

Arthur Andersen
E&P and IPP's

To: David B. Duncan
cc:
Date: 02/06/2001 08:24 AM
From: Michael D. Jones, Houston , 2541
Subject: Enron retention meeting

Dave, I was not sure whether you were planning on documenting the meeting yesterday. My significant notes were as follows (these were not very detailed, but I was not sure how detailed you wanted to get, assuming that you were going to document the meeting). Let me know if you want me to take a stab at it first (if so we should probably get together for a few minutes to discuss your documentation ideas.):

Attendees:

By Phone: Samek, Swanson, Jeneaux, Jonas, Kutsenda, Stewart
In Houston: Bennett, Goddard, Goolsby, Odom, Lowther, Duncan, Bauer, Jones

Significant discussion was held regarding the related party transactions with LJM including the materiality of such amounts to Enron's income statement and the amount retained "off balance sheet". The discussion focused on Fastow's conflicts of interest in his capacity as CFO and the LJM fund manager, the amount of earnings that Fastow receives for his services and participation in LJM, the disclosures of the transactions in the financial footnotes, Enron's BOD's views regarding the transactions and our and management's communication of such transactions to the BOD and our testing of such transactions to ensure that we fully understand the economics and substance of the transactions.

The question was raised as whether the BOD gets any competing bids when the company executes transactions with LJM. DBD replied that he did not believe so, but explained their transaction approval process generally and specifically related to LJM transactions.

A significant discussion was also held regarding Enron's MTM earnings and the fact that it was "intelligent gambling". We discussed Enron's risk management activities including authority limits, valuation and position monitoring.

We discussed Enron's reliance on its current credit rating to maintain itself as a high credit rated transaction party.

We discussed Enron's dependence on transaction execution to meet financial objectives, the fact that Enron often is creating industries and markets and transactions for which there are no specific rules which requires significant judgement and that Enron is aggressive in its transaction structuring. We discussed consultation among the engagement team, with Houston management, practice management and the PSG to ensure that we are not making decisions in isolation.

Ultimately the conclusion was reached to retain Enron as a client citing that it appeared that we had the appropriate people and processes in place to serve Enron and manage our engagement risks. We discussed whether there would be a perceived independence issue solely considering our level of fees. We discussed that the concerns should not be on the magnitude of fees but on the nature of fees. We arbitrarily discussed that it would not be unforeseeable that fees could reach a \$100 million per year amount considering the multi-disciplinary services being provided. Such amount did not trouble the

participants as long as the nature of the services was not an issue.

In addition to the above discussions were held to varying degrees on each page of the presentation materials.

Take away To Do's:

Inquire as to whether Andy Fastow and / or LJM would be viewed as an "affiliate" from an SEC perspective which would require looking through the transactions and treating them as within the consolidated group.

Suggest that a special committee of the BOD be established to review the fairness of LJM transactions (or alternative comfort that the transactions are fair to Enron, e.g., competitive bidding)

Why did Andy not select AA as auditors, including when PWC was replaced with KPMG. Discussions concluded that we would likely not want to be LJM's financial advisors given potential conflicts of interest with Enron.

Focus on Enron preparing their own documentation and conclusions to issues and transactions.

AA to focus on timely documentation of final transaction structures to ensure consensus is reached on the final structure.