EL PASO CORP/DE
Form 10-Q
November 09, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-14365

El Paso Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**76-0568816**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
El Paso Building **1001 Louisiana Street** **Houston, Texas**	**77002**
(Address of Principal Executive Offices)	*(Zip Code)*

Telephone Number: (713) 420-2600

Internet Website: www.elpaso.com

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common stock, par value $3 per share. Shares outstanding on November 3, 2009: 701,270,947

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Below is a list of terms that are common to our industry and used throughout this document:

/d	= per day	MMBtu	= million British thermal units
Bbl	= barrels	MMcf	= million cubic feet
BBtu	= billion British thermal units	MMcfe	= million cubic feet of natural gas equivalents
Bcf	= billion cubic feet	GWh	= thousand megawatt hours
LNG	= liquefied natural gas	GW	= gigawatts
MBbls	= thousand barrels	NGL	= natural gas liquids
Mcf	= thousand cubic feet	TBtu	= trillion British thermal units
Mcfe	= thousand cubic feet of natural gas equivalents	tonne	= metric ton

When we refer to natural gas and oil in equivalents, we are doing so to compare quantities of oil with quantities of natural gas or to express these different commodities in a common unit. In calculating equivalents, we use a generally recognized standard in which one Bbl of oil is equal to six Mcf of natural gas. Also, when we refer to cubic feet measurements, all measurements are at a pressure of 14.73 pounds per square inch.

When we refer to us , we , our , ours , the company or El Paso , we are describing El Paso Corporation and/or subsidiaries.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

EL PASO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per common share amounts)
(Unaudited)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Operating revenues	$ 981	$ 1,598	$ 3,438	$ 4,020
Operating expenses				
Cost of products and services	45	68	158	195
Operation and maintenance	346	328	910	874
Ceiling test charges	5	1	2,085	8
Depreciation, depletion and amortization	200	292	653	903
Taxes, other than income taxes	56	70	181	230
	652	759	3,987	2,210
Operating income (loss)	329	839	(549)	1,810
Earnings from unconsolidated affiliates	11	52	42	141
Other income, net	33	(3)	71	52
Interest and debt expense	(256)	(221)	(764)	(675)
Income (loss) before income taxes	117	667	(1,200)	1,328
Income tax expense (benefit)	35	215	(425)	450
Net income (loss)	82	452	(775)	878
Net income attributable to noncontrolling interests	(15)	(7)	(38)	(23)
Net income (loss) attributable to El Paso Corporation	67	445	(813)	855
Preferred stock dividends	9	9	28	28
Net income (loss) attributable to El Paso Corporation s common stockholders	$ 58	$ 436	$ (841)	$ 827
Basic earnings per common share				
Net income (loss) attributable to El Paso Corporation s common stockholders	$ 0.08	$ 0.63	$ (1.21)	$ 1.19
Diluted earnings per common share				
Net income (loss) attributable to El Paso Corporation s common stockholders	$ 0.08	$ 0.58	$ (1.21)	$ 1.12

Dividends declared per El Paso Corporation s common share	$ 0.05	$ 0.05	$ 0.15	$ 0.13

See accompanying notes.

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EL PASO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,121	$ 1,024
Accounts and notes receivable		
Customers, net of allowance of $9 in 2009 and 2008	271	466
Affiliates	84	133
Other	121	217
Materials and supplies	172	187
Assets from price risk management activities	316	876
Deferred income taxes	231	
Other	109	148
Total current assets	2,425	3,051
Property, plant and equipment, at cost		
Pipelines	19,237	18,042
Natural gas and oil properties, at full cost	20,537	20,009
Other	357	342
	40,131	38,393
Less accumulated depreciation, depletion and amortization	22,931	20,535
Total property, plant and equipment, net	17,200	17,858
Other assets		
Investments in unconsolidated affiliates	1,705	1,703
Assets from price risk management activities	109	201
Other	718	855
	2,532	2,759
Total assets	$ 22,157	$ 23,668

See accompanying notes.

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EL PASO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)
(Unaudited)

	September 30, 2009	December 31, 2008
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable		
Trade	$ 300	$ 372
Affiliates	7	6
Other	492	618
Short-term financing obligations, including current maturities	339	1,090
Liabilities from price risk management activities	224	250
Accrued interest	241	192
Other	852	715
Total current liabilities	2,455	3,243
Long-term financing obligations, less current maturities	13,633	12,818
Other		
Liabilities from price risk management activities	523	767
Deferred income taxes	265	565
Other	1,557	1,679
	2,345	3,011
Commitments and contingencies (Note 9)		
Equity		
El Paso Corporation stockholders equity:		
Preferred stock, par value $0.01 per share; authorized 50,000,000 shares; issued 750,000 shares of 4.99% convertible perpetual stock; stated at liquidation value	750	750
Common stock, par value $3 per share; authorized 1,500,000,000 shares; issued 715,877,755 shares in 2009 and 712,628,781 shares in 2008	2,148	2,138
Additional paid-in capital	4,505	4,612
Accumulated deficit	(3,466)	(2,653)
Accumulated other comprehensive loss	(709)	(532)
Treasury stock (at cost); 14,612,967 shares in 2009 and 14,061,474 shares in 2008	(282)	(280)
Total El Paso Corporation stockholders equity	2,946	4,035
Noncontrolling interests	778	561

Total equity		3,724		4,596
Total liabilities and equity	$	22,157	$	23,668

See accompanying notes.

EL PASO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash flows from operating activities		
Net income (loss)	$ (775)	$ 878
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation, depletion and amortization	653	903
Ceiling test charges	2,085	8
Deferred income tax expense (benefit)	(448)	470
Earnings from unconsolidated affiliates, adjusted for cash distributions	17	(12)
Other non-cash income items	53	16
Asset and liability changes	196	(212)
Net cash provided by operating activities	1,781	2,051
Cash flows from investing activities		
Capital expenditures	(2,081)	(1,905)
Cash paid for acquisitions, net of cash acquired	(39)	(362)
Net proceeds from the sale of assets and investments	303	671
Net change in restricted cash	41	35
Other	(26)	44
Net cash used in investing activities	(1,802)	(1,517)
Cash flows from financing activities		
Net proceeds from issuance of long-term debt	1,369	4,083
Payments to retire long-term debt and other financing obligations	(1,290)	(3,556)
Dividends paid	(133)	(113)
Net proceeds from issuance of noncontrolling interests	212	15
Distributions to noncontrolling interest holders	(33)	(20)
Repurchase of common shares		(77)
Other	(7)	9
Net cash provided by financing activities	118	341
Change in cash and cash equivalents	97	875
Cash and cash equivalents		
Beginning of period	1,024	285
End of period	$ 1,121	$ 1,160

See accompanying notes.

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EL PASO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
El Paso Corporation stockholders equity:		
Preferred stock:		
Balance at beginning and end of period	$ 750	$ 750
Common stock:		
Balance at beginning of period	2,138	2,128
Other, net	10	8
Balance at end of period	2,148	2,136
Additional paid-in capital:		
Balance at beginning of period	4,612	4,699
Dividends	(133)	(119)
Other, including stock-based compensation	26	69
Balance at end of period	4,505	4,649
Accumulated deficit:		
Balance at beginning of period	(2,653)	(1,834)
Net income (loss) attributable to El Paso Corporation	(813)	855
Cumulative effect of adopting new pension plan accounting standards, net of income tax of $2		4
Balance at end of period	(3,466)	(975)
Accumulated other comprehensive loss:		
Balance at beginning of period	(532)	(272)
Other comprehensive income (loss)	(177)	102
Cumulative effect of adopting new pension plan accounting standards, net of income tax of $2		3
Balance at end of period	(709)	(167)
Treasury stock, at cost:		
Balance at beginning of period	(280)	(191)
Share repurchases		(77)
Stock-based and other compensation	(2)	(10)
Balance at end of period	(282)	(278)
Total El Paso Corporation stockholders equity at end of period	2,946	6,115

Noncontrolling interests:		
Balance at beginning of period	561	565
Distributions paid to noncontrolling interests	(33)	(20)
Issuance of noncontrolling interests	212	15
Net income attributable to noncontrolling interests	38	23
Other		(24)
Balance at end of period	778	559
Total equity at end of period	$ 3,724	$ 6,674

See accompanying notes.

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EL PASO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income (loss)	$ 82	$ 452	$ (775)	$ 878
Pension and postretirement obligations:				
Unrealized actuarial losses arising during period (net of income taxes of $1 in 2008)				(2)
Reclassification of actuarial losses during period (net of income taxes of $3 and $11 in 2009 and $2 and $7 in 2008)	7	3	21	13
Cash flow hedging activities:				
Unrealized mark-to-market gains (losses) arising during period (net of income taxes of $5 and $3 in 2009 and $227 and $5 in 2008)	(5)	405	5	10
Reclassification adjustments for changes in initial value to the settlement date (net of income taxes of $34 and $114 in 2009 and $24 and $46 in 2008)	(61)	42	(203)	81
Other comprehensive income (loss)	(59)	450	(177)	102
Comprehensive income (loss)	23	902	(952)	980
Comprehensive income attributable to noncontrolling interests	(15)	(7)	(38)	(23)
Comprehensive income (loss) attributable to El Paso Corporation	$ 8	$ 895	$ (990)	$ 957

See accompanying notes.

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EL PASO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

We prepared this Quarterly Report on Form 10-Q under the rules and regulations of the United States Securities and Exchange Commission (SEC). Because this is an interim period filing presented using a condensed format, it does not include all of the disclosures required by U.S. generally accepted accounting principles (GAAP). You should read this Quarterly Report on Form 10-Q along with our 2008 Annual Report on Form 10-K, which contains a summary of our significant accounting policies and other disclosures. The financial statements as of September 30, 2009, and for the quarters and nine months ended September 30, 2009 and 2008, are unaudited. We derived the condensed consolidated balance sheet as of December 31, 2008, from the audited balance sheet filed in our 2008 Annual Report on Form 10-K. As discussed below, certain amounts related to noncontrolling interests have been retrospectively adjusted within these consolidated financial statements to reflect the January 1, 2009 adoption of new presentation and disclosure requirements for noncontrolling interests. Our financial statements for prior periods also include certain reclassifications that were made to conform to the current period presentation, none of which impacted our reported net income (loss) or stockholders equity. In our opinion, we have made adjustments, all of which are of a normal, recurring nature to fairly present our interim period results. We have evaluated subsequent events through the time of filing on November 6, 2009, the date of issuance of our financial statements. Due to the seasonal nature of our businesses, information for interim periods may not be indicative of our operating results for the entire year.

Significant Accounting Policies

The information below provides an update of our significant accounting policies and accounting pronouncements issued but not yet adopted as discussed in our 2008 Annual Report on Form 10-K.

Fair Value Measurements. On January 1, 2009, we adopted new accounting and reporting standards related to our non-financial assets and liabilities that are measured at fair value on a non-recurring basis, as further described in Note 6. The adoption did not have a material impact on our financial statements.

On January 1, 2009, we also adopted accounting standard updates regarding how companies should consider their own credit in determining the fair value of their liabilities that have third party credit enhancements related to them. Substantially all of the derivative liabilities in our Marketing segment are supported by letters of credit. Under these accounting standard updates, non-cash credit enhancements, such as letters of credit, should not be considered in determining the fair value of these liabilities, including derivative liabilities. Accordingly, we recorded a $34 million gain (net of $18 million of taxes), or $0.05 per share, in the first quarter of 2009 as a result of adopting these new accounting updates.

Business Combinations. On January 1, 2009, we adopted accounting standard updates related to business acquisitions. These updates apply to acquisitions that are effective after December 31, 2008 and require that all acquired assets, liabilities, noncontrolling interests and certain contingencies be measured at fair value, and certain other acquisition-related costs be expensed rather than capitalized.

Noncontrolling Interests. Effective January 1, 2009, we adopted accounting standard updates on accounting and reporting for noncontrolling interests in the financial statements which require us to present our noncontrolling interests that have the characteristics of permanent equity (primarily related to El Paso Pipeline Partners, L.P., our consolidated subsidiary) as a separate component of equity rather than as a mezzanine item between liabilities and equity on our balance sheets. Additionally, we are also required to present our noncontrolling interests as a separate caption in our income statements. Our financial statements for all periods presented have been adjusted to retrospectively apply these changes to the presentation and disclosure requirements related to noncontrolling interests. These accounting standard updates also require that all transactions with noncontrolling interest holders after adoption, including the issuance and repurchase of noncontrolling interests, be accounted for as equity transactions unless a change in control of the subsidiary occurs.

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New Accounting Pronouncements Issued But Not Yet Adopted

As of September 30, 2009, the following accounting standards have not yet been adopted by us:

Oil and Gas Reserves Reporting. In December 2008, the SEC issued a final rule adopting revisions to its oil and gas reporting requirements. The revisions will impact the determination and disclosures of oil and gas reserves information. Among other items, the new rules will revise the definition of proved reserves and will require full cost companies to use a twelve month average commodity price in determining future net revenues, rather than a period-end price as is currently required. These changes, along with other proposed changes, will impact the manner in which we perform our full cost ceiling test calculation and determine any related ceiling test charge. The provisions of this final rule are effective on December 31, 2009, and cannot be applied earlier than that date. We are currently assessing the impact that this final rule may have on our determination and disclosures of oil and gas reserves information.

Transfers of Financial Assets. In June 2009, the Financial Accounting Standards Board (FASB) issued updates to the existing accounting standards on financial asset transfers. Among other items, these accounting standard updates eliminate the concept of a qualifying special-purpose entity (QSPE) for purposes of evaluating whether an entity should be consolidated as a variable interest entity and are effective for existing QSPEs as of January 1, 2010 and for transactions entered into on or after January 1, 2010. We are currently assessing the impact that these accounting standard updates may have on our financial statements, including any impacts it may have on accounting for our accounts receivable sales program and the related senior beneficial interests (see Note 13).

Variable Interest Entities. In June 2009, the FASB issued updates to existing accounting standards for variable interest entities which revise how companies determine their primary beneficiaries, among other changes. These updates require companies to use a qualitative approach based on their responsibilities and controlling power over the variable interest entities   operations rather than a quantitative approach in determining the primary beneficiary as previously required. We are currently assessing the impact that these accounting standard updates, effective January 1, 2010, may have on our financial statements.