

STATEMENT OF NORMAN P. BLAKE

Before the Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
May 7, 2002

Chairman Levin, Senator Collins, and Members of the Subcommittee. Good morning, and thank you for the opportunity to address the Subcommittee.

My name is Norman Blake. I am Interim Chairman of the Board of Enron Corporation. I have been a director of Enron since 1993. Since the outset of bankruptcy, five members of the Board and I have been actively engaged in the development of a newly constituted Board of Directors in cooperation with Enron's Creditors Committee. It is the intention of these Board members and me to resign from the Board once an orderly and effective transition of authority has taken place. We are serving now on a pro bono basis and in recognition of our responsibility to serve the interests of Enron's stakeholders and employees.

My background can essentially be characterized as having had extensive management and leadership experience in a variety of different industries with significant involvement in financial services. Over the last twelve years, I have been the Chairman and CEO of three different Fortune 500 companies and held Board membership positions in others. Much of my earlier business career was with the General Electric Company, with my latest position in 1984 being Executive Vice President of Financing Operations for the General Electric Credit Corporation.

My colleagues in their statements today will discuss the Board's and its Committees' respective roles and involvement in the related party transactions. I would like to focus on certain issues that have been raised with respect to the Board and the outside directors as a collective unit.

I begin by saying unequivocally that I am proud to have served on a Board with such capable, hardworking, intelligent, and ethical individuals. Personally, I believe that while we may have begun initially as a collection of individuals, we evolved into a cohesive and collegial group. Moreover, in my view, this Board has remained diligent and dedicated to its responsibilities throughout the process. Although we, at the time, had much confidence and respect for the abilities of the management of the Company, we did operate independently and did exert our influence and, at times, contrary to the wishes of management. For example, the decision made by the majority of the Board to acquire Wessex and form Azurix was made over the dissenting votes of two directors and the abstention of another. More recently, management's intention to acquire a pulp mill in October of last year was resisted by the Board to the extent that decision was not made to make the acquisition.

Allow me to put Enron into perspective over the last couple of years. By 2000, Enron was one of the ten largest companies in the United States. Enron had begun to transform itself from a pipeline company with substantial fixed assets to an innovative energy trading company that showed tremendous potential, but required liquidity and creditworthiness. My personal focus, as a member of the Board and its Finance Committee, had been Enron's liquidity and financial leverage in furtherance of this strategy. As a Board, we were attentive on working with management and our outside experts to realize this mission. We believed that the Company was successfully moving in that direction. In late 2000 or early 2001, no one would have predicted that by the end of 2001, Enron would file for bankruptcy. In fact, as late as October of 2001, we were informed by management that we were ahead of plan in terms of earnings and that creditworthiness and liquidity issues were manageable.

A central issue at hand involves Enron's intentions in establishing SPEs. Before I make any comments regarding the financial structures that are of concern, I would like to provide an opposing point of view to that held by many that the intention of Enron in establishing these partnerships was to manufacture earnings. To the contrary, it is my opinion that the primary purpose of these partnerships was to improve liquidity and get debt off the balance sheet. The LJM partnerships were specifically constituted for that purpose. And, by the way, I would contend that many companies establish SPEs for exactly such a purpose.

Of course, now, with the benefit of hindsight, Committees of Congress, the media, government officials, financial experts, and others have tried to dissect and examine what went wrong at Enron. Over the past several months, several questions have been raised with respect to the directors as a group. In particular, people ask if the Board failed in its oversight duty, whether Enron was moving so quickly that the independent directors could not keep up.

I think not. We worked hard as a Board. We came prepared, and we asked questions. We were sent materials in advance of meetings, and it seemed that each director reviewed them and came to the meetings prepared. Sometimes

before a Board meeting, and after spending many hours in preparation for the meeting, I would speak with Mr. Skilling about balance sheet issues or with the Chief Risk Officer, Rick Buy, about liquidity and leverage issues. I know that my fellow director, Mr. Winokur, who is here today, spent time with Enron's Chief Financial Officer Andrew Fastow before meetings asking him questions about various issues. And Dr. LeMaistre, who is also appearing with us today, spent much of his time in advance of upcoming Compensation Committee meetings with Enron's human resources and compensation staff, as well as external consultants, to ensure himself that he understood all of the technical aspects of Enron's compensation plans and to be in a position to evaluate recommendations made by management. He took his job very seriously. In short, I believe that, judged by any standard, this Board executed its duties to the Company and its shareholders.

During Board and Committee meetings, we questioned management. For example, during the October 1999 Finance Committee meeting where the LJM2 partnership was discussed, the Board material discloses that I specifically asked whether Arthur Andersen had reviewed the partnership. We were told by the Chief Accounting Officer that Arthur Andersen was "fine with it." If we had been told that Arthur Andersen had not reviewed the structure, or that Arthur Andersen had reservations, the Board would never have approved it.

The first Raptor was brought to the Finance Committee on May 1, 2000. The minutes reflect that the Chief Accounting Officer told us that "Arthur Andersen LLP had spent considerable time analyzing the Talon structure and the governance structure of LJM2 and was comfortable with the proposed transaction." This advice was critical to our decision to authorize this transaction. Some commentators have since suggested that the structure of this transaction was inappropriate on its face. That is not the advice we received at the time. My fellow directors asked questions pertaining to the propriety and oversight of these transactions. We did not rubber stamp their recommendations and requests.

Finally, media reports have cited particular transactions as evidence of earnings improprieties. These transactions were either not disclosed to the Board or, in fact, affirmatively misrepresented to us. I list a few of them here to illustrate the point.

1. The Raptors

a. The Raptors Vehicles

The media reports that the Raptor vehicles were set up so that LJM2 would recoup its investment before any hedging took place. The directors were unaware of any such arrangement.

b. Raptor I

Throughout the Board minutes and in the presentation materials, the Board was assured that the projected return for this transaction was 30%. In fact, at least one and possibly other members of management knew that LJM2's projected return was, in fact, a minimum of 76%. Yet no one told us the true rate of return they had projected.

c. Raptor III/New Power

The New Power hedge transaction was never disclosed to the Board. This particular transaction would and should have been avoided by simple adherence to the controls we put into effect.

d. Raptor Recapitalization

The credit problems with the Raptor entities, which began in late 2000, were not disclosed to the Board. The decision in early 2001 to recapitalize the Raptor structure with \$800 million in equity was, likewise, concealed from us.

2. Chewco

No director knew that Chewco was, in fact, an affiliated transaction. The directors were not aware that an Enron employee, Michael Kopper, had an ownership interest in Chewco. The Board was not told that Mr. Kopper received a payment when Chewco was closed out. We were similarly unaware, until the fall of 2001, that Chewco was in violation of the 3% equity rule.

3. Braveheart

This was the project with Blockbuster that would allow customers to choose from thousands of movies sent via telephone lines to their homes. Media reports state that Enron inexplicably claimed over \$110 million in profits in the fourth quarter of 2000 and first quarter of 2001. If Enron was falsely claiming these profits, the directors were unaware of it.

4. Southampton Place

The Board was not informed that Southampton was formed with Enron employees, or that it was able to sell Enron shares back to Enron at a huge windfall to Southampton. From the media reports I have read about this, it seems that Southampton never would have reaped such big profits if this deal had been negotiated at arms' length.

5. Churned Transactions

We are now aware from the Powers Report of a pattern of assets being sold to LJM in one quarter, only to be repurchased by Enron in the following quarter. This, too, was concealed from the Board.

Even with the benefit of hindsight, I cannot speculate as to what else we could have done to ensure that our controls and procedures were followed. We put the right controls in place, and asked the right questions. These directors were a smart and talented group of people who brought a diversity of experience and expertise to the Board. Unfortunately, I believe that we were uninformed because management and outside experts who reported to us failed to do their jobs and give us full, complete information.

I am prepared to respond to any questions from the Subcommittee.

Thank you.