EL PASO CORP/DE
Form 10-Q
August 08, 2011

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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 June 30, 2011

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

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 August 2, 2011: 770,247,634

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

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

When we refer to oil and natural gas 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/o
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 June 30, 2011	Quarters Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating revenues	$ 1,236	$ 1,018	$ 2,225	$ 2,419
Operating expenses				
Cost of products and services	44	53	91	106
Operation and maintenance	323	285	628	586
Depreciation, depletion and amortization	262	242	516	460
Taxes, other than income taxes	78	54	154	123
	707	634	1,389	1,275
Operating income	529	384	836	1,144
Earnings from unconsolidated affiliates	32	111	62	139
Loss on debt extinguishment	(27)		(68)	
Other income, net	82	57	181	117
Interest and debt expense	(239)	(284)	(479)	(527)
Income before income taxes	377	268	532	873
Income tax expense	38	82	57	268
Net income	339	186	475	605
Net income attributable to noncontrolling interests	(77)	(29)	(151)	(60)
Net income attributable to El Paso Corporation	262	157	324	545
Preferred stock dividends of El Paso Corporation		10		19
Net income attributable to El Paso Corporation s common stockholders	$ 262	$ 147	$ 324	$ 526
Basic earnings per common share				
Net income attributable to El Paso Corporation s common stockholders	$ 0.34	$ 0.21	$ 0.44	$ 0.75
Diluted earnings per common share				
Net income attributable to El Paso Corporation s common stockholders	$ 0.34	$ 0.21	$ 0.42	$ 0.72

Dividends declared per El Paso Corporation s common share	$ 0.01	$ 0.01	$ 0.02	$ 0.02

See accompanying notes.

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income	$ 339	$ 186	$ 475	$ 605
Pension and postretirement obligations:				
Reclassification of net actuarial losses during period (net of income taxes of $7 and $14 in 2011 and $6 and $12 in 2010)	15	11	31	24
Cash flow hedging activities:				
Unrealized mark-to-market gains (losses) arising during period (net of income taxes of $15 and $13 in 2011 and $23 and $25 in 2010)	(27)	(37)	(24)	(40)
Reclassification adjustments for changes in initial value to the settlement date (net of income taxes of $1 and $2 in 2011 and $1 and $2 in 2010)	4	2	7	4
Other comprehensive income (loss)	(8)	(24)	14	(12)
Comprehensive income	331	162	489	593
Comprehensive income attributable to noncontrolling interests	(77)	(29)	(151)	(60)
Comprehensive income attributable to El Paso Corporation	$ 254	$ 133	$ 338	$ 533

See accompanying notes.

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

	June 30, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents (include $38 in 2011 and $31 in 2010 held by variable interest entities)	$ 260	$ 347
Accounts and notes receivable		
Customer, net of allowance of $5 in 2011 and $4 in 2010	329	333
Affiliates	6	7
Other	183	160
Materials and supplies	180	169
Assets from price risk management activities	204	265
Deferred income taxes	284	165
Other	106	106
Total current assets	1,552	1,552
Property, plant and equipment, at cost		
Pipelines (include $4,029 in 2011 and $3,232 in 2010 held by variable interest entities)	23,378	22,385
Oil and natural gas properties, at full cost	22,331	21,692
Other	477	416
	46,186	44,493
Less accumulated depreciation, depletion and amortization	23,617	23,421
Total property, plant and equipment, net	22,569	21,072
Other long-term assets		
Investments in unconsolidated affiliates	1,689	1,673
Assets from price risk management activities	36	61
Other	1,112	912
	2,837	2,646
Total assets	$ 26,958	$ 25,270

See accompanying notes.

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

	June 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable		
Trade	$ 474	$ 610
Affiliates	11	9
Other	423	386
Short-term financing obligations, including current maturities	618	489
Liabilities from price risk management activities	194	176
Asset retirement obligations	65	63
Accrued interest	203	202
Other	579	630
Total current liabilities	2,567	2,565
Long-term financing obligations, less current maturities	13,594	13,517
Other long-term liabilities		
Liabilities from price risk management activities	387	397
Deferred income taxes	764	568
Other	1,436	1,461
	2,587	2,426
Commitments and contingencies (Note 8)		
Preferred stock of subsidiaries	763	698
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 as of December 31, 2010; stated at liquidation value		750
Common stock, par value $3 per share; authorized 1,500,000,000 shares; issued 785,159,805 shares in 2011 and 719,743,724 shares in 2010	2,355	2,159
Additional paid-in capital	5,444	4,484
Accumulated deficit	(2,110)	(2,434)
Accumulated other comprehensive loss	(737)	(751)
	(282)	(291)

Treasury stock (at cost); 15,053,056 shares in 2011 and 15,492,605 shares in 2010		
Total El Paso Corporation stockholders equity	4,670	3,917
Noncontrolling interests	2,777	2,147
Total equity	7,447	6,064
Total liabilities and equity	$ 26,958	$ 25,270

See accompanying notes.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities		
Net income	$ 475	$ 605
Adjustments to reconcile net income to net cash from operating activities		
Depreciation, depletion and amortization	516	460
Deferred income tax expense	73	270
Earnings from unconsolidated affiliates, adjusted for cash distributions	(31)	(104)
Loss on debt extinguishment	68	
Other non-cash income items	(96)	(22)
Asset and liability changes	(9)	(315)
Net cash provided by operating activities	996	894
Cash flows from investing activities		
Capital expenditures	(2,016)	(1,502)
Net proceeds from the sale of assets and investments	29	293
Increase in notes receivable	(112)	(16)
Other		27
Net cash used in investing activities	(2,099)	(1,198)
Cash flows from financing activities		
Net proceeds from issuance of long-term debt	2,976	965
Payments to retire long-term debt and other financing obligations	(2,861)	(1,060)
Net proceeds from issuance of noncontrolling interests	948	549
Distributions to noncontrolling interest holders	(86)	(39)
Net proceeds from issuance of preferred stock of subsidiary	30	
Distributions to holders of preferred stock of subsidiary	(10)	(10)
Dividends paid	(23)	(33)
Proceeds from stock option exercises	43	4
Other	(1)	
Net cash provided by financing activities	1,016	376
Change in cash and cash equivalents	(87)	72
Cash and cash equivalents		
Beginning of period	347	635
End of period	$ 260	$ 707

See accompanying notes.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
El Paso Corporation stockholders equity:		
Preferred stock:		
Balance at beginning of period	$ 750	$ 750
Conversion of preferred stock	(750)	
Balance at end of period		750
Common stock:		
Balance at beginning of period	2,159	2,148
Conversion of preferred stock	174	
Other, net	22	10
Balance at end of period	2,355	2,158
Additional paid-in capital:		
Balance at beginning of period	4,484	4,501
Conversion of preferred stock	576	
Dividends	(14)	(33)
Issuances of noncontrolling interests (Note 10)	338	
Other, including stock-based compensation	60	19
Balance at end of period	5,444	4,487
Accumulated deficit:		
Balance at beginning of period	(2,434)	(3,192)
Net income attributable to El Paso Corporation	324	545
Balance at end of period	(2,110)	(2,647)
Accumulated other comprehensive income (loss):		
Balance at beginning of period	(751)	(718)
Other comprehensive income (loss)	14	(12)
Balance at end of period	(737)	(730)
Treasury stock, at cost:		
Balance at beginning of period	(291)	(283)
Stock-based and other compensation	9	(7)
Balance at end of period	(282)	(290)

Total El Paso Corporation stockholders equity at end of period	4,670	3,728
Noncontrolling interests:		
Balance at beginning of period	2,147	785
Issuances of noncontrolling interests (Note 10)	610	549
Distributions to noncontrolling interests	(86)	(39)
Net income attributable to noncontrolling interests (Note 10)	106	50
Balance at end of period	2,777	1,345
Total equity at end of period	$ 7,447	$ 5,073

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). As 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) and should be read along with our 2010 Annual Report on Form 10-K. The financial statements as of June 30, 2011, and for the quarters and six months ended June 30, 2011 and 2010, are unaudited. The condensed consolidated balance sheet as of December 31, 2010 was derived from the audited balance sheet filed in our 2010 Annual Report on 10-K. In our opinion, we have made adjustments, all of which are of a normal, recurring nature, to fairly present our interim period results. Our financial statements for prior periods include reclassifications that were made to conform to the current year presentation, none of which impacted our reported net income or stockholders equity. Additionally, our statement of cash flows for the six months ended June 30, 2010 reflects a decrease in both net cash provided by operating activities and net cash used in investing activities related to the timing of certain capital expenditures which was considered immaterial to our 2010 consolidated 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. Our disclosures in this Form 10-Q are an update to those provided in our 2010 Annual Report on Form 10-K.

On May 24, 2011, we announced that our Board of Directors had granted initial approval of a plan to separate the Company into two publicly traded businesses by the end of 2011. The plan calls for a tax-free spin-off of our exploration and production business and related activities into a new publicly traded company separate from El Paso Corporation (EPC). The planned separation is subject to market, regulatory, tax and final approval by our Board of Directors and other customary conditions. Until the separation is complete, the results of operations, financial position and cash flows of our exploration and production business will be reported as continuing operations.

Significant Accounting Policies

There were no changes in the significant accounting policies described in our 2010 Annual Report on Form 10-K and no significant accounting pronouncements issued but not yet adopted as of June 30, 2011.

2. Divestitures

During the second quarter of 2010, we completed the sale of certain of our interests in Mexican pipeline and compression assets for approximately $300 million and recorded a pretax gain of approximately $80 million in earnings from unconsolidated affiliates. In July 2011, we sold oil and natural gas properties located in Alabama for approximately $104 million.

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3. Other Income, Net

The following are the components of other income and other expense for the quarters and six months ended June 30:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In millions)			
Other Income, Net				
Allowance for equity funds used during construction	$ 74	$ 51	$ 171	$ 101
Other	8	6	10	16
Total	$ 82	$ 57	$ 181	$ 117

Allowance for Equity Funds Used During Construction. As allowed by the Federal Energy Regulatory Commission (FERC), we capitalize a pre-tax carrying cost on equity funds related to the construction of long-lived assets in our FERC regulated business and reflect this amount as an increase in the cost of the asset on our balance sheet. We calculate this amount using the most recent FERC approved equity rate of return. These amounts are recovered over the depreciable lives of the long-lived assets to which they relate.

4. Income Taxes

Income taxes for the quarters and six months ended June 30 were as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In millions, except rates)			
Income tax expense	$ 38	$ 82	$ 57	$ 268
Effective tax rate	10%	31%	11%	31%

Effective Tax Rate. We compute interim period income taxes by applying an anticipated annual effective tax rate to our year-to-date income or loss, except for significant unusual or infrequently occurring items, which are recorded in the period in which they occur. Changes in tax laws or rates are recorded in the period of enactment. Our effective tax rate is affected by items such as income attributable to nontaxable noncontrolling interests, dividend exclusions on earnings from unconsolidated affiliates where we anticipate receiving dividends, the effect of state income taxes (net of federal income tax effects) and the effect of foreign income which can be taxed at different rates.

For the quarter and six months ended June 30, 2011, our effective tax rate was significantly lower than the statutory rate primarily due to the benefit to our anticipated annual effective tax rate of income attributable to nontaxable noncontrolling interests of El Paso Pipeline Partners, L.P. (EPB), dividend exclusions on earnings from unconsolidated affiliates where we anticipate receiving dividends and the favorable resolution of certain tax matters. For the quarter and six months ended June 30, 2010, our effective tax rate was impacted by the sale of certain of our interests in Mexican pipeline and compression assets and income attributable to nontaxable noncontrolling interests. Partially offsetting these items was $18 million of additional deferred income tax expense recorded in the first quarter of 2010 from healthcare legislation enacted in March 2010.

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5. Earnings Per Share

Basic and diluted earnings per common share were as follows for the quarters and six months ended June 30:

Quarters Ended June 30,

	2011		2010	
	Basic	Diluted	Basic	Diluted
	(In millions, except per share amounts)			
Net income attributable to El Paso Corporation	$ 262	$ 262	$ 157	$ 157
Preferred stock dividends of El Paso Corporation			(10)	
Interest on trust preferred securities		3		
Net income attributable to El Paso Corporation s common stockholders	$ 262	$ 265	$ 147	$ 157
Weighted average common shares outstanding	763	763	698	698
Effect of dilutive securities:				
Options and restricted stock		11		5
Convertible preferred stock				58
Trust preferred securities		8		
Weighted average common shares outstanding and dilutive securities	763	782	698	761
Basic and diluted earnings per common share:				
Net income attributable to El Paso Corporation s common stockholders	$ 0.34	$ 0.34	$ 0.21	$ 0.21

Six Months Ended June 30,

	2011		2010	
	Basic	Diluted	Basic	Diluted
	(In millions, except per share amounts)			
Net income attributable to El Paso Corporation	$ 324	$ 324	$ 545	$ 545
Preferred stock dividends of El Paso Corporation			(19)	
Interest on trust preferred securities				5
Net income attributable to El Paso Corporation s common stockholders	$ 324	$ 324	$ 526	$ 550
Weighted average common shares outstanding	738	738	697	697
Effect of dilutive securities:				
Options and restricted stock		11		5
Convertible preferred stock		22		58
Trust preferred securities				8
	738	771	697	768

Weighted average common shares outstanding and dilutive securities				
Basic and diluted earnings per common share:				
Net income attributable to El Paso Corporation s common stockholders	$ 0.44	$ 0.42	$ 0.75	$ 0.72

We exclude potentially dilutive securities from the determination of diluted earnings per share (as well as their related income statement impacts) when their impact on net income attributable to El Paso Corporation per common share is antidilutive. Our potentially dilutive securities consist of employee stock options, restricted stock, trust preferred securities and convertible preferred stock. In March 2011, we converted our preferred stock to common stock as further described in Note 10. For the quarters and six months ended June 30, 2011 and 2010, certain of our employee stock options were antidilutive. Additionally, for the quarter ended June 30, 2010 and the six months ended June 30, 2011, our trust preferred securities were antidilutive.

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6. Financial Instruments

The following table reflects the carrying value and fair value of our financial instruments:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Long-term financing obligations, including current maturities	$ 14,212	$ 15,799	$ 14,006	$ 14,686
Marketable securities in non-qualified compensation plans	21	21	20	20
Commodity-based derivatives	(246)	(246)	(186)	(186)
Interest rate derivatives	(95)	(95)	(61)	(61)
Other	(12)	(12)	(11)	(11)

As of June 30, 2011 and December 31, 2010, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term financing obligations represent fair value because of the short-term nature of these instruments. The carrying amounts of our restricted cash and noncurrent receivables approximate their fair value based on the nature of their interest rates and our assessment of the ability to recover these amounts. We estimated the fair value of our long-term financing obligations based on quoted market prices for the same or similar issues, including consideration of our credit risk related to those instruments.

Our derivative financial instruments are further described in our 2010 Annual Report on Form 10-K and below:

Production-Related Commodity Based Derivatives. As of June 30, 2011 and December 31, 2010, we have production-related derivatives (oil and natural gas swaps, collars, basis swaps and option contracts) to mitigate a portion of our commodity price risk and stabilize cash flows associated with forecasted sales of oil and natural gas production on 17,382 MBbl and 12,240 MBbl of oil and 200 TBtu and 283 TBtu of natural gas. None of these contracts are designated as accounting hedges.

Other Commodity-Based Derivatives. As of June 30, 2011 and December 31, 2010, in our Marketing segment we have forwards, swaps and options contracts related to long-term natural gas and power. These contracts, the longest of which extends into 2019, include (i) obligations to sell natural gas to power plants ranging from 12,550 MMBtu/d to 95,000 MMBtu/d and (ii) an obligation to swap locational differences in power prices between three power plants in the Pennsylvania-New Jersey-Maryland (PJM) eastern region with the PJM west hub on approximately 1,700 to 3,700 GWh, to provide annually approximately 1,700 GWh of power and approximately 71 GW of installed capacity in the PJM power pool. We have entered into contracts to economically mitigate our exposure to commodity price changes and locational price differences on substantially all of these natural gas and power volumes. None of these derivatives are designated as accounting hedges.

Interest Rate Derivatives. We have long-term debt with variable interest rates that exposes us to changes in market-based interest rates. As of June 30, 2011 and December 31, 2010, we had interest rate swaps that are designated as cash flow hedges that effectively convert the interest rate on approximately $1.3 billion of debt from a floating LIBOR interest rate to a fixed interest rate. Approximately $1.1 billion of the debt hedged as of June 30, 2011 relates to debt associated with our Ruby pipeline project that began accruing interest on July 1, 2011 and have termination dates ranging from June 2013 to June 2017. These termination dates correspond to the estimated principal outstanding on the Ruby debt over the term of these swaps. For a further discussion of our Ruby financing, see Note 7.

We also have long-term debt with fixed interest rates that exposes us to paying higher than market rates should interest rates decline. We use interest rate swaps designated as fair value hedges to protect the value of certain of these debt instruments by converting the fixed amounts of interest due under the debt agreements to variable interest payments. We record changes in the fair value of these derivatives in interest expense which is offset by changes in the fair value of the related hedged items. As of June 30, 2011 and December 31, 2010, these interest rate swaps converted the interest rate on approximately $162 million and $184 million of debt from a fixed rate to a variable rate of LIBOR plus 4.18%.

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Fair Value Measurement. We separate the fair values of our financial instruments into three levels (Levels 1, 2 and 3) based on our assessment of the availability of observable market data and the significance of non-observable data used to determine fair value. Our assessment and classification of an instrument within a level can change over time based on the maturity or liquidity of the instrument. During the quarter and six months ended June 30, 2011, there have been no changes to the inputs and valuation techniques used to measure fair value, the types of instruments, or the levels in which they are classified. Our marketable securities in non-qualified compensation plans and other are reflected at fair value on our balance sheets as other long-term assets, other current liabilities and other long-term liabilities. We net our derivative assets and liabilities for counterparties where we have a legal right of offset and classify our derivatives as either current or non-current assets or liabilities based on their anticipated settlement date. At June 30, 2011 and December 31, 2010, cash collateral held was not material. The following table presents the fair value of our financial instruments at June 30, 2011 and December 31, 2010 (in millions).

	June 30, 2011				December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Commodity-based derivatives								
Production-related oil and natural gas derivatives	$	$ 285	$	$ 285	$	$ 373	$	$ 373
Other natural gas derivatives		116	16	132		139	18	157
Power-related derivatives			23	23			31	31
Total commodity-based derivative assets		401	39	440		512	49	561
Interest rate derivatives designated as hedges								
Fair value hedges		5		5		8		8
Impact of master netting arrangements		(194)	(11)	(205)		(229)	(14)	(243)
Total price risk management assets	$	$ 212	$ 28	$ 240	$	$ 291	$ 35	$ 326
Marketable securities in non-qualified compensation plans	21			21	20			20
Total net assets	$ 21	$ 212	$ 28	$ 261	$ 20	$ 291	$ 35	$ 346
Liabilities								
Commodity-based derivatives								
	$	$ (159)	$	$ (159)	$	$ (136)	$	$ (136)

Production-related oil and natural gas derivatives								
Other natural gas derivatives		(133)	(67)	(200)		(162)	(90)	(252)
Power-related derivatives			(327)	(327)			(359)	(359)
Total commodity-based derivative liabilities		(292)	(394)	(686)		(298)	(449)	(747)
Interest rate derivatives designated as hedges								
Cash flow hedges		(100)		(100)		(69)		(69)
Impact of master netting arrangements		194	11	205		229	14	243
Total price risk management liabilities	$	$ (198)	$ (383)	$ (581)	$	$ (138)	$ (435)	$ (573)
Other			(13)	(13)			(12)	(12)
Total net liabilities	$	$ (198)	$ (396)	$ (594)	$	$ (138)	$ (447)	$ (585)
Total	$ 21	$ 14	$ (368)	$ (333)	$ 20	$ 153	$ (412)	$ (239)

On certain derivative contracts recorded as assets in the table above, we are exposed to the risk that our counterparties may not perform or post the required collateral. Based on our assessment of counterparty risk in light of the collateral our counterparties have posted with us (primarily in the form of letters of credit), we have determined that our exposure is primarily related to our production-related derivatives and is limited to nine financial institutions, each of which has a current Standard & Poor s credit rating of A or better.

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The following table presents the changes in our financial assets and liabilities included in Level 3 for the quarter and six months ended June 30, 2011:

	Balance at Beginning of Period	Change in Fair Value Reflected in Operating Revenues[1]	Change in Fair Value Reflected in Operating Expenses[2]	Settlements	Balance at End of Period
	(In millions)				
Quarter Ended June 30, 2011					
Assets	$ 32	$ (3)	$	$ (1)	$ 28
Liabilities	(416)	(5)	(5)	30	(396)
Total	$ (384)	$ (8)	$ (5)	$ 29	$ (368)
Six Months Ended June 30, 2011					
Assets	$ 35	$ (6)	$	$ (1)	$ 28
Liabilities	(447)	(3)	(6)	60	(396)
Total	$ (412)	$ (9)	$ (6)	$ 59	$ (368)

(1) Includes approximately $6 million and $10 million of net losses that had not been realized through settlements for the quarter and six months ended June 30, 2011.

(2) Includes approximately $4 million and $5 million of net losses that had not been realized through settlements for the quarter and six months ended June 30, 2011.

Below are the impacts of our commodity-based and interest rate derivatives to our statements of income and statements of comprehensive income (loss) for the quarters and six months ended June 30:

	2011			2010		
	Operating Revenues	Interest Expense	Other Comprehensive Income (Loss)	Operating Revenues	Interest Expense	Other Comprehensive Income (Loss)
	(In millions)					
Quarters ended June 30,						
Production-related derivatives	$ 132	$	$ 3	$ 31	$	$ 3
Other natural gas and power derivatives	(6)			(43)		
Total interest rate derivatives		4	(34)		4	(45)
Total	$ 126	$ 4	$ (31)	$ (12)	$ 4	$ (42)

Six months ended June 30,						
Production-related derivatives	$ 23	$	$ 6	$ 284	$	$ 6
Other natural gas and power derivatives	(7)			(26)		
Total interest rate derivatives		8	(31)		9	(46)
Total	$ 16	$ 8	$ (25)	$ 258	$ 9	$ (40)

7. Debt, Other Financing Obligations and Other Credit Facilities

	June 30, 2011	December 31, 2010
	(In millions)	
Short-term financing obligations, including current maturities	$ 618	$ 489
Long-term financing obligations	13,594	13,517
Total	$ 14,212	$ 14,006

Changes in Financing Obligations. During the six months ended June 30, 2011, we had the following changes in our financing obligations:

Company	Interest Rate	Book Value Increase (Decrease)	Cash Received (Paid)
		(In millions)	
Issuances			
Ruby Pipeline, L.L.C. credit facility	variable	$ 391	$ 391
Southern Natural Gas Company, L.L.C. (SNG) notes due 2021	4.40 %	300	297
El Paso Exploration and Production Company (EPEP) revolving credit facility	variable	925	918
El Paso revolving credit facility	variable	571	562
El Paso Pipeline Partners Operating Company, L.L.C. (EPPOC) revolving credit facility	variable	815	808
Increases through June 30, 2011		$ 3,002	$ 2,976
Repayments, repurchases, and other			
EPEP revolving credit facility	variable	$ (825)	$ (825)
El Paso revolving credit facility	variable	(796)	(796)
EPPOC revolving credit facility	variable	(715)	(715)
El Paso notes due 2011	7.00 %	(105)	(105)
El Paso notes due 2012 through 2032	7.25% - 12.00 %	(347)	(410)
Other	various	(8)	(10)
Decreases through June 30, 2011		$ (2,796)	$ (2,861)