis by management employees of Enron Corp. and the Operating Groups, and (ii) if any employee is discovered to have such a propensity, such employee shall be divested of substantial discretionary authority. We have been advised that, in addition to the foregoing, Enron Corp. and the Operating Groups selectively have been conducting appropriate background checks (by reviewing criminal records, credit records and employment records) on management personnel who will be exercising substantial discretionary authority prior to hiring them. We also understand that a written policy governing the utilization of background checks for the hiring, retention, promotion and reassignment of personnel has been implemented.

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- (4) The organization must have taken steps to communicate regularly and effectively its standards and procedures to all employees and other agents, e.g., by requiring participation in training programs or by disseminating publications that explain in a practical manner what is required. Guidelines § 8A1.2, cmt.(k)(4). In the Summaries and the 2000 Compliance Reports, Enron Corp. and each of the Operating Groups have listed the written and other means of communicating their respective standards and procedures, and in connection with preparing and reviewing the Summaries and the 2000 Compliance Reports, have considered whether such means should be revised or supplemented. We have been advised that Enron Corp. and the Operating Groups have established additional means of such communication based on such review, as appropriate. We understand that the Ethics Booklet, certain other standards and procedures as well as all appropriate compliance policies applicable to Enron Corp. and the various Operating Groups are available to employees via computer. Further, we understand that all compliance policies are located at one home web page site that is available to all employees. In addition, we understand that Enron Corp. and the Operating Groups are utilizing its electronic communication system, including ethink and espeak, eHRonline, etv and ccMail or PhoneMail or other medium, where appropriate, to update and remind its employees with respect to important policies.
- (5) The organization must have taken reasonable steps to achieve compliance with its standards, e.g., by utilizing monitoring and auditing systems reasonably designed to detect criminal conduct by its employees and other agents and by having in place and publicizing a reporting system whereby employees and other agents can report criminal conduct by others within the organization without fear of retribution. Guidelines § 8A1.2, cmt.(k)(5). In connection with preparing the Summaries and the 2000 Compliance Reports, Enron Corp. and each Operating Group have described their means of monitoring and auditing and have considered whether any additional means should be established. We have been advised that Enron Corp. and the Operating Groups have established additional means of monitoring and auditing based on such review, where appropriate. In that regard, we understand that a Risk Assurance Group has been formed to perform a review of the internal accounting, financial and compliance controls in Enron Corp. and each of the Operating Groups. In addition, Enron Corp. has established a confidential post office box to allow employees and agents of the Company to report violations of law without fear of retribution and has informed all Company employees of the existence and manner of utilizing such post office box. Enron Corp. has also established an Office of the Chairman ccMail Box and PhoneMail Box for questions, messages, comments or suggestions by the Company's employees. The 2000 version of the Ethics Booklet, which we understand was distributed in the second quarter of 2000, lists the confidential post office box, the Office of the Chairman ccMail Box and PhoneMail Box as facilities through which employees may report suspected violations of the law without fear of retribution by those not involved in wrongdoing. We understand

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that you further publicize the confidential post office box and the Office of the Chairman ccMail Box and PhoneMail Box, via memorandum and computer on a quarterly basis, in order to increase employee awareness of these reporting facilities. Because we understand that reports of alleged violations of Enron's policies commonly are made to management personnel as opposed to the confidential reporting facilities, we advise that you continue to conduct interviews of appropriate management personnel to enhance reporting of alleged compliance related incidents.

- (6) The standards must have been consistently enforced through appropriate disciplinary mechanisms, including, as appropriate, discipline of individuals responsible for the failure to detect an offense. Guidelines § 8A1.2, cmt.(k)(6). Adequate discipline of individuals responsible for the offense is a necessary component of enforcement; however, the form of discipline that will be appropriate will be case specific. *Id.* The General Policy and the Procedures require that consistent discipline be imposed on individuals violating the Code of Business Conduct. We have been advised that discipline is generally handled at the Operating Group level, and the Tracking Log is intended for use in reporting the resolution (and related discipline, if appropriate) of alleged compliance-related incidents. We understand that investigation of potential violations is generally handled by the legal department.
- (7) After an offense has been detected, the organization must have taken all reasonable steps to respond appropriately to the offense and to prevent further similar offenses -- including any necessary modifications to its program to prevent and detect violations of law. Guidelines § 8A1.2, cmt.(k)(7). The General Policy and the Procedures require that the Code of Business Conduct and related means of communicating, auditing and monitoring compliance therewith be reviewed and revised on a periodic basis, including upon the detection of an offense. The Tracking Log is designed to report additional controls implemented as a result of alleged compliance-related incidents.

c. You should be aware that the decrease in fines and other benefits resulting from an Effective Program under the Guidelines (i) will not apply if any High-Level Personnel within an organization (or under certain circumstances, within a subsidiary, division or unit of an organization) or any individual responsible for the administration or enforcement of the corporate compliance program participated in, condoned, or was willfully ignorant of the offense, (ii) may not apply if any individual who, within the scope of his or her authority, exercises a substantial measure of discretion in acting on behalf of an organization, participated in the offense, and (iii) will not apply if, after becoming aware of an offense, an organization unreasonably delays in reporting the offense to appropriate governmental authorities. Guidelines § 8C2.5(f).

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d. It has been represented to us by you that the Operating Groups and the entities which they include encompass all of Enron Corp. and its Affiliates, and that the compliance program of each Operating Group covers each entity within such group. We understand that the Operating Groups have adopted their own Related Codes and have either adopted their own related procedures for the administration of their respective compliance programs or have elected to utilize Enron Corp.'s procedures.

e. Each of the steps outlined in the General Policy and the Procedures needs to be implemented, maintained and revised as appropriate from time to time as described therein.

f. We have assumed that (i) the written standards and procedures applicable to Enron Corp. or any Operating Group may be easily located by employees to which such standards and procedures apply and (ii) such employees are aware of which of such standards and procedures are applicable to them and employees for whom they are responsible.

g. We have assumed that Enron Corp. and the Operating Groups will substantively review their compliance programs on a periodic basis and at least once a year to determine whether they are adequate, based on the materials attached hereto, as well as on "Tips on Review/Revision of Compliance Programs" furnished to them, the form of which is attached as Schedule 4 hereto (the "Tips"), and that appropriate revisions will be made from time to time based on such review and on the answers to the questions posed in the Tips.

h. Enron Corp. and its Operating Groups need to continue to identify the agents to be included in their respective corporate compliance programs and take steps to include such agents to the extent, if any, they are not already so included.

i. The Guidelines are still relatively new and there are few court decisions interpreting what constitutes an Effective Program. Obviously, as courts interpret the Guidelines, the components of an Effective Program may change.

If you have any questions or comments with respect to the foregoing, please do not hesitate to contact us.

Very truly yours,

Vinson & Elkins L.L.P.

VINSON & ELKINS L.L.P.

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