

All Employees:

There have been some additions in people, functions and a tightening of focus on the Enron Communications plan that have occurred in the last few weeks. This has resulted in some confusion that needs to be clarified. Enron Communications is embarking on a path that will change the entire communications industry. Every employee will play an important role in turning ideas into reality. It is important that all employees understand the goals and objectives of the company and how they fit into this equation so we can accomplish the aggressive objectives we have set.

### **The Vision**

First, let me begin by stating those things that have not changed. We must continue to build a national and international fiber network. We have four builds currently underway in North America and one build in early stage development in South America. These builds must be completed and dark fiber sales and swaps executed to meet financial and network development targets. In addition, we must implement an IP backbone, first on leased circuits and then on our owned fiber capable of delivering IP services, VPN's and PVC's which will serve as the building blocks for our products and services. Up to this point, our market approach has been to deliver a suite of products that includes these building blocks. This would require that we compete head-on with the major telecommunications suppliers that have established customer relationships. We believe a better way is to position ourselves "above" the competition.

To that end, we are embarking on the development of an array of capabilities that will be embedded in our network through the deployment of hardware and software that will allow us to deliver bandwidth and services in a manner that has not been cost effective or possible to date. This "Intelligent Network" capability will be our primary differentiator in the marketplace and therefore we have decided that our product focus will be limited to those services that utilize this capability to satisfy a unique customer demand and begin changing the way bandwidth is bought and sold.

In order to achieve this objective, Enron Communications is committed to develop Intelligent Network Services that run on the Cisco Powered IP backbone being built on the Ciena DWDM fiber technology. We are committed to create a corporate culture that is more like a software company than a telecommunications company in the way that we develop and offer services. We will develop business processes that are unique to this industry and position us as the most efficient provider of communication services in the industry. We expect you to take an active role in creating this new type of business.

The commitment to offer these services, create new processes around this approach, and our ability to think "outside the box" will enable EC to establish itself as the most innovative communications company in the world.

We intend to leverage a close relationship with Cisco to accelerate adoption of services to become the leader in offering computer applications that are embedded in a public network provider. These applications will be made available to the user within the enterprise via the local loop sales channel and will be engineered to provide the correct type of bandwidth necessary for that particular application end to end.

Initially, EC will develop intelligent network services that are difficult for the enterprise or content providers to deploy *economically* on a private or VPN network. EC is solving problems for early adopter customers and will create standard products based on the deployment of these customer driven network application solutions.

These applications will be bandwidth intensive and create either bursty or a constant load on the network. Other key properties of the bandwidth load will be defined by the nature of the type of communication that occurs as a function of using the application. For instance some applications like NetMeeting require a full duplex capability while others may be simplex in nature, such as broadcast video, which will also require multicasting across the national backbone as well as the local loop. Some will require symmetrical bandwidth capabilities while others will be asymmetric in nature. The knowledge of these application specific traffic patterns in designing the service offering and making the network perform according to those requirements is a key to making money while offering such services in a usage sensitive manner.

As a result of all of these changes in services as well as market positioning, we have drafted a restatement of the vision:

**Enron Communications, through the intelligent delivery of high-performance IP network services, will enable powerful new applications and ultimately change the economics of the telecommunications marketplace.**

### **New Team Members**

We have an incredible amount of work to accomplish in the next four months to achieve these results. To help define this vision and make it a reality we have added several new employees. Scott Yeager has joined the company as Senior VP of Strategy and Business Development and brought two key people (Jeff Foster and Bill Collins). In addition, they bring a variety of business relationships, ideas about potential product offerings, potential vendors and partners, and innovative revenue concepts that will increase our speed to market and our success. In addition, they have ideas about how these services should be defined, engineered, installed, operated, supported and billed.

We need to absorb these ideas and define specifically how EC will develop these services and resolve all challenges. They bring an approach but we must develop the solution jointly so we get products to market rapidly. This means every employee should be thinking about our new business, how we can perform optimally and get involved with your appropriate management in taking ownership of developing these capabilities from the perspective of how it impacts your area of interest.

### **The Inevitable Confusion**

For many months, we have been talking about ways to acquire Tier 1 peering agreements in order to be an ISP's ISP. Recently, we have decided that our best approach will be to partner with ISP's to provide transit to customers when necessary, but not acquire the agreements ourselves. This will allow us to position Enron Communications as a unique supplier to retail providers without competing with them on a transit level. Even though we are no longer going to be an ISP we will still be building an IP backbone. There has been a shift to selling applications that use large amounts of bandwidth on a usage sensitive basis. This requires that ultimately the service offering deliver an application to the end user at the desktop. However, the customer/partner of Enron Communications is an ISP, CLEC, ILEC or Content Provider who sells the service to the enterprise and shares revenues with EC. There will also be ISP specific products that are designed to help the load on the ISP backbone just like there will be products that assist CLEC or ILEC's migrate to voice over IP.

Enron Communications will be unique in the industry because we will provide national and eventually international Application Services enabled on the Enron IP Backbone but *EC will not be an ISP selling Internet Transit Services.*

EC will also investigate satellite/wireless technologies as a means of connecting to Content Providers ISP's, ILEC or CLEC POP's. This does not mean we do not need a terrestrial national backbone. The combination of the two could provide a very large footprint in a rapidly deployable manner to reach more customers rapidly and leverage the national backbone to yield more revenue with a limited number of cities.

EC will develop products to match customer requirements for applications that they can not easily deploy on their existing network and cannot afford to build a new network at higher speeds to deploy the application to a finite number of users. This problem solving approach is how EC will develop a market presence in such a highly competitive and overly hyped market.

### **Where Do We Go From Here**

The goal is to get everyone involved immediately and to get the backbone built while we are developing service offerings. Effective immediately, EC will establish cross-functional work groups represented by Marketing, Sales, Business Development, Operations, Engineering, IT and Finance. This group will define general product categories and the first set of applications that can generate revenue.

This group will be formed this week and will complete the initial phase of product definitions in the next two weeks. All aspects of what is required to roll out products will be defined in a collaborative manner and coordinated by Scott Smith the new Director of Product Marketing.

This is the initial step in creating a new type of Business/Product Development process that will allow EC to respond to the market demands rapidly with the correct products. Ultimately, this will become a strategic advantage for EC more than our IP backbone, fiber in the ground or any individual application service.

EC intends to develop some strategic capabilities in software integration and universal messaging to offer these application services. Modulus Technologies (Rex Shelby and Dave Barbarian) has developed some software that is capable of allowing EC to communicate with software developed by Microsoft, SUN, Oracle, People Soft, Netscape and even that little company IBM, as well as many others. This capability is critical to developing and offering these services. EC will own the unlimited use of the necessary software license required for this suite of capabilities since this is a strategic asset.

Other companies will become software vendors or subcontractors that will assist in the development and integration of the suite of software needed to roll out these services. This software integration and universal messaging bus capability will become a core competence of EC and a strategic capability necessary to make EC a sustainable business.

We have a product announcement and revenue initiation target date of 2/1//98. This means the backbone will be operational and at least two application services will be functional by this date and operating coast to coast. Marketing Communications has started meeting with Cisco and other partners to set goals, objectives, define messages, and set realistic announcement dates as part of developing an overall strategy.

The goal is to not only announce what we are doing but show real customers running over the EC network by the this date. Very aggressive but we can do it if we pull together and work smart and hard.

Each Department must focus on their respective goals and responsibilities while developing and deploying the application services to make these dates achievable. The curtain is up and it is 'ShowTime'.

Welcome to the Enron Communications of the future. The company that will *enable* the future promised by the Internet. **You're about to become an industry leader.**