EL PASO NATURAL GAS CO
Form S-4/A
August 01, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 31, 2003

REGISTRATION NO. 333-97017

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

AMENDMENT NO. 3

TO
FORM S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

EL PASO NATURAL GAS COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE	4922	74-0608280
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number

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EL PASO BUILDING
1001 LOUISIANA STREET
HOUSTON, TEXAS 77002
(713) 420-2600
(Address, including zip code, and telephone number, including area code, of registrant's principal executive officer)

JUDY A. HEINEMAN, ESQ.
EL PASO BUILDING
1001 LOUISIANA STREET
HOUSTON, TEXAS 77002
(713) 420-2600
(Name, address, including zip code, and tele
number, including area code, of agent for ser

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE PUBLIC: As soon as practicable after this registration statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective Amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERIN PRICE(1)
8 3/8% Notes due June 15, 2032......	$300,000,000	100%	$300,000,000

(1) Calculated in accordance with Rule 457(f)(2). For purposes of this calculation, the Offering Price per Note was assumed to be the stated principal amount of each original note that may be received by the Registrant in the exchange transaction in which the Notes will be offered.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES, AND WE ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES, IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JULY 31, 2003

PROSPECTUS

EL PASO NATURAL GAS COMPANY

OFFER TO EXCHANGE
REGISTERED 8 3/8% NOTES DUE JUNE 15, 2032
FOR
ALL OUTSTANDING 8 3/8% NOTES DUE JUNE 15, 2032
($300,000,000 IN PRINCIPAL AMOUNT OUTSTANDING)

We are offering to exchange all of our outstanding 8 3/8% Notes due June 15, 2032 for our registered 8 3/8% Notes due June 15, 2032. In this prospectus, we will call the original notes the "Old Notes" and the registered notes the "New Notes." The Old Notes and New Notes are collectively referred to in this prospectus as the "notes."

THE EXCHANGE OFFER

- Expires 5:00 p.m., New York City time,   , 2003, unless extended.

- Subject to certain customary conditions, which we may waive, the exchange offer is not conditioned upon a minimum aggregate principal amount of Old Notes being tendered.

- All outstanding Old Notes validly tendered and not withdrawn will be exchanged.

- The exchange offer is not subject to any condition other than that the exchange offer not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission.

THE NEW NOTES

- The terms of the New Notes to be issued in the exchange offer are substantially identical to the Old Notes, except that we have registered the New Notes with the Securities and Exchange Commission. In addition, the New Notes will not be subject to certain transfer restrictions.

- Interest on the New Notes will accrue from June 10, 2002 at the rate of 8 3/8% per annum, payable semi-annually in arrears on each June 15 and December 15, beginning December 15, 2003.

- The New Notes will not be listed on any securities exchange or the NASDAQ Stock Market.

YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 10 OF THIS PROSPECTUS BEFORE PARTICIPATING IN THE EXCHANGE OFFER.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the Expiration Date (as defined herein), we will make this prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

The date of this prospectus is , 2003.

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UNTIL , ALL DEALERS THAT EFFECT TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A

PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNUSED ALLOTMENTS OR SUBSCRIPTIONS.

THIS PROSPECTUS INCORPORATES IMPORTANT BUSINESS AND FINANCIAL INFORMATION ABOUT EL PASO NATURAL GAS COMPANY THAT IS NOT INCLUDED IN OR DELIVERED WITH THIS PROSPECTUS. DOCUMENTS INCORPORATED BY REFERENCE ARE AVAILABLE FROM US WITHOUT CHARGE, EXCLUDING ANY EXHIBITS TO THOSE DOCUMENTS UNLESS THE EXHIBIT IS SPECIFICALLY INCORPORATED BY REFERENCE AS AN EXHIBIT IN THIS DOCUMENT. YOU CAN OBTAIN DOCUMENTS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS BY REQUESTING THEM IN WRITING OR BY TELEPHONE FROM US AT THE FOLLOWING ADDRESS:

EL PASO NATURAL GAS COMPANY
OFFICE OF INVESTOR RELATIONS
EL PASO BUILDING
1001 LOUISIANA STREET
HOUSTON, TEXAS 77002
TELEPHONE NO.: (713) 420-2600

TO OBTAIN TIMELY DELIVERY OF ANY REQUESTED DOCUMENTS, YOU MUST REQUEST THE INFORMATION NO LATER THAN FIVE BUSINESS DAYS BEFORE YOU MAKE YOUR INVESTMENT DECISION. PLEASE MAKE ANY SUCH REQUESTS ON OR BEFORE   , 2003. SEE "WHERE YOU CAN FIND MORE INFORMATION" FOR MORE INFORMATION ABOUT THESE MATTERS.

PROSPECTUS SUMMARY

This summary highlights some basic information appearing in other sections of this prospectus. It is not complete and does not contain all the information that you should consider before exchanging Old Notes for New Notes. You should carefully read this prospectus and the documents incorporated by reference to understand fully the terms of the exchange offer and the New Notes, as well as the tax and other considerations that may be important to you. You should pay special attention to the "Risk Factors" section beginning on page 10 of this prospectus. You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document. For purposes of this prospectus, unless the context otherwise indicates, when we refer to "El Paso Natural Gas," "us," "we," "our," or "ours," we are describing El Paso Natural Gas Company, together with its subsidiaries. References to "El Paso" mean El Paso Corporation.

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

/d	= per day	Bcf	= billion cubic feet
BBtu	= billion British thermal units	MMcf	= million cubic feet
		MMDth	= million dekatherm

When we refer to cubic feet measurements, all measurements are at a pressure of 14.73 pounds per square inch.

OUR BUSINESS

We are a Delaware corporation incorporated in 1928, and an indirect wholly owned subsidiary of El Paso Corporation (El Paso). Our sole business is the interstate transportation of natural gas. We conduct our business activities through two pipeline systems, each of which is discussed below.

The EPNG system. The El Paso Natural Gas system consists of approximately 10,600 miles of pipeline with a winter sustainable west-flow capacity of 4,530 MMcf/d and approximately 800 MMcf/d of east-end deliverability. The west-flow capacity includes approximately 230 MMcf/d of capacity added in November 2002 related to the completion of our Line 2000 project which converted a pipeline from oil transmission to natural gas transmission. This pipeline extends from West Texas to the Arizona and California border. During 2002, 2001 and 2000, average throughput on the EPNG system was 3,799 BBtu/d, 4,253 BBtu/d and 3,937 BBtu/d. This system delivers natural gas from the San Juan, Permian and Anadarko Basins to California, which is our single largest market, as well as markets in Arizona, Nevada, New Mexico, Oklahoma, Texas and northern Mexico.

The Mojave system. The Mojave Pipeline system consists of approximately 400 miles of pipeline with a design capacity of approximately 400 MMcf/d. During 2002, 2001 and 2000, average throughput on the Mojave system was 266 BBtu/d, 283 BBtu/d and 407 BBtu/d. This system connects with the EPNG and Transwestern transmission systems at Topock, Arizona, the Kern River Gas Transmission Company transmission system in California and extends to customers in the vicinity of Bakersfield, California.

Our principal executive offices are in the El Paso Building, located at 1001 Louisiana Street, Houston, Texas 77002, and our telephone number at that address is (713) 420-2600.

RECENT EVENTS

On June 26, 2003, El Paso announced that it had executed two definitive settlement agreements to resolve the principal litigation and claims against it relating to the sale or delivery of natural gas and/or electricity to or in the Western United States (the Western Energy Settlement). Parties to the settlement agreements include private class action litigants in California; the governor and lieutenant governor of California; the attorneys general of California, Washington, Oregon and Nevada; the California Public

Utilities Commission; the California Electricity Oversight Board; the California Department of Water Resources; Pacific Gas and Electric Company; Southern California Edison Company; five California municipalities and six non-class private plaintiffs. We are a party to these definitive settlement agreements, and as such, will bear a portion of the costs and obligations of the settlements, as discussed more fully in our Current Report on Form 8-K filed July 9, 2003.

To satisfy a portion of our obligations under the Western Energy Settlement, in July 2003, we completed a private placement of $355 million aggregate principal amount of our 7 5/8% senior notes due 2010. For additional information regarding the private placement, see our Current Report on Form 8-K filed July 24, 2003.

On July 16, 2003, El Paso announced that its Board of Directors had unanimously elected Douglas L. Foshee, previously Executive Vice President and Chief Operating Officer for Halliburton, to serve as President, Chief Executive Officer (CEO), and a director of El Paso, effective September 2, 2003. Ronald L. Kuehn, Jr., currently serving as El Paso's CEO, will continue to serve as Chairman of the Board. El Paso will also delay the release of its long range planning process so that Mr. Foshee can participate in the completion of the plan. For additional information regarding the election of Mr. Foshee, see El Paso's Current Report on Form 8-K filed July 16, 2003.

SUMMARY OF THE TERMS OF THE EXCHANGE OFFER

The Exchange Offer............	We are offering to exchange up to $300,000,000 of the New Notes for up to $300,000,000 of the Old Notes. Old Notes may be exchanged only in $1,000 increments. The terms of the New Notes are identical in all material respects to the Old Notes except that the New Notes will not contain terms with respect to transfer restrictions, registration rights and payments of additional interest that relate to the Old Notes. The New Notes and the Old Notes will be governed by the same indenture.
Registration Rights Agreement.....................	We sold the Old Notes on June 10, 2002 to Credit Suisse First Boston Corporation, the initial purchaser, under a purchase agreement dated June 4, 2002. Pursuant to the purchase agreement, we and Credit Suisse First Boston Corporation entered into a registration rights agreement that granted the holders of the Old Notes certain exchange and registration rights. Specifically, we agreed to file, on or prior to 90 days after the closing of the offering of the Old Notes, this exchange offer registration statement with respect to a registered offer to exchange the Old Notes for the New Notes. We also agreed to use our commercial reasonable efforts to have this exchange offer registration statement declared effective by the SEC within 220 days after the closing of the offering of the Old Notes and to consummate the exchange offer within 30 business days thereafter. If we fail to fulfill our obligations under the registration rights agreement, additional interest will accrue on the Old Notes at an annual rate of 0.25% for the first 90 days and will increase by an additional 0.25% for each subsequent 90-day period up to a maximum additional annual rate of 0.75%. See "Exchange Offer and Registration Rights." We are currently paying additional interest at an annual rate of 0.75%.

Resale........................	We believe that you will be able to freely transfer the New Notes without registration or any prospectus delivery requirement; however, certain broker-dealers and certain of our affiliates may be required to deliver copies of this prospectus if they resell any New Notes.
Expiration Date...............	5:00 p.m., New York City time, on , 2003, unless the exchange offer is extended. You may withdraw Old Notes you tender pursuant to the exchange offer at any time prior to , 2003. See "The Exchange Offer -- Expiration Date; Extensions; Termination; Amendments."
Conditions to the Exchange Offer.........................	The exchange offer is not subject to any conditions other than that it does not violate applicable law or any applicable interpretation of the staff of the SEC.
Procedures for Tendering Old Notes.........................	If you wish to accept the exchange offer, sign and date the letter of transmittal that was delivered with this prospectus in accordance with the instructions, and deliver the letter of transmittal, along with the Old Notes and any other required documentation, to the exchange agent. Alternatively, you can

tender your outstanding Old Notes by following the procedures for book-entry transfer, as described in this prospectus. By executing the letter of transmittal or by transmitting an agent's message in lieu thereof, you will represent to us that, among other things:

- the New Notes you receive will be acquired in the ordinary course of your business;

- you are not participating, and you have no arrangement with any person to participate, in the distribution of the New Notes;

- you are not our "affiliate," as defined in Rule 405 under the Securities Act, or a broker-dealer tendering Old Notes acquired directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act; and

- if you are not a broker-dealer, that you are not engaged in and do not intend to engage in the distribution of the New Notes.

Effect of Not Tendering.......	Old Notes that are not tendered or that are tendered but not accepted will, following the completion of the exchange offer, continue to

be subject to the existing restrictions upon transfer thereof.

Special Procedures for Beneficial Owners.............	If you are a beneficial owner whose Old Notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and wish to tender such Old Notes in the exchange offer, please contact the registered holder as soon as possible and instruct them to tender on your behalf and comply with our instructions set forth elsewhere in this prospectus.
Guaranteed Delivery Procedures....................	If you wish to tender your Old Notes, you may, in certain instances, do so according to the guaranteed delivery procedures set forth elsewhere in this prospectus under "The Exchange Offer -- Procedures for Tendering Old Notes -- Guaranteed Delivery."
Withdrawal Rights.............	You may withdraw Old Notes that you tender pursuant to the exchange offer by furnishing a written or facsimile transmission notice of withdrawal to the exchange agent containing the information set forth in "The Exchange Offer -- Withdrawal of Tenders" at any time prior to the expiration date.
Acceptance of Old Notes and Delivery of New Notes.........	We will accept for exchange any and all Old Notes that are properly tendered in the exchange offer prior to the expiration date. See "The Exchange Offer -- Procedures for Tendering Old Notes." The New Notes issued pursuant to the exchange offer will be delivered promptly following the expiration date.
Broker-Dealers................	Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer

will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the Expiration Date (as defined herein), we will make this prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

SUMMARY OF TERMS OF NEW NOTES

Issuer........................	El Paso Natural Gas Company
New Notes.....................	$300,000,000 aggregate principal amount of 8 3/8% Notes due June 15, 2032.
Maturity Date.................	June 15, 2032.
Interest Rate.................	8 3/8% per annum, accruing from June 15, 2003.
Interest Payment Dates........	June 15 and December 15 of each year, beginning December 15, 2003.
Optional Redemption...........	We may redeem some or all of the New Notes, at any time or from time to time, at the redemption price described in the section entitled "Description of the Notes -- Optional Redemption of Notes."
Ranking.......................	As of March 31, 2003, we had total long-term capital market debt (including the Old Notes) of approximately $960 million. We also had guarantees of approximately $11 million and letters of credit of approximately $4 million. The New Notes rank equally with approximately $675 million of our debt, guarantees and letters of credit, as well as the guarantee of El Paso's $3 billion revolving credit facility described below.
	We are a designated borrower under El Paso's $3 billion revolving credit facility, which matures in June 2005. We are jointly and severally liable for any amounts outstanding under the $3 billion facility until August 19, 2003. Except as set forth below, after August 19, 2003, we are only liable for the amounts we borrow under the $3 billion facility. If, on August 19, 2003, (1) an event of default is continuing with respect to the $3 billion facility or (2) El Paso or any of the subsidiary guarantors under the facility or any of El Paso's restricted subsidiaries (each as defined in the facility) is subject to a bankruptcy or similar proceeding, then we will continue to be jointly and severally liable for any amounts outstanding under such facility until none of the events described in (1) or (2) above exists. Once our joint and several liability expires on August 19, 2003 as set forth above, there are no circumstances in which we could again become liable under El Paso's $3 billion facility except for amounts

borrowed by us under the facility. As of March 31, 2003, $1.5 billion was outstanding under the $3 billion facility, none of which was borrowed by us.

We are also a designated borrower under El Paso's $1 billion revolving credit facility. We are jointly and severally liable for any amounts outstanding under the $1 billion facility until its maturity on August 4, 2003. As of March 31, 2003, $500 million was outstanding (which amount has since been repaid). As of March 31, 2003, $456 million in letters of credit were issued under the $1 billion facility, none of which was borrowed by us. Upon maturity of the $1 billion facility, any amounts outstanding will be transferred to El Paso's $3 billion facility.

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Our direct subsidiary, Sabine River Investors V, L.L.C. (Sabine), is one of 17 subsidiary guarantors of El Paso's $3 billion facility. In connection with its guarantee of the $3 billion facility, Sabine pledged its equity interests in each of EPNG Mojave, Inc. and El Paso Mojave Pipeline Co., its sole assets, to collateralize that facility. In addition, in connection with its guarantee of El Paso's $3 billion facility, our direct parent El Paso EPNG Investments, L.L.C. pledged its equity interest in us to collateralize that facility. As a result, our ownership is subject to a change in control if El Paso's lenders under the $3 billion facility are required to exercise rights over their collateral. El Paso EPNG Investments' equity in us and Sabine's equity interests in EPNG Mojave, Inc. and El Paso Mojave Pipeline Co. also collateralize approximately $1 billion of other financing arrangements, including leases, letters of credit and other facilities. As a result of these guarantees and pledges, holders of the notes will be effectively subordinated to the secured creditors of El Paso under the $3 billion facility and the approximately $1 billion of other financing arrangements with respect to the equity interests of EPNG Mojave, Inc. and El Paso Mojave Pipeline Co. owned by Sabine. At March 31, 2003, the assets of Sabine represented approximately $369 million, or 12%, of our total consolidated assets and Sabine's EBIT represented approximately $5 million, or 6%, of our consolidated EBIT.

In connection with the Western Energy Settlement, El Paso has incurred total settlement obligations of approximately $1.045 billion, of which approximately $0.4 billion is classified as long-term. Of this amount, we have agreed to pay to the settling parties (i) an aggregate cash payment of $343.5 million and (ii) a separate cash payment in an amount equal to the proceeds from the issuance by El Paso of approximately 26.4 million shares of El Paso common stock, such proceeds to be contributed or advanced to us by El Paso. We have also guaranteed the remaining balance of El Paso's total settlement obligations. Therefore, holders of the New Notes will rank equally with the settling claimants to the extent of our obligations under the Western Energy Settlement. To satisfy the $343.5 million portion of our obligation, in July 2003, we completed a private placement of $355 million aggregate principal amount of our 7 5/8% senior notes due 2010. The New Notes would rank equally with these notes.

Certain Covenants............. The indenture governing the New Notes contains covenants, including covenants limiting (i) the creation of liens securing indebtedness, and (ii) sale-leaseback transactions.

Use of Proceeds............... We will not receive any proceeds from the exchange of the New Notes for the outstanding Old Notes.

Risk Factors.................. You should read the "Risk Factors" section beginning on page 10, as well as the other cautionary statements throughout this prospectus, to ensure you understand the risks involved with the exchange of the New Notes for the outstanding Old Notes.

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SELECTED FINANCIAL INFORMATION

The following selected financial information was obtained from and should be read in conjunction with our consolidated financial statements and related notes included in this prospectus beginning on page F-1. This historical information is not necessarily indicative of the results to be expected in the future.

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,				
	2003	2002	2002	2001	2000	1999	1998
	(UNAUDITED)		(IN MILLIONS)				
OPERATING RESULTS DATA:							
Operating revenues................	$132	$152	$ 564	$ 572	$ 508	$ 501	$ 480
Depreciation, depletion and							

amortization....................	17	13	63	70	66	63	61
Operating income (loss)(1).........	73	82	(105)	186	223	214	213
Income (loss) before income taxes...........................	57	72	(154)	155	206	170	150
Income taxes.......................	22	28	(55)	60	78	64	58
Net income (loss) from continuing operations......................	35	44	(99)	95	128	106	92

	AS OF MARCH 31, 2003	AS OF DECEMBER 31, 2002	2001	2000	1999	1998
	(UNAUDITED)	(IN MILLIONS)				
FINANCIAL POSITION DATA:						
Total assets..........................	$3,203	$3,189	$3,344	$2,993	$3,100	$2,79
Short-term debt (including current maturities of long-term debt)......	200	200	654	280	567	26
Long-term debt, less current maturities(2)......................	758	758	659	873	873	98
Western Energy Settlement						
Current Portion....................	100	100	--	--	--	-
Noncurrent Portion.................	316	312	--	--	--	-
Stockholder's equity.................	1,182	1,153	1,298	1,227	1,126	1,04

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(1) In March 2003, we entered into an agreement in principle to settle claims associated with the western energy crisis from September 1996 to the date of the proposed settlement. We accrued a charge of $412 million in December 2002 related to this settlement. In 2001, we incurred merger-related costs of $98 million related to El Paso's merger with The Coastal Corporation. For a further discussion of these matters, see our financial statements included in this prospectus beginning on page F-1.

(2) In July 2003, we completed a private placement of $355 million aggregate principal amount of our 7 5/8% senior notes due 2010.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table presents the ratio of earnings to fixed charges for El Paso Natural Gas and its consolidated subsidiaries for the periods indicated:

	YEAR ENDED DECEMBER 31, 1998	1999	2000	2001	2002	THREE MONTHS ENDED MARCH 31, 2002	2003

Ratio of earnings to fixed charges.......	2.1x	2.5x	2.8x	2.5x	--(1)	5.2x	3.8x

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(1) Earnings were inadequate to cover fixed charges by $160 million for the year ended December 31, 2002.

For the purposes of computing these ratios, earnings means income (loss) from continuing operations before income taxes and fixed charges, less capitalized interest. Fixed charges means the sum of the following:

- interest costs, not including interest on rate refunds;

- amortization of debt costs; and

- that portion of rental expense which we believe represents an interest factor.

RISK FACTORS

Before you decide to participate in the exchange offer, you should read the following risks, uncertainties and factors that may adversely affect us.

RISKS RELATED TO OUR BUSINESS

OUR SUCCESS DEPENDS ON FACTORS BEYOND OUR CONTROL.

Our business is the transportation of natural gas for third parties. As a result, the volume of natural gas involved in these activities depends on the actions of those third parties, and is beyond our control. Further, the following factors, most of which are beyond our control, may unfavorably impact our ability to maintain or increase current transmission volumes and rates, to renegotiate existing contracts as they expire, or to remarket unsubscribed capacity:

- future weather conditions, including those that favor alternative energy sources;

- price competition;

- drilling activity and supply availability;

- expiration and/or turn back of significant contracts;

- service area competition;

- changes in regulation and actions of regulatory bodies;

- credit risk of customer base;

- increased cost of capital; and

- natural gas and liquids prices.

THE REVENUES OF OUR PIPELINE BUSINESSES ARE GENERATED UNDER CONTRACTS THAT MUST BE RENEGOTIATED PERIODICALLY.

Our revenues are generated under transportation contracts which expire periodically and must be renegotiated and extended or replaced. We cannot assure that we will be able to extend or replace our contracts when they expire or that the terms of any renegotiated contracts will be as favorable as the existing contracts. For a further discussion of these matters, see "Business -- Markets and Competition" beginning on page 22 and Note 4 to the Condensed Consolidated Financial Statements beginning on page F-34.

In particular, our ability to extend and/or replace transportation contracts could be adversely affected by factors we cannot control, including:

- the proposed construction by other companies of additional pipeline capacity in markets served by us;

- changes in state regulation of local distribution companies, which may cause them to negotiate short-term contracts or turn back their capacity when their contracts expire;

- reduced demand and market conditions;

- the availability of alternative energy sources or gas supply points;

- obligations in connection with the settlement of litigation; and

- regulatory actions.

If we are unable to renew, extend or replace these contracts or if we renew them on less favorable terms, we may suffer a material reduction in our revenues and earnings.

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WE FACE COMPETITION THAT COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

Our competitors include other pipeline companies, as well as participants in other industries supplying and transporting alternative fuels. If we are unable to compete effectively, our future profitability may be negatively impacted.

FLUCTUATIONS IN ENERGY COMMODITY PRICES COULD ADVERSELY AFFECT OUR BUSINESS.

Revenues generated by our contracts depend on volumes and rates, both of which can be affected by the prices of natural gas. Increased natural gas prices could result in loss of load from our customers, such as power companies not dispatching gas fired power plants, industrial plant shutdown or load loss to competitive fuels and local distribution companies' loss of customer base due to conversion from natural gas. The success of our operations is subject to continued development of additional oil and natural gas reserves in the vicinity of our facilities and our ability to access additional suppliers from interconnecting pipelines to offset the natural decline from existing wells connected to our systems. A decline in energy prices could precipitate a decrease in these development activities and could cause a decrease in the volume of reserves available for transmission on our system. Fluctuations in energy prices are caused by a number of factors, including:

- regional, domestic and international supply and demand;

- availability and adequacy of transportation facilities;

- energy legislation;

- federal and state taxes, if any, on the transportation of natural gas;

- abundance of supplies of alternative energy sources; and

- political unrest among oil-producing countries.

THE AGENCIES THAT REGULATE US AND OUR CUSTOMERS AFFECT OUR PROFITABILITY.

Our pipeline businesses are regulated by the FERC, the U.S. Department of Transportation, and various state and local regulatory agencies. Regulatory actions taken by those agencies have the potential to adversely affect our profitability. In particular, the FERC regulates the rates we are permitted to charge our customers for our services. If our tariff rates were reduced in a future rate proceeding, if our volume of business under our currently permitted rates was decreased significantly or if we were required to substantially discount the rates for our services because of competition, our profitability and liquidity could be reduced.

Further, state agencies that regulate our local distribution company customers could impose requirements that could impact demand for our services.

COSTS OF ENVIRONMENTAL LIABILITIES, REGULATIONS AND LITIGATION COULD EXCEED OUR ESTIMATES.

Our operations are subject to various environmental laws and regulations. These laws and regulations obligate us to install and maintain pollution controls and to clean up various sites at which regulated materials may have been disposed of or released. We are also party to legal proceedings involving environmental matters pending in various courts and agencies.

It is not possible for us to estimate reliably the amount and timing of all future expenditures related to environmental matters because of:

- the uncertainties in estimating clean up costs;

- the discovery of new sites or information;

- the uncertainty in quantifying liability under environmental laws that impose joint and several liability on all potentially responsible parties;

- the nature of environmental laws and regulations; and

- the possible introduction of future environmental laws and regulations.

Although we believe we have established appropriate reserves for liabilities, including clean up costs, we could be required to set aside additional reserves in the future due to these uncertainties. For additional information, see Note 4 to the Condensed Consolidated Financial Statements beginning on page F-34.

OUR OPERATIONS ARE SUBJECT TO OPERATIONAL HAZARDS AND UNINSURED RISKS.

Our operations are subject to the inherent risks normally associated with those operations, including pipeline ruptures, explosions, pollution, release of toxic substances, fires and adverse weather conditions, and other hazards, each of which could result in damage to or destruction of our facilities or damages to persons and property. In addition, our operations face possible risks associated with acts of aggression on our assets. If any of these events were to occur, we could suffer substantial losses.

While we maintain insurance against many of these risks, our financial condition and operations could be adversely affected if a significant event occurs that is not fully covered by insurance.

ONE CUSTOMER CONTRACTS FOR A SUBSTANTIAL PORTION OF OUR FIRM TRANSPORTATION CAPACITY.

For 2002, contracts with Southern California Gas Company were substantial. For additional information on our relationship with Southern California Gas Company, see "Business -- Markets and Competition" beginning on page 22 and Note 12 to the Consolidated Financial Statements beginning on page F-26. The loss of this customer or a decline in its credit-worthiness could adversely affect our results of operations, financial position and cash flow.

TERRORIST ATTACKS AIMED AT OUR FACILITIES COULD ADVERSELY AFFECT OUR BUSINESS.

On September 11, 2001, the U.S. was the target of terrorist attacks of unprecedented scale. Since the September 11th attacks, the U.S. government has issued warnings that energy assets, including our nation's pipeline infrastructure, may be a future target of terrorist organizations. These developments have subjected our operations to increased risks. Any future terrorist attack on our facilities, those of our customers and, in some cases, those of other pipelines, could have a material adverse effect on our business.

RISKS RELATED TO OUR AFFILIATION WITH EL PASO

El Paso files reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. Each prospective investor should consider this information and the matters disclosed therein in addition to the matters described in this report. Such information is not incorporated by reference herein.

OUR RELATIONSHIP WITH EL PASO AND ITS FINANCIAL CONDITION SUBJECTS US TO POTENTIAL RISKS THAT ARE BEYOND OUR CONTROL.

Due to our relationship with El Paso, adverse developments or announcements concerning El Paso could adversely affect our financial condition, even if we have not suffered any similar development. The outstanding senior unsecured indebtedness of El Paso has been downgraded to below investment grade, currently rated Caa1 by Moody's and B by Standard & Poor's (with a developing outlook by Moody's and a negative outlook by Standard & Poor's), which in turn resulted in a similar downgrading of our outstanding senior unsecured indebtedness to B1 by Moody's and B+ by Standard & Poor's (with a developing outlook by Moody's and a negative outlook by Standard & Poor's). These downgrades will increase our cost of capital and collateral requirements, and could impede our access to capital markets. As a result of these recent downgrades, El Paso has realized substantial demands on its liquidity. These downgrades may subject El Paso to additional liquidity demands in the future. These downgrades are a result, at least in part, of the outlook generally for the consolidated businesses of El Paso and its needs for liquidity.

In order to meet its short term liquidity needs, El Paso has embarked on its 2003 Operational and Financial Plan. Pursuant to the plan, El Paso has substantially reduced its capital expenditures for 2003, signed purchase and sale agreements for or closed approximately $2.6 billion in asset sales, retired and/or restructured two of its financing vehicles, entered into a new $3 billion revolving credit facility, resolved significant litigation and regulatory matters, and achieved cost reductions for 2003. To fully achieve the plan's objectives, El Paso must complete an additional $0.8 billion in non-core asset sales during 2003 and continue to recover substantial amounts of the cash collateral committed to its trading, petroleum and other businesses. There can be no assurance that the remaining actions contemplated under the plan will be consummated on favorable terms, if at all, or even if consummated, that such remaining actions will be successful in satisfying El Paso's liquidity needs. In the event that El Paso's liquidity needs are not satisfied, El Paso could be forced to seek protection from its creditors in bankruptcy. Such a development could materially adversely affect our financial condition.

Pursuant to El Paso's cash management program, surplus cash is made available to El Paso in exchange for an affiliated receivable. In addition, we conduct commercial transactions with some of our affiliates. As of March 31, 2003, we have receivables of approximately $1,039 million from El Paso and its affiliates and payables of approximately $7 million to El Paso and its affiliates. El Paso provides cash management and other corporate services for us. If El Paso is unable to meet its liquidity needs, there can be no assurance that we will be able to access cash under the cash management program, or that our affiliates would pay their obligations to us. However, we might still be required to satisfy affiliated company payables. Our inability to recover any intercompany receivables owed to us could adversely affect our ability to repay our outstanding indebtedness. For a further discussion of our related party transactions, see Note 11 to the Consolidated Financial Statements beginning on page F-25 and Note 5 to the Condensed Consolidated Financial Statements beginning on page F-42.

WE ARE JOINTLY AND SEVERALLY LIABLE FOR ALL OUTSTANDING AMOUNTS UNDER EL PASO'S CREDIT FACILITIES AND CERTAIN OTHER OBLIGATIONS.

We are a designated borrower under El Paso's $3 billion revolving credit facility, which matures in June 2005. We are jointly and severally liable for any amounts outstanding under the $3 billion facility until August 19, 2003. Except as set forth below, after August 19, 2003, we are only liable for the amounts we borrow under the $3 billion facility. If, on August 19, 2003, (1) an event of default is continuing with respect to the $3 billion facility or (2) El Paso or any of the subsidiary guarantors under the facility or any of El Paso's restricted subsidiaries (each as defined in the facility) is subject to a bankruptcy or similar proceeding, then we will continue to be jointly and severally liable for any amounts outstanding under such facility until none of the events described in (1) or (2) above exists. Once our joint and several liability expires on August 19, 2003 as set forth above, there are no circumstances in which we could again become liable under El Paso's $3 billion facility except for amounts borrowed by us under the facility. As of March 31, 2003, $1.5 billion was outstanding under the $3 billion facility, none of which was borrowed by us.

We are also a designated borrower under El Paso's $1 billion revolving credit facility. We are jointly and severally liable for any amounts outstanding under the $1 billion facility until its maturity on August 4, 2003. As of March 31, 2003, $500 million was outstanding (which amount has since been repaid). As of March 31, 2003, $456 million in letters of credit were issued under the $1 billion facility, none of which was borrowed by us. Upon maturity of the $1 billion facility, any amounts outstanding will be transferred to El Paso's $3 billion facility.

Our direct subsidiary, Sabine, is one of 17 subsidiary guarantors of El Paso's $3 billion facility. In connection with its guarantee of this facility, Sabine pledged its equity interests in each of EPNG Mojave, Inc. and El Paso Mojave Pipeline Co., its sole assets, to collateralize that facility. In addition, in connection with its guarantee of El Paso's $3 billion facility, our direct parent El Paso EPNG Investments, L.L.C. pledged its equity interests in us to collateralize that facility. As a result, our ownership is subject to a change in control if El Paso's lenders under the $3 billion facility are required to exercise rights over their collateral. El Paso EPNG Investments' equity in us and Sabine's equity interest in EPNG Mojave,

Inc. and El Paso Mojave Pipeline Co. also collateralize approximately $1 billion of other financing arrangements, including leases, letters of credit and other facilities. As a result of these guarantees and pledges, holders of the notes will be effectively subordinated to the secured creditors of El Paso under the $3 billion facility and the approximately $1 billion of other financing arrangements with respect to the equity interests of EPNG Mojave, Inc. and El Paso Mojave Pipeline Co. owned by Sabine.

If, for any reason, El Paso does not repay any of the outstanding amounts under these facilities and other obligations, and we are required to repay any such amounts, our financial condition and liquidity could be materially adversely affected.

WE ARE JOINTLY AND SEVERALLY LIABLE FOR EL PASO'S AND EL PASO MERCHANT ENERGY'S OBLIGATIONS IN CONNECTION WITH THE WESTERN ENERGY SETTLEMENT.

We have guaranteed the payment of certain obligations of El Paso and El Paso Merchant Energy in connection with the Western Energy Settlement in the event that they fail to pay these amounts or if pledged collateral does not otherwise satisfy these obligations. If, for any reason, either El Paso or El Paso Merchant Energy does not pay any of these obligations, or if pledged collateral does not otherwise satisfy these obligations, and we are required to pay such amounts, our financial condition and liquidity could be materially adversely affected.

WE COULD BE SUBSTANTIVELY CONSOLIDATED WITH EL PASO IF EL PASO WERE FORCED TO SEEK PROTECTION FROM ITS CREDITORS IN BANKRUPTCY.

If El Paso were the subject of voluntary or involuntary bankruptcy proceedings, El Paso and its other subsidiaries and their creditors could attempt to make claims against us, including claims to substantively consolidate our assets and liabilities with those of El Paso and its other subsidiaries. The equitable doctrine of substantive consolidation permits a bankruptcy court to disregard the separateness of related entities and to consolidate and pool the entities' assets and liabilities and treat them as though held and incurred by one entity where the interrelationship between the entities warrants such consolidation. We believe that any effort to substantively consolidate us with El Paso and/or its other subsidiaries would be without merit. We would aggressively defend against any attempt to substantively consolidate us with El Paso and/or its other subsidiaries. However, we cannot assure you that El Paso and/or its other subsidiaries or their respective creditors would not attempt to advance such claims in a bankruptcy proceeding or, if advanced, how a bankruptcy court would resolve the issue. If a bankruptcy court were to substantively consolidate us with El Paso and/or its other subsidiaries, there could be a material adverse effect on our financial condition and liquidity and thus on our ability to make payments on the notes.

ONGOING LITIGATION AND INVESTIGATIONS REGARDING US AND EL PASO COULD SIGNIFICANTLY ADVERSELY AFFECT OUR BUSINESS.

On March 20, 2003, we and our affiliates entered into an agreement in principle (the Western Energy Settlement) to resolve the principal litigation, claims, and regulatory proceedings against us and our affiliates relating to the sale or delivery of natural gas and/or electricity to or in the Western United

States. On June 26, 2003, El Paso entered into two definitive settlement agreements with various public and private claimants, including the states of California, Washington, Oregon and Nevada, to resolve this litigation. For further information on these matters, see "Prospectus Summary -- Recent Events," Notes 2 and 8 to the Consolidated Financial Statements beginning on pages F-10 and F-15, and Notes 2 and 4 to the Condensed Consolidated Financial Statements beginning on pages F-32 and F-34. The definitive settlement agreements are subject to approval by the California Superior Court for San Diego County and the structural settlement is subject to approval by the FERC. We currently expect final approval of these settlement agreements in late 2003 or early 2004. If the settlement is not approved by the court or the FERC, the proceedings and litigation will continue. We cannot assure you that the results of any such continued proceedings and litigation would be on terms as favorable as those of the current settlement agreements.

Since July 2002, twelve purported shareholder class action suits alleging violations of federal securities laws have been filed against El Paso and several of its officers. Eleven of these suits are now consolidated in federal court in Houston before a single judge. The suits generally challenge the accuracy or completeness of press releases and other public statements made during 2001 and 2002. The twelfth shareholder class action lawsuit was filed in federal court in New York City in October 2002 challenging the accuracy or completeness of El Paso's February 27, 2002 prospectus for an equity offering that was completed on June 21, 2002. It has since been dismissed, in light of similar claims being asserted in the consolidated suits in Houston. Four shareholder derivative actions have also been filed. One shareholder derivative lawsuit was filed in federal court in Houston in August 2002. This derivative action generally alleges the same claims as those made in the shareholder class action, has been consolidated with the shareholder class actions pending in Houston and has been stayed. A second shareholder derivative lawsuit was filed in Delaware State Court in October 2002 and generally alleges the same claims as those made in the consolidated shareholder class action lawsuit. A third shareholder derivative suit was filed in state court in Houston in March 2002, and a fourth shareholder derivative suit was filed in state court in Houston in November 2002. The third and fourth shareholder derivative suits both generally allege that manipulation of California gas supply and gas prices exposed El Paso to claims of antitrust conspiracy, FERC penalties and erosion of share value. At this time, El Paso's legal exposure related to these lawsuits and claims is not determinable.

Another action was filed against El Paso in December 2002, on behalf of participants in El Paso's 401(k) plan.

If we and El Paso do not prevail in these cases (or any of the other litigation, administrative or regulatory matters disclosed in El Paso's Form 10-Q for the quarter ended March 31, 2003 to which El Paso, is or may be, a party), and if the remedy adopted in these cases substantially impairs our and El Paso's financial position, the long-term adverse impact on our and El Paso's credit rating, liquidity and our ability to raise capital to meet ongoing and future investing and financing needs could be substantial.

WE ARE AN INDIRECT WHOLLY OWNED SUBSIDIARY OF EL PASO.

El Paso has substantial control over:

- our payment of dividends;

- decisions on our financings and our capital raising activities;

- mergers or other business combinations;

- our acquisitions or dispositions of assets; and

- our participation in El Paso's cash management program.

El Paso may exercise such control in its interests and not necessarily in the interests of us or the holders of our long-term debt.

RISKS RELATED TO OUR LONG-TERM DEBT

OUR SUBSTANTIAL LONG-TERM DEBT COULD IMPAIR OUR FINANCIAL CONDITION AND OUR ABILITY TO FULFILL OUR DEBT OBLIGATIONS.

We have substantial long-term debt. As of March 31, 2003, we had total long-term debt of approximately $960 million, all of which was senior unsecured long-term indebtedness.

We are a designated borrower under El Paso's $3 billion revolving credit facility, which matures in June 2005. We are jointly and severally liable for any amounts outstanding under the $3 billion facility until August 19, 2003. Except as set forth below, after August 19, 2003, we are only liable for the amounts

we borrow under the $3 billion facility. If, on August 19, 2003, (1) an event of default is continuing with respect to the $3 billion facility or (2) El Paso or any of the subsidiary guarantors under the facility or any of El Paso's restricted subsidiaries (each as defined in the facility) is subject to a bankruptcy or similar proceeding, then we will continue to be jointly and severally liable for any amounts outstanding under such facility until none of the events described in (1) or (2) above exists. Once our joint and several liability expires on August 19, 2003 as set forth above, there are no circumstances in which we could again become liable under El Paso's $3 billion facility except for amounts borrowed by us under the facility. As of March 31, 2003, $1.5 billion was outstanding under the $3 billion facility, none of which was borrowed by us.

We are also a designated borrower under El Paso's $1 billion revolving credit facility. We are jointly and severally liable for any amounts outstanding under the $1 billion facility until its maturity on August 4, 2003. As of March 31, 2003, $500 million was outstanding (which amount has since been repaid). As of March 31, 2003, $456 million in letters of credit were issued under the $1 billion facility, none of which was borrowed by us. Upon maturity of the $1 billion facility, any amounts outstanding will be transferred to El Paso's $3 billion facility.

Our direct subsidiary, Sabine, is one of 17 subsidiary guarantors of El Paso's $3 billion facility. In connection with its guarantee of this facility, Sabine pledged its equity interests in each of EPNG Mojave, Inc. and El Paso Mojave Pipeline Co., its sole assets, to collateralize that facility. In addition, in connection with its guarantee of El Paso's $3 billion facility, our direct parent El Paso EPNG Investments, L.L.C. pledged its equity interests in us to collateralize that facility. As a result, our ownership is subject to a change in control if El Paso's lenders under the $3 billion facility are required to exercise rights over their collateral. El Paso EPNG Investments' equity in us and Sabine's equity interests in EPNG Mojave, Inc. and El Paso Mojave Pipeline Co. also collateralize approximately $1 billion of other financing arrangements, including leases, letters of credit and other facilities. As a result of these guarantees and pledges, holders of the notes will be effectively subordinated to the secured creditors of El Paso under the $3 billion facility and the approximately $1 billion of other financing arrangements with respect to the equity interests of EPNG Mojave, Inc. and El Paso Mojave Pipeline Co. owned by Sabine.

In connection with the Western Energy Settlement, El Paso has incurred total settlement obligations of approximately $1.045 billion, of which approximately $0.4 billion is classified as long-term. Of this amount, we have agreed to pay to the settling parties (i) an aggregate cash payment of $343.5 million and (ii) a separate cash payment in an amount equal to the proceeds from the issuance by El Paso of approximately 26.4 million shares of El Paso common stock, such proceeds to be contributed or advanced to us by El Paso. We have also guaranteed the remaining balance of El Paso's total settlement obligations. Therefore, holders of the New Notes will rank equally with the settling claimants to the extent of our obligations under the Western Energy Settlement. To satisfy the $343.5 million portion of our obligation, in July 2003, we completed a private placement of $355 million aggregate principal amount of our 7 5/8% senior notes due 2010. The New Notes would rank equally with these notes.

Our substantial long-term debt and obligations could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our long-term debt, which could in turn result in an event of default on any or all of such long-term debt;

- impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes;

- diminish our ability to withstand a downturn in our business or the economy generally;

- require us to dedicate a substantial portion of our cash flow from operations to debt service payments, thereby reducing the availability of cash for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes;

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- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

- place us at a competitive disadvantage compared to our competitors that have proportionately less debt.

If we are unable to meet our debt service obligations or satisfy our guarantees, we could be forced to restructure or refinance our long-term debt, seek additional equity capital or sell assets. We may be unable to obtain financing or sell assets on satisfactory terms, or at all.

Covenants applicable to our long-term debt allow us to incur significant amounts of additional indebtedness. Our incurrence of significant additional indebtedness would exacerbate the negative consequences mentioned above, and could adversely affect our ability to repay our long-term debt.

SOME OF OUR LONG-TERM DEBT IS SUBJECT TO CROSS-ACCELERATION PROVISIONS.

It is an event of default in the indenture governing one issue of our long-term debt if we default in compliance with the terms of any of our other indebtedness with an outstanding principal amount that exceeds $25 million, and the default results in the acceleration of such indebtedness. If this were to occur, this issue of long-term debt would be subject to possible acceleration, and we may not be able to repay such long-term debt upon such acceleration.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this document and the documents that are incorporated by reference into this document that constitute forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties. Forward-looking statements include information concerning our possible or assumed future results of operations. These statements may relate to, but are not limited to, information or assumptions about earnings per share, capital and other expenditures, dividends, financing plans, capital structure, cash flow, pending legal and regulatory proceedings and claims, including environmental matters, future economic performance, operating income, cost savings, management's plans, goals and objectives for future operations and growth and markets for our stock. These forward-looking statements generally are accompanied by words such as "intend," "anticipate," "believe," "estimate," "expect," "should" or similar expressions. You should understand that these forward-looking statements are estimates that reflect the best judgment of our senior management and are not guarantees of future performance. They are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements.

For a description of certain risks relating to us and our business, see "Risk Factors" beginning on page 10 of this document and "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 24 of this document. In addition, we can give you no assurance that:

- we have correctly identified and assessed all of the factors affecting our businesses;

- the publicly available and other information with respect to these factors on which we have based our analysis is complete or correct;

- our analysis is correct; or

- our strategies, which are based in part on this analysis, will be successful.

Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of the date of this document, or, in the case of documents incorporated by reference, the date of those documents.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section and any other cautionary statements that may accompany such forward-looking statements.

We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, unless the securities laws require us to do so.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement with the SEC under the Securities Act of 1933 that registers the securities offered by this prospectus. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some information included in the registration statement from this prospectus.

In addition, we file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934. You may read and copy this information at the SEC's public reference room, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC also maintains an Internet world wide web site that contains reports, proxy statements and other information about issuers, including El Paso Natural Gas, who file electronically with the SEC. The address of that site is http://www.sec.gov.

We "incorporate by reference" information into this prospectus, which means that we disclose important information to you by referring you to another document filed separately with the SEC. This important information is not included in or delivered with this prospectus. The information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by information contained directly in this prospectus. The documents listed below and incorporated by reference into this prospectus contain important information about El Paso Natural Gas and its financial condition.

- Annual Report on Form 10-K and Amendment No. 1 on Form 10-K/A for the year ended December 31, 2002;

- Quarterly Report on Form 10-Q and Amendment No. 1 on Form 10-Q/A for the quarter ended March 31, 2003; and

- Current Reports on Form 8-K filed March 21, 2003, April 18, 2003, April 23, 2003, June 5, 2003, July 9, 2003 and July 24, 2003.

We also disclose information about us through current reports on Form 8-K that are furnished to the SEC to comply with Regulation FD. This information disclosed in these reports is not considered to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, is not subject to the liabilities of that section and is not incorporated by reference herein.

All documents filed by us with the SEC from the date of this prospectus to the end of the offering of the notes under this prospectus shall also be deemed to be incorporated herein by reference.

You can obtain any of the documents listed above or any additional documents that we may file with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements, through us or from the SEC through the SEC's web site at the address provided above. Documents incorporated by reference are available from us without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this document. You can obtain documents incorporated by reference into this prospectus by requesting them in writing or by telephone from us at the following address:

El Paso Natural Gas Company
Office of Investor Relations
El Paso Building
1001 Louisiana Street
Houston, Texas 77002
Telephone No.: (713) 420-2600

TO OBTAIN TIMELY DELIVERY OF ANY REQUESTED DOCUMENTS, YOU MUST REQUEST THE INFORMATION NO LATER THAN FIVE BUSINESS DAYS BEFORE YOU MAKE YOUR INVESTMENT DECISION. PLEASE MAKE ANY SUCH REQUESTS ON OR BEFORE , 2003.

WE HAVE NOT AUTHORIZED ANYONE TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION THAT DIFFERS FROM, OR ADDS TO, THE INFORMATION IN THIS DOCUMENT OR IN OUR DOCUMENTS THAT ARE PUBLICLY FILED WITH THE SEC. THEREFORE, IF ANYONE DOES GIVE YOU DIFFERENT OR ADDITIONAL INFORMATION, YOU SHOULD NOT RELY ON IT.

IF YOU ARE IN A JURISDICTION WHERE IT IS UNLAWFUL TO OFFER TO EXCHANGE OR SELL, OR TO ASK FOR OFFERS TO EXCHANGE OR BUY, THE SECURITIES OFFERED BY THIS DOCUMENT, OR IF YOU ARE A PERSON TO WHOM IT IS UNLAWFUL TO DIRECT THESE ACTIVITIES, THEN THE OFFER PRESENTED BY THIS DOCUMENT DOES NOT EXTEND TO YOU.

THE INFORMATION CONTAINED IN THIS DOCUMENT SPEAKS ONLY AS OF ITS DATE UNLESS THE INFORMATION SPECIFICALLY INDICATES THAT ANOTHER DATE APPLIES.

BUSINESS

GENERAL

We are a Delaware corporation incorporated in 1928, and an indirect wholly owned subsidiary of El Paso Corporation (El Paso). Our sole business is the interstate transportation of natural gas. We conduct our business activities through two pipeline systems, each of which is discussed below.

The EPNG system. The El Paso Natural Gas system consists of approximately 10,600 miles of pipeline with a winter sustainable west-flow capacity of 4,530 MMcf/d and approximately 800 MMcf/d of east-end deliverability. The west-flow capacity includes approximately 230 MMcf/d of capacity added in November 2002 related to the completion of our Line 2000 project which converted a pipeline from oil transmission to natural gas transmission. This pipeline extends from West Texas to the Arizona and California border. During 2002, 2001 and 2000, average throughput on the EPNG system was 3,799 BBtu/d, 4,253 BBtu/d and 3,937 BBtu/d. This system delivers natural gas from the San Juan, Permian and Anadarko Basins to California, which is our single largest market, as well as markets in Arizona, Nevada, New Mexico, Oklahoma, Texas and northern Mexico.

The Mojave system. The Mojave Pipeline system consists of approximately 400 miles of pipeline with a design capacity of approximately 400 MMcf/d. During 2002, 2001 and 2000, average throughput on the Mojave system was 266 BBtu/d, 283 BBtu/d and 407 BBtu/d. This system connects with the EPNG and Transwestern transmission systems at Topock, Arizona, the Kern River Gas Transmission Company transmission system in California and extends to customers in the vicinity of Bakersfield, California.

REGULATORY ENVIRONMENT

Our interstate natural gas transmission systems are regulated by the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978. Our systems operate under FERC-approved tariffs that establish rates and terms and conditions for service to our customers. Generally, the FERC's authority extends to:

- rates and charges for natural gas transportation;
- certification and construction of new facilities;
- extension or abandonment of facilities;
- maintenance of accounts and records;
- relationships between pipeline and marketing affiliates;
- terms and conditions of services;
- depreciation and amortization policies;
- acquisition and disposition of facilities; and
- initiation and discontinuation of services.

The fees or rates established under our tariffs are a function of our costs of providing service to our customers, including a reasonable return on our invested capital. Approximately 94 percent of our transportation services revenue is attributable to a capacity reservation, or demand charge, paid by firm customers. These firm shippers are obligated to pay a monthly demand charge, regardless of the amount of natural gas they transport, for the term of their contracts. The remaining 6 percent of our transportation services revenue is attributable to charges based solely on the volumes of gas actually transported on our pipeline systems. Consequently, our financial results have historically been relatively stable; however, they can be subject to volatility due to factors such as weather, changes in natural gas prices and market conditions, regulatory actions, competition and the credit-worthiness of our customers.

Our interstate pipeline systems are also subject to federal, state and local pipeline safety and environmental statutes and regulations. We have continuing programs designed to keep all of our facilities in compliance with pipeline safety and environmental requirements. We believe that our systems are in material compliance with the applicable requirements.

A discussion of significant rate and regulatory matters is included in Note 4 to the Condensed Consolidated Financial Statements beginning on page F-34.

MARKETS AND COMPETITION

We have firm and interruptible customers, including distribution and industrial companies, electric generation companies, natural gas producers, other natural gas pipelines and natural gas marketing and trading companies. We provide transportation services in both our natural gas supply and market areas. Our pipeline systems connect with multiple pipelines that provide our shippers with access to diverse sources of supply and various natural gas markets served by these pipelines. The following table details our markets and competition on each of our interstate pipeline systems.

PIPELINE SYSTEM	CUSTOMER INFORMATION	CONTRACT INFORMATION	COMPE
EPNG	Approximately 230 firm and interruptible transportation customers	Approximately 180 firm transportation contracts Contracted capacity:(1) Weighted average remaining contract term: approximately 5 years	EPNG faces competi pipelines as well energy sources tha electricity such a power, nuclear, co
	Major Customer: Southern California Gas Company (1,235 BBtu/d) (95 BBtu/d)	 Contract term expires in 2006. Contract terms expiring 2004-2007.	
Mojave	Approximately 35 firm and interruptible transportation customers	Eight firm contracts Contracted capacity: 98% Weighted average remaining contract term: approximately 4 years	Mojave faces compe pipelines as well energy sources tha electricity such a power, nuclear, co
	Major Customers: Texaco Natural Gas Inc. (185 BBtu/d)	Contract term expires in 2007.	
	Burlington Resources Trading Inc. (76 BBtu/d)	Contract term expires in 2007.	
	Los Angeles Department of Water and Power (50 BBtu/d)	Contract term expires in 2007.	

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(1) A discussion of significant rate and regulatory matters regarding our capacity is included in Note 4 to the Condensed Consolidated Financial Statements beginning on page F-34.

In 2002, the combined capacity of all pipeline companies serving the California market was approximately 7.4 Bcf/d and we provided approximately 44 percent of this capacity. In 2002, the demand for interstate pipeline capacity to California averaged 5.0 Bcf/d, equivalent to approximately 68 percent of the total interstate pipeline capacity serving that state. Natural gas shipped to California across our system represented approximately 34 percent of the natural gas consumed in the state in 2002.

Electric power generation is one of the fastest growing demand sectors of the natural gas market. The potential consequences of proposed and ongoing restructuring and deregulation of the electric power industry are currently unclear. Restructuring and deregulation benefit the natural gas industry by creating more demand for natural gas turbine generated electric power, but this effect is offset, in varying degrees, by increased generation efficiency and more effective use of surplus electric capacity as a result of open market access.

Our ability to extend our existing contracts or re-market expiring capacity at maximum rates is dependent on competitive alternatives, the regulatory environment at the federal, state and local levels and market supply and demand factors at the relevant dates these contracts are extended or expire. The duration of new or re-negotiated contracts will be affected by current prices, competitive conditions and judgments concerning future trends and volatility.

ENVIRONMENTAL

A description of our environmental activities is included in Note 8 to our Consolidated Financial Statements beginning on page F-15 and Note 4 to our Condensed Consolidated Financial Statements beginning on page F-34.

EMPLOYEES

As of July 9, 2003, we had approximately 745 full-time employees, none of whom are subject to collective bargaining agreements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The notes to our consolidated financial statements included in this prospectus beginning on page F-7 and F-32 contain information that is pertinent to the following analysis, including a discussion of our significant accounting policies.

GENERAL

Our business is the interstate transportation of natural gas. Our interstate natural gas transportation systems face varying degrees of competition from other pipelines, as well as from alternative energy sources used to generate electricity, such as hydroelectric power, nuclear, coal and fuel oil. We are regulated by the FERC which regulates the rates we can charge our customers. These rates are a function of our costs of providing services to our customers, and include a return on our invested capital. As a result, our financial results have historically been relatively stable; however, they can be subject to volatility due to factors such as weather, changes in natural gas prices and market conditions, regulatory actions, competition and the credit-worthiness of our customers. In addition, our ability to extend our existing customer contracts or re-market expiring contracted capacity at maximum rates is dependent on competitive alternatives, the regulatory environment and supply and demand factors at the relevant dates these contracts are extended or expire.

RECENT EVENTS

As discussed in our current report on Form 8-K filed July 9, 2003, we currently expect an additional pre-tax charge of approximately $146 million during the second quarter of 2003 in connection with the Western Energy Settlement. The historical information presented herein does not include this charge.

In July 2003, we completed a private placement of $355 million aggregate principal amount of our 7 5/8% senior notes due 2010. For additional information regarding the private placement, see our Current Report on Form 8-K filed July

24, 2003.

REVENUE OUTLOOK

As discussed in Note 8 to the Consolidated Financial Statements beginning on page F-15, on September 20, 2002, the FERC issued an order related to the allocation of capacity on our EPNG system. This order required us to:

- give reservation charge credits prospectively to our firm shippers if we fail to schedule the shippers' confirmed volumes (except in the case of force majeure);

- refrain from entering into new firm contracts or remarketing turned back capacity under contracts terminating or expiring after May 31, 2002; and

- add additional compression to our Line 2000 project increasing the capacity by 320 MMcf/d without the opportunity to recover these costs in our rates until our next rate case which will be effective January 1, 2006.

Our future results of operations will be impacted as a result of this FERC order. Based on the order, we are unable to remarket approximately 471 MMDth/d of capacity, of which approximately 200 MMDth/d was rejected by Enron Corporation in May 2002 in its bankruptcy proceeding. The remaining 271 MMDth/d relates to contracts that expired within the time frame specified under the order. Prior to the rejection and expiration of the 471 MMDth/d contracts, we were earning approximately $3.5 million per month, net of revenue credits, related to this capacity. In July 2003, the FERC issued two orders related to our capacity allocation proceedings discussed more fully on page F-39. In these rulings, the FERC reaffirmed its decision that our full requirements contracts must be converted to contract demand contracts effective September 1, 2003, supported our position relative to the maximum amount of

capacity we can make available to our shippers and confirmed that we have honored our obligations under our existing rate settlement, our contracts, the FERC's regulations and our certificates. We do not believe that these rulings will have a material impact on our ongoing revenues.

In addition, as discussed in Note 8 to our consolidated financial statements beginning on page F-15 and in Note 4 to the Condensed Financial Statements beginning on page F-34 of this prospectus, we have risk sharing mechanisms under our most recent rate case settlement. Under these risk sharing mechanisms, we collect cash from our customers, refund a portion of the cash received as required by the mechanism and then recognize the difference as revenues over the risk sharing period. This risk sharing period will expire on December 31, 2003. The expiration of the risk sharing mechanism will decrease our annual revenues by $23 million.

RESULTS OF OPERATIONS

We use earnings before interest and income taxes (EBIT) to assess the operating results and effectiveness of our business. EBIT is operating income adjusted to include miscellaneous non-operating income. Items that are not included in this measure are financing costs, including interest and debt expense, affiliated interest income and income taxes. We believe this measurement is useful to our investors because it allows them to evaluate the effectiveness of our businesses and operations and our investments from an operational perspective, exclusive of the costs to finance those activities and exclusive of income taxes. This measurement may not be comparable to measurements used by other companies and should not be used as a substitute for net income or other performance measures such as operating income or operating cash flow. Presented below is a reconciliation of our operating income (loss) to EBIT and EBIT to net income (loss):

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,		
	2003	2002	2002	2001	2000
	(UNAUDITED) (IN MILLIONS, EXCEPT VOLUME AMOUNTS)				
Operating revenues	$ 132	$ 152	$ 564	$ 572	$ 508
Operating expenses	(59)	(70)	(669)	(386)	(285)
Operating income (loss)	73	82	(105)	186	223
Other income and expense	1	--	1	(2)	4
EBIT	74	82	(104)	184	227
Interest and debt expense	(20)	(16)	(72)	(87)	(96)
Affiliated interest income	3	6	22	58	75
Income taxes	(22)	(28)	55	(60)	(78)
Net income (loss)	$ 35	$ 44	$ (99)	$ 95	$ 128
Total throughput (BBtu/d)(1)	4,069	4,203	4,065	4,535	4,310

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(1) Excludes Mojave throughput on behalf of EPNG.

OPERATING RESULTS -- EBIT

FIRST QUARTER 2003 COMPARED TO FIRST QUARTER 2002

Operating revenues for the quarter ended March 31, 2003, were $20 million lower than the same period in 2002. A decrease of $15 million was due to capacity contracts that have expired which we are prohibited from remarketing due to our September 20, 2002 FERC order. For further discussion of this order, see Note 4 to the Condensed Consolidated Financial Statements beginning on page F-34. Also contributing to the decrease was a $6 million fuel settlement related to our Mojave Pipeline rate case settled in the first quarter of 2002. These decreases were partially offset by $2 million of higher throughput-based revenues from transportation to interconnecting pipelines serving markets in the midwest and east due to colder weather in 2003.

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Operating expenses for the quarter ended March 31, 2003, were $11 million lower than the same period in 2002. A decrease of $9 million was due to bad debt expense recorded in 2002 related to the bankruptcy of Enron Corp. Also contributing to the decrease was a $4 million decrease in our estimated power purchase costs in 2003, $2 million due to the periodic revaluation of natural gas imbalances due to higher natural gas prices in 2003 and $1 million related to an insurance settlement for environmental claims received in 2003. These decreases were partially offset by a $4 million expense related to the amortization of the discount associated with the Western Energy Settlement obligation and a $2 million unfavorable fuel variance due to lower pipeline fuel recoveries.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

Operating revenues for the year ended December 31, 2002, were $8 million lower than in 2001. The decrease was due to $13 million from lower fuel efficiencies and lower natural gas prices, $8 million from lower throughput to California and other southwestern states due to lower electric generation demand and milder weather in 2002 and $4 million from lower rates on the Mojave Pipeline system as a result of a rate case settlement effective October 2001. The decreases were partially offset by $13 million in higher revenues associated with a larger portion of our available system capacity earning maximum tariff rates and $3 million related to higher demand revenues in 2002 resulting from annual inflation increases as provided in the EPNG tariff.

Operating expenses for the year ended December 31, 2002, were $283 million higher than in 2001 primarily as a result of a $412 million accrual for our Western Energy Settlement in December 2002. Also contributing to the increase were a $10 million contribution to a charitable foundation, a $6 million increase in corporate allocations, a $6 million increase in bad debt expense related to the bankruptcy of Enron Corporation and a $3 million increase in payroll and other costs. These increases were partially offset by the merger related costs of $98 million incurred in 2001 related to the relocation of our headquarters from El Paso, Texas to Colorado Springs, Colorado and costs associated with severed employees as part of El Paso's merger with Coastal. For a further discussion of these charges, see Note 3 to the Consolidated Financial Statements beginning on page F-11. Also offsetting the increase was a $22 million reduction associated with the periodic revaluation of natural gas imbalances as a result of changes in imbalance volumes and gas prices, $10 million of lower compressor operating costs resulting from lower electric usage and prices in 2002, $8 million of lower property and other taxes due to a change in an estimated business activity tax settlement and property and franchise tax refunds received in 2002, $7 million of lower legal fees, $7 million of depreciation adjustments due to the finalization of regulatory issues in 2002 and $6 million in decreased environmental costs.

Other income for the year ended December 31, 2002, was $3 million higher than in 2001 due to gains on sales of non-pipeline assets of $1 million in 2002 and a 2001 accrual of $3 million for proposed fines from the Department of Transportation related to the August 2000 pipeline rupture.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Operating revenues for the year ended December 31, 2001, were $64 million higher than the same period in 2000. The increase was due to higher reservation revenues as a result of a larger portion of our capacity earning maximum tariff rates compared to the same period in 2000 and higher throughput from increased deliveries to California and other western states. The increase was partially offset by the impact of lower prices on fuel recoveries.

Operating expenses for the year ended December 31, 2001, were $101 million higher than the same period in 2000. The increase was primarily due to merger-related costs incurred related to the relocation of our headquarters as part of El Paso's merger with Coastal, the impact of price changes on natural gas imbalances, higher power costs for compression and increases to our reserve for bad debts during the fourth quarter of 2001 in connection with the bankruptcy of Enron Corp. The increase was partially offset by unfavorable shipper and producer settlements in 2000.

Other income (expense), net for the year ended December 31, 2001, was $6 million lower than the same period in 2000 due primarily to the sales of non-pipeline related assets in 2000.

INTEREST AND DEBT EXPENSE

Below is the analysis of our interest expense:

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,		
	2003	2002	2002	2001	2000
	(UNAUDITED)				
	(IN MILLIONS)				
Long term debt, including current maturities......	$20	$14	$69	$73	$74
Short term borrowings...........................	--	4	8	23	30
Other...	1	--	1	--	--
Less: Capitalized interest......................	(1)	(2)	(6)	(9)	(8)
Total interest and debt expense................	$20	$16	$72	$87	$96

FIRST QUARTER 2003 COMPARED TO FIRST QUARTER 2002

Interest and debt expense for the quarter ended March 31, 2003, was $4 million higher than the same period in 2002. The increase was primarily due to a $6 million increase in interest related to the issuance of $300 million of long-term debt in June 2002, which was partially offset by lower interest expense of $4 million due to the discontinuation of commercial paper activities in the fourth quarter of 2002.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

Interest and debt expense for the year ended December 31, 2002, was $15 million lower than in 2001. The decrease in interest expense was primarily due to a decrease in average commercial paper balances outstanding of $480 million in 2001 compared with $296 million in 2002 with the weighted average interest rate decreasing from 4.61% in 2001 to 2.67% in 2002. Also contributing to the decrease was a lower weighted average outstanding long-term debt principal balance in 2002 compared with 2001. In January 2002, we retired $215 million aggregate principal amount of 7.75% notes and in June 2002, we issued $300 million aggregate principal amount 8.375% notes. Offsetting the decrease was lower capitalized interest in 2002 compared to 2001 due to lower interest capitalization rates partially offset by a larger average construction work in progress balance in 2002.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Interest and debt expense for the year ended December 31, 2001, was $9 million lower than in 2000. The decrease was primarily due to a decrease in the weighted average interest rate on commercial paper borrowings. The rate decreased from 6.46% in 2000 to 4.61% in 2001. There were no maturities of long-term debt during 2001, resulting in a stable long-term debt balance.

AFFILIATED INTEREST INCOME

FIRST QUARTER 2003 COMPARED TO FIRST QUARTER 2002

Affiliated interest income for the quarter ended March 31, 2003, was $3 million lower than the same period in 2002 due to lower short-term interest rates in 2003 and lower average balances advanced to El Paso under our cash management program. The average short-term interest rates for the first quarter decreased from 1.9% in 2002 to 1.4% in 2003. The average advance balance decreased in the first quarter from $1.3 billion in 2002 to $1.0 billion in 2003.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

Affiliated interest income for the year ended December 31, 2002, was $36 million lower than in 2001 due to lower short-term interest rates in 2002 and lower average advances to El Paso under the cash management program. The average short-term interest rates decreased from 4.3% in 2001 to 1.8% in 2002, and average advances to El Paso under its cash management program, were $1,227 million in 2002 versus $1,352 million in 2001.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Affiliated interest income for the year ended December 31, 2001, was $17 million lower than in 2000 due to lower short-term interest rates in 2001. The average short-term interest rates for the twelve months decreased from 6.4% in 2000 to 4.3% in 2001.

INCOME TAXES

FIRST QUARTER 2003 COMPARED TO FIRST QUARTER 2002

The income tax expense for the quarters ended March 31, 2003 and 2002, was $22 million and $28 million, resulting in effective tax rates of 39 percent for both periods. Our effective tax rates were different from the statutory rate of 35 percent primarily due to state income taxes.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEARS ENDED DECEMBER 31, 2001 AND DECEMBER 31, 2000

Income tax benefit for the year ended December 31, 2002, was $55 million and the income tax expense for the years ended December 31, 2001 and 2000 was $60 million and $78 million, resulting in effective tax rates of 36 percent, 38 percent and 38 percent. Our effective tax rates were different from the statutory rate of 35 percent in all periods primarily due to state income taxes. For a reconciliation of the statutory rate to the effective rates, see Note 4 to the Consolidated Financial Statements beginning on page F-11.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Our liquidity needs are provided by cash flow from operating activities and the use of El Paso's cash management program. Under El Paso's cash management program, depending on whether we have short-term cash surpluses or requirements, we either provide cash to El Paso or El Paso provides cash to us. We have historically provided cash advances to El Paso, and we reflect these net advances to our parent as investing activities in our statement of cash flows. As of March 31, 2003, we had net receivables from El Paso and its subsidiaries of $1,033 million as a result of this program. These receivables are due upon demand. However, as of March 31, 2003, we have classified $608 million as non-current because we do not anticipate settlement within twelve months. We believe that cash flow from operating activities and cash provided by El Paso's cash management program will be adequate to meet our short-term capital and debt servicing requirements for existing operations. Our cash flows were as follows:

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,		
	2003	2002	2002	2001	2000
	(UNAUDITED)				
	(IN MILLIONS)				
Cash flows from operating activities.......	$ 48	$ 72	$ 269	$ 324	$ 160
Cash flows from investing activities.......	(51)	22	120	(455)	155
Cash flows from financing activities.......	--	(94)	(386)	131	(315)

In a series of credit rating agency actions in late 2002 and early 2003, and contemporaneously with the downgrades of the senior unsecured indebtedness of El Paso, our senior unsecured indebtedness was

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downgraded to below investment grade and is currently rated B1 by Moody's and B+ by Standard & Poor's (with a developing outlook at Moody's and a negative outlook at Standard & Poor's). These downgrades will increase our cost of capital and collateral requirements and could impede our access to capital markets in the future.

In April 2003, El Paso entered into a new $3 billion revolving credit facility, with a $1.5 billion letter of credit sublimit, which matures in June 2005. This facility replaces the previous $3 billion, 364-day revolving credit facility. El Paso's existing $1 billion revolving credit facility, which matures in August 2003, and approximately $1 billion of other financing arrangements (including leases, letters of credit and other facilities) were also amended to conform El Paso's obligations to the new $3 billion revolving credit facility. We, along with our affiliates, ANR Pipeline Company, Tennessee Gas Pipeline Company (TGP) and El Paso, are borrowers under the $3 billion revolving credit facility, and we, TGP and El Paso are borrowers under the $1 billion revolving credit facility.

Our direct subsidiary, Sabine, is one of 17 subsidiary guarantors of El Paso's $3 billion facility. In connection with its guarantee of the $3 billion facility, Sabine pledged its equity interests in each of EPNG Mojave, Inc. and El Paso Mojave Pipeline Co., its sole assets, to collateralize that facility. In addition, in connection with its guarantee of El Paso's $3 billion facility, our direct parent El Paso EPNG Investments, L.L.C. pledged its equity interests in us to collateralize that facility. El Paso EPNG Investments' equity in us and Sabine's equity interests in EPNG Mojave, Inc. and El Paso Mojave Pipeline Co.

also collateralize approximately $1 billion of other financing arrangements, including leases, letters of credit and other facilities. We will remain jointly and severally liable under the $3 billion revolving credit facility through August 19, 2003. After that date, we will only be liable for the amounts we borrow under the facility other than as described above. We are also jointly and severally liable for any amounts outstanding under the $1 billion revolving credit facility until it matures on August 4, 2003.

The revolving credit facilities have a borrowing cost of LIBOR plus 350 basis points and letter of credit fees of 350 basis points. A key financial covenant of the facilities is the requirement for El Paso to maintain debt to total capitalization, as defined in the revolving credit facilities, not to exceed 75 percent. In addition, we and the other pipeline company borrowers cannot incur incremental debt if the incurrence of debt would cause our debt to EBITDA ratio, as defined in the revolving credit facilities, to exceed 5 to 1. The proceeds from the issuance of debt by the pipeline company borrowers can be used only for maintenance and expansion capital expenditures or investments in other FERC-regulated assets, to fund working capital and to refinance existing debt. As of March 31, 2003, $1.5 billion was outstanding under the $3 billion facility, none of which was borrowed by us, and $500 million was outstanding (which amount has since been repaid) and $456 million in letters of credit were issued under the $1 billion facility, none of which was borrowed by us.

In August 2002, the FERC issued a notice of proposed rulemaking requiring, among other things, that FERC regulated entities participating in cash management arrangements with non-FERC regulated parents maintain a minimum proprietary capital balance of 30 percent, and that the FERC regulated entity and its parent maintain investment grade credit ratings, as a condition to participating in the cash management program. If this proposal is adopted, our participation in El Paso's cash management program would terminate, which could affect our liquidity. We cannot predict the outcome of this proposal at this time.

On March 20, 2003, we and our affiliates entered into an agreement in principle (the Western Energy Settlement) with various public and private claimants, including the states of California, Washington, Oregon and Nevada, to resolve the principal litigation, claims and regulatory proceedings against us and our affiliates relating to the sale or delivery of natural gas and electricity from September 1996 to the date of the Western Energy Settlement. On June 26, 2003, El Paso announced that it had executed two definitive settlement agreements that resolve this litigation. See "Prospectus Summary -- Recent Events," Notes 2 and 8 to the Consolidated Financial Statements beginning on pages F-10 and F-15, and Notes 2 and 4 to the Condensed Consolidated Financial Statements beginning on pages F-32 and F-34.

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CAPITAL EXPENDITURES

Our capital expenditures during the periods indicated are listed below:

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,		
	2003	2002	2002	2001	2000
	(IN MILLIONS)				
Maintenance..........................	$25	$32	$123	$105	$ 86

Expansion/Other	13	5	70	52	142
Total	$38	$37	$193	$157	$228

Under our current plan, we expect to spend between approximately $100 million and $150 million in each of the next three years for capital expenditures to maintain the integrity of our pipelines and ensure the reliable delivery of natural gas to our customers. In addition, we have budgeted to spend between approximately $70 million and $195 million in each of the next three years to expand the capacity of our pipeline systems. We expect to fund our maintenance and expansion capital expenditures using a combination of internally generated funds and external financing.

DEBT

For a discussion of our debt obligations, see Note 7 to the Consolidated Financial Statements beginning on page F-13 and Note 3 to the Condensed Consolidated Financial Statements beginning on page F-33.

COMMITMENTS AND CONTINGENCIES

For a discussion of our commitments and contingencies, see Note 8 to our Consolidated Financial Statements beginning on page F-15 and Note 4 to the Condensed Consolidated Financial Statements beginning on page F-34.

NEW ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

None.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk is exposure to changing interest rates. The table below shows the carrying value and related weighted average interest rates of our interest bearing securities, by expected maturity dates, and the fair value of those securities. The fair values of our fixed rate long-term debt securities have been estimated based on quoted market prices for the same or similar issues.

	DECEMBER 31, 2002					DECEMBER
	EXPECTED FISCAL YEAR OF MATURITY OF CARRYING AMOUNTS					
	2003	2004-2007	THEREAFTER	TOTAL	FAIR VALUE	CARRYING AMOUNTS
	(DOLLARS IN MILLIONS)					
LIABILITIES:						
Long-term debt, including current portion -- fixed rate	$200	--	$758	$958	$739	$874
Average interest rate	6.8%	--	7.9%			

As of March 31, 2003, there were no material changes in our quantitative and qualitative disclosures about market risk from those as of December 31, 2002.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

USE OF PROCEEDS

We received net proceeds of $296 million from the issuance of the Old Notes which we used to pay related transaction fees, to repay outstanding commercial paper and other short-term indebtedness, for payments to minority interest shareholders and for general corporate purposes. We will not receive any cash proceeds from the issuance of the New Notes. We will exchange outstanding Old Notes for New Notes in like principal amount as contemplated in this prospectus. The terms of the New Notes are identical in all material respects to the existing Old Notes except as otherwise described herein under "Description of the Notes." The Old Notes surrendered in exchange for the New Notes will be retired and canceled and cannot be reissued. Accordingly, issuance of the New Notes will not result in a change in our total debt and other financing obligations.

CAPITALIZATION

The following table sets forth our historical capitalization as of March 31, 2003, which includes the original issuance of $300 million of Old Notes on June 10, 2002, and our application of the net proceeds of $296 million from that issuance to reduce our short-term indebtedness. The exchange of the Old Notes for the New Notes will not impact our overall capitalization. This table should be read in conjunction with our condensed consolidated financial statements and related notes contained in our March 31, 2003 Form 10-Q, which are included in this prospectus beginning on page F-29.

	AS OF MARCH 31, 2003 (UNAUDITED) (IN MILLIONS)
Short-term borrowings (including current maturities of long-term debt)	$ 200
Total long-term debt(1)	758
Stockholder's equity:	
Preferred stock, 8%, par value $0.01 per share; authorized 1,000,000 shares; issued 500,000 shares; stated at liquidation value	350
Common stock, par value $1 per share; authorized and issued 1,000 shares	--
Additional paid-in capital	715
Retained earnings	117
Total stockholder's equity	1,182

Total capitalization	$2,140

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(1) In July 2003, we completed a private placement of $355 million aggregate principal amount of our 7 5/8% senior notes due 2010.

THE EXCHANGE OFFER

EXCHANGE TERMS

Old Notes in an aggregate principal amount of $300,000,000 are currently issued and outstanding. The maximum aggregate principal amount of New Notes that will be issued in exchange for Old Notes is $300,000,000. The terms of the New Notes and the Old Notes are substantially the same in all material respects, except that the New Notes will not contain terms with respect to transfer restrictions, registration rights and payments of additional interest.

The New Notes will bear interest at a rate of 8.375% per year, payable semi-annually on June 15 and December 15 of each year, beginning on December 15, 2003. Holders of New Notes will receive interest from the date of the original issuance of the Old Notes or from the date of the last payment of interest on the Old Notes, whichever is later. Holders of New Notes will not receive any interest on Old Notes tendered and accepted for exchange. In order to exchange your Old Notes for transferable New Notes in the exchange offer, you will be required to make the following representations, which are included in the letter of transmittal:

- any New Notes that you receive will be acquired in the ordinary course of your business;

- you are not participating, and have no arrangement or understanding with any person or entity to participate, in the distribution of the New Notes;

- you are not our "affiliate," as defined in Rule 405 under the Securities Act, or a broker-dealer tendering Old Notes acquired directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act; and

- if you are not a broker-dealer, that you are not engaged in and do not intend to engage in the distribution of the New Notes.

Upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, we will accept for exchange any Old Notes properly tendered in the exchange offer, and the exchange agent will deliver the New Notes promptly after the expiration date of the exchange offer.

If you tender your Old Notes, you will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of the Old Notes in connection with the exchange offer. We will pay all charges, expenses and transfer taxes in connection with the exchange offer, other than the taxes described below under "-- Transfer Taxes."

WE MAKE NO RECOMMENDATION TO YOU AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING ALL OR ANY PORTION OF YOUR EXISTING OLD NOTES INTO THIS EXCHANGE OFFER. IN ADDITION, NO ONE HAS BEEN AUTHORIZED TO MAKE THIS RECOMMENDATION. YOU MUST MAKE YOUR OWN DECISION WHETHER TO TENDER INTO THIS EXCHANGE OFFER AND, IF SO, THE AGGREGATE AMOUNT OF OLD NOTES TO TENDER AFTER READING THIS PROSPECTUS AND THE LETTER OF TRANSMITTAL AND CONSULTING WITH YOUR ADVISORS, IF ANY, BASED ON YOUR FINANCIAL POSITION AND REQUIREMENTS.

EXPIRATION DATE; EXTENSIONS; TERMINATION; AMENDMENTS

The exchange offer expires at 5:00 p.m., New York City time, on , 2003, unless we extend the exchange offer, in which case the expiration date will be the latest date and time to which we extend the exchange offer.

We expressly reserve the right, so long as applicable law allows:

- to delay our acceptance of Old Notes for exchange;

- to terminate the exchange offer if any of the conditions set forth under "-- Conditions of the Exchange Offer" exist;

- to waive any condition to the exchange offer;

- to amend any of the terms of the exchange offer; and

- to extend the expiration date and retain all Old Notes tendered in the exchange offer, subject to your right to withdraw your tendered Old Notes as described under "-- Withdrawal of Tenders."

Any waiver or amendment to the exchange offer will apply to all Old Notes tendered, regardless of when or in what order the Old Notes were tendered. If the exchange offer is amended in a manner that we think constitutes a material change, or if we waive a material condition of the exchange offer, we will promptly disclose the amendment or waiver by means of a prospectus supplement that will be distributed to the registered holders of the Old Notes, and we will extend the exchange offer to the extent required by Rule 14e-1 under the Exchange Act.

We will promptly follow any delay in acceptance, termination, extension or amendment by oral or written notice of the event to the exchange agent, followed promptly by oral or written notice to the registered holders. Should we choose to delay, extend, amend or terminate the exchange offer, we will have no obligation to publish, advertise or otherwise communicate this announcement, other than by making a timely release to an appropriate news agency.

In the event we terminate the exchange offer, all Old Notes previously tendered and not accepted for payment will be returned promptly to the tendering holders.

In the event that the exchange offer is withdrawn or otherwise not completed, New Notes will not be given to holders of Old Notes who have validly tendered their Old Notes.

RESALE OF NEW NOTES

Based on interpretations of the SEC staff set forth in no action letters issued to third parties, we believe that New Notes issued under the exchange offer in exchange for Old Notes may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, if:

- you are acquiring New Notes in the ordinary course of your business;

- you are not participating, and have no arrangement or understanding with any person to participate, in the distribution of the New Notes;

- you are not our "affiliate" within the meaning of Rule 405 under the Securities Act;

- you are not a broker-dealer who purchased Old Notes directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act; and

If you tender Old Notes in the exchange offer with the intention of participating in any manner in a distribution of the New Notes:

- you cannot rely on those interpretations by the SEC staff, and

- you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction and that such a secondary resale transaction must be covered by an effective registration statement containing the selling security holder information required by Item 507 or 508, as applicable, of Regulation S-K.

Only broker-dealers that acquired the Old Notes as a result of market-making activities or other trading activities may participate in the exchange offer. Each broker-dealer that receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the New Notes. Please read the section captioned "Plan of Distribution" for more details regarding the transfer of New Notes.

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ACCEPTANCE OF OLD NOTES FOR EXCHANGE

We will accept for exchange Old Notes validly tendered pursuant to the exchange offer, or defectively tendered, if such defect has been waived by us. We will not accept Old Notes for exchange subsequent to the expiration date of the exchange offer. Tenders of Old Notes will be accepted only in denominations of $1,000 and integral multiples thereof.

We expressly reserve the right, in our sole discretion, to:

- delay acceptance for exchange of Old Notes tendered under the exchange offer, subject to Rule 14e-1 under the Exchange Act, which requires that an offeror pay the consideration offered or return the securities deposited by or on behalf of the holders promptly after the termination or withdrawal of a tender offer, or

- terminate the exchange offer and not accept for exchange any Old Notes not theretofore accepted for exchange, if any of the conditions set forth below under "-- Conditions of the Exchange Offer" have not been satisfied or waived by us or in order to comply in whole or in part with any applicable law. In all cases, New Notes will be issued only after timely receipt by the exchange agent of certificates representing Old Notes, or confirmation of book-entry transfer, a properly completed and duly executed letter of transmittal, or a manually signed facsimile thereof, and any other required documents. For purposes of the exchange offer, we will be deemed to have accepted for exchange validly tendered Old Notes, or defectively tendered Old Notes with respect to which we have waived such defect, if, as and when we give oral, confirmed in writing, or written notice to the exchange agent. Promptly after the expiration date, we will deposit the New Notes with the exchange agent, who will act as agent for the tendering holders for the purpose of receiving the New Notes and transmitting them to the holders. The exchange agent will deliver the New Notes to holders of Old Notes accepted for exchange after the exchange agent receives the New Notes.

If, for any reason, we delay acceptance for exchange of validly tendered Old Notes or we are unable to accept for exchange validly tendered Old Notes, then the exchange agent may, nevertheless, on our behalf, retain tendered Old Notes, without prejudice to our rights described under "-- Expiration Date; Extensions; Termination; Amendments", "-- Conditions of the Exchange Offer" and "-- Withdrawal of Tenders", subject to Rule 14e-1 under the Exchange Act, which requires that an offeror pay the consideration offered or return the securities deposited by or on behalf of the holders thereof promptly after the termination or withdrawal of a tender offer.

If any tendered Old Notes are not accepted for exchange for any reason, or if certificates are submitted evidencing more Old Notes than those that are tendered, certificates evidencing Old Notes that are not exchanged will be returned, without expense, to the tendering holder, or, in the case of Old Notes tendered by book-entry transfer into the exchange agent's account at a book-entry transfer facility under the procedure set forth under "-- Procedures for Tendering Old Notes -- Book-Entry Transfer", such Old Notes will be credited to the account maintained at such book-entry transfer facility from which such Old Notes were delivered, unless otherwise requested by such holder under "Special Delivery Instructions" in the letter of transmittal, promptly following the expiration date or the termination of the exchange offer.

Tendering holders of Old Notes exchanged in the exchange offer will not be obligated to pay brokerage commissions or transfer taxes with respect to the exchange of their Old Notes other than as described in "Transfer Taxes" or in Instruction 7 to the letter of transmittal. We will pay all other charges and expenses in connection with the exchange offer.

PROCEDURES FOR TENDERING OLD NOTES

Any beneficial owner whose Old Notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee or held through a book-entry transfer facility and who wishes to tender Old Notes should contact such registered holder promptly and instruct such registered holder to tender Old Notes on such beneficial owner's behalf.

TENDER OF OLD NOTES HELD THROUGH DEPOSITORY TRUST COMPANY

The exchange agent and Depository Trust Company ("DTC") have confirmed that the exchange offer is eligible for the DTC's automated tender offer program. Accordingly, DTC participants may electronically transmit their acceptance of the exchange offer by causing DTC to transfer Old Notes to the exchange agent in accordance with DTC's automated tender offer program procedures for transfer. DTC will then send an agent's message to the exchange agent.

The term "agent's message" means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that DTC has received an express acknowledgment from the participant in DTC tendering Old Notes that are the subject of that book-entry confirmation that the participant has received and agrees to be bound by the terms of the letter of transmittal, and that we may enforce such agreement against such participant. In the case of an agent's message relating to guaranteed delivery, the term means a message transmitted by DTC and received by the exchange agent which states that DTC has received an express acknowledgment from the participant in DTC tendering Old Notes that they have received and agree to be bound by the notice of guaranteed delivery.

TENDER OF OLD NOTES HELD IN CERTIFICATED FORM

For a holder to validly tender Old Notes held in certificated form:

- the exchange agent must receive at its address set forth in this prospectus a properly completed and validly executed letter of transmittal, or a manually signed facsimile thereof, together with any signature guarantees and any other documents required by the instructions to the letter of transmittal, and

- the exchange agent must receive certificates for tendered Old Notes at such address, or such Old Notes must be transferred pursuant to the procedures for book-entry transfer described below. A confirmation of such book-entry transfer must be received by the exchange agent prior to the expiration date of the exchange offer. A holder who desires to tender Old Notes and who cannot comply with the procedures set forth herein for tender on a timely basis or whose Old Notes are not immediately available must comply with the procedures for guaranteed delivery set forth below.

LETTERS OF TRANSMITTAL AND OLD NOTES SHOULD BE SENT ONLY TO THE EXCHANGE AGENT, AND NOT TO US OR TO DTC.

THE METHOD OF DELIVERY OF OLD NOTES, LETTERS OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS TO THE EXCHANGE AGENT IS AT THE ELECTION AND RISK OF THE HOLDER TENDERING OLD NOTES. DELIVERY OF SUCH DOCUMENTS WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE EXCHANGE AGENT. IF SUCH DELIVERY IS BY MAIL, WE SUGGEST THAT THE HOLDER USE PROPERTY INSURED, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, AND THAT THE MAILING BE MADE SUFFICIENTLY IN ADVANCE OF THE EXPIRATION DATE OF THE EXCHANGE OFFER TO PERMIT DELIVERY TO THE EXCHANGE AGENT PRIOR TO SUCH DATE. NO ALTERNATIVE, CONDITIONAL OR CONTINGENT TENDERS OF OLD NOTES WILL BE ACCEPTED.

SIGNATURE GUARANTEE

Signatures on the letter of transmittal must be guaranteed by an eligible institution unless:

- the letter of transmittal is signed by the registered holder of the Old Notes tendered therewith, or by a participant in one of the book-entry transfer facilities whose name appears on a security position listing it as the owner of those Old Notes, or if any Old Notes for principal amounts not tendered are to be issued directly to the holder, or, if tendered by a participant in one of the book-entry transfer facilities, any Old Notes for principal amounts not tendered or not accepted for exchange are to be credited to the participant's account at the book-entry transfer facility, and neither the "Special Issuance Instructions" nor the "Special Delivery Instructions" box on the letter of transmittal has been completed, or

- the Old Notes are tendered for the account of an eligible institution.

An eligible institution is a firm that is a member of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or a trust company having an office or correspondent in the United States or an "eligible guarantor institution" within the meaning of Rule 17Ad-15 under the Exchange Act.

BOOK-ENTRY TRANSFER

The exchange agent will seek to establish a new account or utilize an existing account with respect to the Old Notes at DTC promptly after the date of this prospectus. Any financial institution that is a participant in the DTC system and whose name appears on a security position listing as the owner of the Old Notes may make book-entry delivery of Old Notes by causing DTC to transfer such Old Notes into the exchange agent's account. HOWEVER, ALTHOUGH DELIVERY OF OLD NOTES MAY BE EFFECTED THROUGH BOOK-ENTRY TRANSFER INTO THE EXCHANGE AGENT'S ACCOUNT AT DTC, A PROPERLY COMPLETED AND VALIDLY EXECUTED LETTER OF TRANSMITTAL, OR A MANUALLY SIGNED FACSIMILE THEREOF, MUST BE RECEIVED BY THE EXCHANGE AGENT AT ONE OF ITS ADDRESSES SET FORTH IN THIS PROSPECTUS ON OR PRIOR TO THE EXPIRATION DATE OF THE EXCHANGE OFFER, OR ELSE THE GUARANTEED DELIVERY PROCEDURES DESCRIBED BELOW MUST BE COMPLIED WITH. The confirmation of a book-entry transfer of Old Notes into the exchange agent's account at DTC is referred to in this prospectus as a "book-entry confirmation." Delivery of documents to DTC in accordance with DTC's procedures does not constitute delivery to the exchange agent.

GUARANTEED DELIVERY

If you wish to tender your Old Notes and:

(1) certificates representing your Old Notes are not lost but are not immediately available,

(2) time will not permit your letter of transmittal, certificates representing your Old Notes and all other required documents to reach the exchange agent on or prior to the expiration date of the exchange offer, or

(3) the procedures for book-entry transfer cannot be completed on or prior to the expiration date of the exchange offer, you may nevertheless tender if all of the following conditions are complied with:

- your tender is made by or through an eligible institution; and

- on or prior to the expiration date of the exchange offer, the exchange agent has received from the eligible institution a properly completed and validly executed notice of guaranteed delivery, by manually signed facsimile transmission, mail or hand delivery, in substantially the form provided with this prospectus. The notice of guaranteed delivery must:

(a) set forth your name and address, the registered number(s) of your Old Notes and the principal amount of Old Notes tendered;

(b) state that the tender is being made thereby;

(c) guarantee that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal or facsimile thereof properly completed and validly executed, together with certificates representing the Old Notes, or a book-entry confirmation, and any other documents required by the letter of transmittal and the instructions thereto, will be deposited by the eligible institution with the exchange agent; and

(d) the exchange agent receives the properly completed and validly executed letter of transmittal or facsimile thereof with any required signature guarantees, together with certificates for all Old Notes in proper form for transfer, or a book-entry confirmation, and any other required documents, within three New York Stock Exchange trading days after the expiration date.

OTHER MATTERS

New Notes will be issued in exchange for Old Notes accepted for exchange only after timely receipt by the exchange agent of:

- certificates for (or a timely book-entry confirmation with respect to) your Old Notes,

- a properly completed and duly executed letter of transmittal or facsimile thereof with any required signature guarantees, or, in the case of a book-entry transfer, an agent's message, and

- any other documents required by the letter of transmittal.

We will determine, in our sole discretion, all questions as to the form of all documents, validity, eligibility, including time of receipt, and acceptance of all tenders of Old Notes. Our determination will be final and binding on all parties. ALTERNATIVE, CONDITIONAL OR CONTINGENT TENDERS OF OLD NOTES WILL NOT BE CONSIDERED VALID. WE RESERVE THE ABSOLUTE RIGHT TO REJECT ANY OR ALL TENDERS OF OLD NOTES THAT ARE NOT IN PROPER FORM OR THE ACCEPTANCE OF WHICH, IN OUR OPINION, WOULD BE UNLAWFUL. WE ALSO RESERVE THE RIGHT TO WAIVE ANY DEFECTS, IRREGULARITIES OR CONDITIONS OF TENDER AS TO PARTICULAR OLD NOTES.

Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding.

Any defect or irregularity in connection with tenders of Old Notes must be cured within the time we determine, unless waived by us. We will not consider the tender of Old Notes to have been validly made until all defects and irregularities have been waived by us or cured. Neither we, the exchange agent, or any other person will be under any duty to give notice of any defects or irregularities in tenders of Old Notes, or will incur any liability to holders for failure to give any such notice.

WITHDRAWAL OF TENDERS

Except as otherwise provided in this prospectus, you may withdraw your tender of Old Notes at any time prior to the expiration date.

For a withdrawal to be effective:

- the exchange agent must receive a written notice of withdrawal at one of the addresses set forth below under "-- Exchange Agent", or

- you must comply with the appropriate procedures of DTC's automated tender offer program system.

Any notice of withdrawal must:

- specify the name of the person who tendered the Old Notes to be withdrawn and

- identify the Old Notes to be withdrawn, including the principal amount of the Old Notes.

If Old Notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn Old Notes and otherwise comply with the procedures of DTC.

We will determine all questions as to validity, form, eligibility and time of receipt of any withdrawal notices. Our determination will be final and binding on all parties. We will deem any Old Notes so withdrawn not to have been validly tendered for exchange for purposes of the exchange offer.

Any Old Notes that have been tendered for exchange but that are not exchanged for any reason will be returned to their holder without cost to the holder or, in the case of Old Notes tendered by book-entry transfer into the exchange agent's account at DTC according to the procedures described above, such Old Notes will be credited to an account maintained with DTC for the Old Notes. This return or crediting will take place as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer. You may retender properly withdrawn Old Notes by following one of the procedures described under "-- Procedures for Tendering Old Notes" at any time on or prior to the expiration date.

CONDITIONS OF THE EXCHANGE OFFER

Notwithstanding any other provisions of the exchange offer, if, on or prior to the expiration date, we determine, in our reasonable judgment, that the exchange offer, or the making of an exchange by a holder of Old Notes, would violate applicable law or any applicable interpretation of the staff of the SEC, we will not be required to accept for exchange, or to exchange, any tendered Old Notes. We may also terminate, waive any conditions to or amend the exchange offer or, subject to Rule 14e-1 under the Exchange Act, which requires that an offeror pay the consideration offered or return the securities deposited by or on behalf of the holders thereof promptly after the termination or withdrawal of the exchange offer, or postpone the acceptance for exchange of tendered Old Notes.

TRANSFER TAXES

We will pay all transfer taxes applicable to the transfer and exchange of Old Notes pursuant to the exchange offer. If, however:

- delivery of the New Notes and/or certificates for Old Notes for principal amounts not exchanged, are to be made to any person other than the record holder of the Old Notes tendered;

- tendered certificates for Old Notes are recorded in the name of any person other than the person signing any letter of transmittal; or

- a transfer tax is imposed for any reason other than the transfer and exchange of Old Notes to us or our order,

the amount of any such transfer taxes, whether imposed on the record holder or any other person, will be payable by the tendering holder prior to the issuance of the New Notes.

CONSEQUENCES OF FAILING TO EXCHANGE

If you do not exchange your Old Notes for New Notes in the exchange offer, you will remain subject to the restrictions on transfer of the Old Notes:

- as set forth in the legend printed on the Old Notes as a consequence of the issuance of the Old Notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws; and

- otherwise set forth in the offering circular distributed in connection with the private offering of the Old Notes.

In general, you may not offer or sell the Old Notes unless they are registered under the Securities Act, or if the offer or sale is exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the Old Notes under the Securities Act.

ACCOUNTING TREATMENT

The New Notes will be recorded at the same carrying value as the Old Notes, as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes upon the consummation of the exchange offer. We will amortize the expenses of the exchange offer over the term of the exchange notes.

EXCHANGE AGENT

Deutsche Bank Trust Company Americas has been appointed as exchange agent for the exchange offer. You should direct questions and requests for assistance, requests for additional copies of this prospectus, the letter of transmittal or any other documents to the exchange agent. You should send

certificates for Old Notes, letters of transmittal and any other required documents to the exchange agent addressed as follows:

DEUTSCHE BANK TRUST COMPANY AMERICAS

By Overnight, Registered or Certified Mail or Overnight Courier:	By Mail:	By Hand in New York:
DB Services Tennessee, Inc. Corporate Trust & Agency Services Reorganization Unit 648 Grassmere Park Road Nashville, Tennessee 37211	DB Services Tennessee, Inc. Reorganization Unit P.O. Box 292737 Nashville, Tennessee 37229-2737 By Facsimile: (for eligible institutions only) (615) 835-3701 Confirm by telephone: (615) 835-3572	Deutsche Bank Trust Company Americas C/O The Depository Trust Clearing Corporation 55 Water Street, 1st Floor Jeanette Park Entrance New York, New York 10041 Information: (800) 735-7777

DESCRIPTION OF THE NOTES

The New Notes will be issued, and the Old Notes were issued, under an indenture between us and Wilmington Trust Company (as successor to JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank)), as indenture trustee, as supplemented through June 10, 2002. You may obtain a copy of the indenture from the trustee at its corporate trust office in New York, New York. The terms of the notes include those stated in the indenture and made a part thereof by reference to the Trust Indenture Act in effect on the date of the indenture. This summary of the material terms of the notes and the indenture does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the indenture, including the definitions of terms therein, and the Trust Indenture Act. We have included at the end of this section a summary of capitalized terms used in this section. Terms used in this section and not otherwise defined in this section have the respective meanings assigned to them in the indenture.

GENERAL

The notes:

- are our general unsecured obligations;

- rank equally with all of our other existing and future senior, unsecured and unsubordinated debt;

- rank senior to all of our existing and future subordinated debt; and

- constitute a new series of our senior unsecured obligations under the indenture.

As of March 31, 2003, we had total long-term capital market debt (including the Old Notes) of approximately $960 million. We also had guarantees of approximately $11 million and letters of credit of approximately $4 million. The New Notes rank equally with approximately $675 million of our debt, guarantees and letters of credit, as well as the guarantee of El Paso's $3 billion revolving credit facility described below.

We are a designated borrower under El Paso's $3 billion revolving credit facility, which matures in June 2005. We are jointly and severally liable for any amounts outstanding under the $3 billion facility until August 19, 2003. Except as set forth below, after August 19, 2003, we are only liable for the amounts we borrow under the $3 billion facility. If, on August 19, 2003, (1) an event of default is continuing with respect to the $3 billion facility or (2) El Paso or any of the subsidiary guarantors under the facility or any of El Paso's restricted subsidiaries (each as defined in the facility) is subject to a bankruptcy or similar proceeding, then we will continue to be jointly and severally liable for any amounts outstanding under such facility until none of the events described in (1) or (2) above exists. Once our joint and several liability expires on August 19, 2003 as set forth above, there are no circumstances in which we could again become liable under El Paso's $3 billion facility except for amounts borrowed by us under the facility. As of March 31, 2003, $1.5 billion was outstanding under the $3 billion facility, none of which was borrowed by us.

We are also a designated borrower under El Paso's $1 billion revolving credit facility. We are jointly and severally liable for any amounts outstanding under the $1 billion facility until its maturity on August 4, 2003. As of March 31, 2003, $500 million was outstanding (which amount has since been repaid). As of March 31, 2003, $456 million in letters of credit were issued under the $1 billion facility, none of which was borrowed by us. Upon maturity of the $1 billion facility, any amounts outstanding will be transferred to El Paso's $3 billion facility.

Our direct subsidiary, Sabine, is one of 17 subsidiary guarantors of El Paso's $3 billion facility. In connection with its guarantee of this facility, Sabine pledged its equity interests in each of EPNG Mojave, Inc. and El Paso Mojave Pipeline Co., its sole assets, to collateralize that facility. In addition, in connection with its guarantee of El Paso's $3 billion facility, our direct parent El Paso EPNG Investments, L.L.C. pledged its equity interests in us to collateralize that facility. As a result, our ownership is subject to a change in control if El Paso's lenders under the $3 billion facility are required to exercise rights over

their collateral. El Paso EPNG Investments' equity in us and Sabine's equity interests in EPNG Mojave, Inc. and El Paso Mojave Pipeline Co. also collateralize approximately $1 billion of other financing arrangements, including leases, letters of credit and other facilities. As a result of these guarantees and pledges, holders of the notes will be effectively subordinated to the secured creditors of El Paso under the $3 billion facility and the approximately $1 billion of other financing arrangements with respect to the equity interests of EPNG Mojave, Inc. and El Paso Mojave Pipeline Co. owned by Sabine.

In connection with the Western Energy Settlement, El Paso has incurred total settlement obligations of approximately $1.045 billion, of which approximately $0.4 billion is classified as long-term. Of this amount, we have agreed to pay to the settling parties (i) an aggregate cash payment of $343.5 million and (ii) a separate cash payment in an amount equal to the proceeds from the issuance by El Paso of approximately 26.4 million shares of El Paso common stock, such proceeds to be contributed or advanced to us by El Paso. We have also guaranteed the remaining balance of El Paso's total settlement obligations. Therefore, holders of the New Notes will rank equally with the settling claimants to the extent of our obligations under the Western Energy Settlement. To satisfy the $343.5 million portion of our obligation, in July 2003, we completed a private placement of $355 million aggregate principal amount of our 7 5/8% senior notes due 2010. The New Notes would rank equally with these notes.

Furthermore, there are no contractual limitations in the indenture on the issuance of additional indebtedness that could rank equal with the notes or the issuance of additional indebtedness at our subsidiaries, to which the notes would be structurally subordinated.

PRINCIPAL, MATURITY AND INTEREST

The notes will mature on June 15, 2032. We may issue additional notes of this series from time to time in the future which would contain the same terms and the same CUSIP numbers as the notes offered hereby, without the consent of the holders of the notes, in compliance with the covenants of the indenture.

Interest on the notes will:

- accrue at the rate of 8.375% per year;

- be payable semiannually on each June 15 and December 15, commencing December 15, 2002;

- be payable to the person in whose name the notes are registered at the close of business on the relevant June 1 and December 1 preceding the applicable interest payment date;

- be computed on the basis of a 360-day year comprised of twelve 30-day months; and

- be payable on overdue interest to the extent permitted by law at the same rate as interest is payable on principal.

If any interest payment date, maturity date or redemption date falls on a day that is not a business day, the payment will be made on the next business day (and without any interest or other payment in respect of such delay) with the same force and effect as if made on the relevant interest payment date, maturity date or redemption date. Unless we default on a payment, no interest will accrue for the period from and after the applicable maturity date or redemption date.

DENOMINATIONS

The notes will be issued in registered form in denominations of $1,000 each or integral multiples thereof.

OPTIONAL REDEMPTION OF NOTES

The notes will be redeemable, in whole or in part, at our option at any time in whole, or from time to time in part, prior to their maturity date, at the Make-Whole Price, on not less than 30 calendar days nor more than 60 calendar days notice prior to the date of redemption and in accordance with the provisions of the indenture.

The notice of redemption will set forth the manner of calculation of the Make-Whole Price, but not necessarily its amount. We will notify the trustee of the amount of the Make-Whole Price, and the Trustees will not be responsible for the accuracy of the calculation.

SINKING FUND

We are not required to make mandatory redemption or sinking fund payments with respect to the notes.

CONSOLIDATION, MERGER OR SALE

Under the indenture, we may not consolidate with or merge into any other person or entity or sell, lease or transfer all or substantially all of our properties and assets to any other person or entity unless:

- in the case of a merger, we are the surviving entity, or the entity formed by the consolidation or into which we are merged expressly assumes, by execution and delivery to the trustee of a supplemental indenture, the due and punctual payment of the principal, any premium and interest on the notes and the performance of every covenant and condition in the indenture;

- in the case of the sale, lease or transfer of all or substantially all of our properties and assets, the person or entity which acquires our properties and assets expressly assumes, by execution and delivery to the Trustee of a supplemental indenture, the due and punctual payment of the principal, any premium and interest on the notes and the performance of every covenant and condition in the indenture;

- immediately after giving effect to the transaction, no default or event of default under the indenture exists; and

- we have delivered to the trustee an officer's certificate and an opinion of counsel each stating that the consolidation, merger, sale, transfer or lease and the supplemental indenture required in connection with the transaction comply with the terms of the indenture and that we have complied with all conditions precedent.

After any consolidation or merger or any sale, lease or transfer of our properties and assets, the successor person or entity formed by such consolidation or into which we are merged or to which such sale, lease or transfer is made shall succeed to and be substituted for us under the indenture as if the successor person or entity had been originally named in the indenture and may exercise every one of our rights and powers under the indenture. Thereafter, except in the case of a lease, we shall be relieved of all obligations and covenants under the indenture and the notes.

MODIFICATION OF INDENTURE

At any time and without the consent of the holders of the notes, we and the trustee may modify the indenture for any of the following purposes:

- to secure the notes;

- to evidence the succession of another person or entity under the indenture and the assumption by the succeeding person or entity of our covenants;

- to add to our covenants or events of default for the benefit of the holders of the notes or to surrender any of our rights and powers under the indenture;

- to add to, change or eliminate any of the provisions of the indenture provided there is no outstanding security entitled to the benefit of such provision;

- to establish the general forms and terms of securities of any series as permitted under the indenture;

- to cure any ambiguity, to correct or supplement any provision which may be inconsistent with any other provision; to comply with any applicable mandatory provisions of law, provided that any such actions shall not materially adversely affect the interest of the holders of the notes;

- to evidence and provide for the acceptance of the appointment of a successor trustee and to add to or change any provisions necessary to provide for or facilitate the administration of the trusts by more than one trustee; and

- to modify, eliminate or add to the provisions of this indenture to the extent necessary to comply with the Trust Indenture Act.

With the consent of the holders of a majority in aggregate principal amount of the outstanding notes, we and the trustee may add, change or eliminate any provision of the indenture or modify in any manner the rights of the holders of the notes; provided, however, we and the trustee may not, without the consent of each holder of the notes:

- change the stated maturity of the principal of, or any installment of principal or interest on, the notes, or reduce the principal amount of, the premium on or the rate of interest on the notes;

- reduce the percentage in principal amount of the notes required to consent to any supplemental indenture or waive compliance with the indenture or waive defaults under it;

- change our obligation to maintain an office or agency as specified in the indenture; or

- modify any provisions of the indenture governing modifications, waiver of past defaults and waiver of certain covenants, except to increase any percentages required under such provisions or to provide that other provisions of the indenture cannot be modified without the consent of each holder of the notes.

EVENTS OF DEFAULT

"Event of default" when used in the indenture will mean any of the following:

- failure to pay the principal of or any premium on any note when due;

- failure to pay interest on any note for 30 days;

- failure to perform any other covenant in the indenture that continues for 60 days after being given written notice;

- if we commence a voluntary case in bankruptcy, consent to the entry of any order of relief against us in an involuntary bankruptcy base, consent to the appointment of a custodian over us or all or substantially all of our assets or make a general assignment for the benefit of creditors; or

- if a court of competent jurisdiction enters a bankruptcy order either for relief against us in an involuntary case, or appointing a custodian over us or all or substantially all of our assets, or ordering our liquidation; and the order or decree remains unstayed and in effect for 90 days.

An event of default for the notes does not necessarily constitute an event of default for any other series of debt securities issued under the indenture. The trustee may withhold notice to the holders of the notes of any default, except in the payment of principal or interest, if it considers such withholding of notice to be in the best interests of the holders.

If an event of default for the notes occurs and continues, the trustee or the holders of at least 25% in the aggregate principal amount of the notes of the series may declare the entire principal of the notes to be due and payable immediately. If this happens, subject to certain conditions, the holders of a majority of the aggregate principal amount of the notes can void the declaration.

Other than its duties in the case of a default, a trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders, unless the holders offer the trustee reasonable indemnity. If they provide this reasonable indemnification, the holders of a majority in principal amount of the notes may direct the time, method and place of conducting any proceeding or any remedy available to the trustee, or exercising any power conferred upon the trustee, for the notes.

COVENANTS

Under the indenture, we will:

- pay the principal of, and interest and any premium on, the notes when due;

- maintain a place of payment;

- deliver a report to the trustee at the end of each fiscal year reviewing our obligations under the indenture; and

- deposit sufficient funds with any paying agent on or before the due date for any principal, interest or premium.

Limitation on Liens. The indenture provides that we will not, nor will we permit any restricted subsidiary to, create, assume, incur or suffer to exist any lien upon any principal property, whether owned or leased on the date of the indenture or thereafter acquired, to secure any of our debt or of any other person (other than the senior debt securities issued under the indenture), without causing all of the senior debt securities (including the notes) outstanding under the indenture to be secured equally and ratably with, or prior to, the new debt so long as the new debt is so secured. This restriction does not, however, prohibit us from creating the following:

- liens existing on the date of the indenture or created under an "after-acquired property" clause;

- purchase price liens created within one year after purchase;

- liens already existing on newly acquired property or assets;

- liens already existing on the property or assets of a new restricted subsidiary;

- liens already on property or assets when acquired by us or a restricted subsidiary, or when we or a restricted subsidiary acquire the owner of the property or asset;

- liens securing construction or improvement incurred prior to or up to one year after completion;

- liens on oil, gas, mineral and processing and other plant properties to secure costs associated with the properties and their exploration, development, maintenance or operation;

- liens connected with our conveyance (including conveyances by our restricted subsidiaries) of a production payment relating to oil, gas, natural gas or other natural resources;

- liens in favor of us or our restricted subsidiaries;

- liens connected to the issuance of a tax-exempt debt to acquire or construct property or assets;

- liens of a foreign restricted subsidiary to secure its debt;

- permitted liens (as defined below);

- liens upon additions, improvements, replacements, repairs, fixtures, appurtenances or component parts attaching to or required to be attached to property or assets under the terms of any mortgage, pledge agreement, security agreement or other similar instrument, creating a lien upon such property or assets permitted above; or

- any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancing, refundings or replacements) of any lien, in whole or in part, that is referred to above, or of any debt which it secures; provided, that the principal amount of the debt secured shall not exceed the greater of the principal amount of debt secured at the time of such extension, renewal, refinancing, refunding or replacement and the original principal amount of debt secured (plus in each case the aggregate amount of premiums, other payments, costs and expenses required to be

paid or incurred in connection with such extension, renewal, refinancing, refunding or replacement); and further provided, that such extension, renewal, refinancing, refunding or replacement shall be limited to all or a part of the property (including improvements, alterations and repairs on such property) subject to the encumbrance so extended, renewed, refinanced, refunded or replaced (plus improvements, alterations and repairs on such property).

In addition, this limitation on liens does not apply to other liens, not otherwise excepted above, provided that the aggregate principal amount of all debt then outstanding secured by such other liens together will all net sale proceeds from sale-leaseback transactions (other than the permitted sale-leaseback transactions discussed below) does not exceed 15% or our Consolidated Net Tangible Assets (as defined below).

Limitation on Sale-Leaseback Transactions. The indenture also provides that we will not, nor will we permit any restricted subsidiary to, engage in a sale-leaseback transaction, unless:

- such sale-leaseback transaction occurs within one year from the date of acquisition of the principal property subject thereto or the date of the completion of construction or commencement of full operations on such principal property, whichever is later;

- the sale-leaseback transaction involves a lease for a period, including renewals, of not more than three years;

- we or such restricted subsidiary would be entitled to incur debt secured by a lien on the principal property subject thereto in a principal amount equal to or exceeding the net sale proceeds from such sale-leaseback transaction without securing the senior debt securities; or

- we or such restricted subsidiary, within a one-year period after such sale-leaseback transaction, applies or causes to be applied an amount not less than the net sale proceeds from such sale-leaseback transaction to (A) the repayment, redemption or retirement of our funded debt or funded debt of such restricted subsidiary, or (B) investment in another principal property.

In addition, this limitation on sale-leaseback transactions does not apply to other sale-leaseback transactions, not otherwise excepted above, provided that the net sale proceeds from such other sale-leaseback transactions together with the aggregate principal amount of outstanding debt secured by liens upon any principal property (other than that debt secured by liens excepted from the limitation on liens as discussed above) does not exceed 15% of our Consolidated Net Tangible Assets (as defined below).

DEFINITIONS

The following is a summary of capitalized terms used in this summary description of the notes:

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if the trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations.

"Consolidated net tangible assets" means, at any date of determination, the total amount of assets after deducting therefrom (1) all current liabilities (excluding (A) any current liabilities that by their terms are extendable or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed, and (B) current maturities of long-term debt), and (2) the value (net of any applicable reserves) of all goodwill, trade names, trademarks, patents and other like intangible assets, all as set forth on the consolidated balance sheet of us and our

consolidated subsidiaries for our most recently completed fiscal quarter, prepared in accordance with generally accepted accounting principles.

"Funded debt" means all debt maturing one year or more from the date of the creation thereof, all debt directly or indirectly renewable or extendible, at the option of the debtor, by its terms or by the terms of any instrument or agreement relating thereto, to a date one year or more from the date of the creation thereof, and all debt under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more.

"Independent Investment Banker" means Credit Suisse First Boston Corporation and its successors, or, if such firm or the successors, if any, to such firm, as the case may be, are unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the trustee after consultation with us.

"Make-Whole Price" means an amount equal to the greater of:

(1) 100% of the principal amount of the notes to be redeemed; and

(2) as determined by an Independent Investment Banker, the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the redemption date) discounted back to the redemption date

on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points,

plus, in the case of both (1) and (2), accrued and unpaid interest to the redemption date. Unless we default in payment of the Make-Whole Price, on and after the applicable redemption date, interest will cease to accrue on the notes to be redeemed. If we redeem a note in part only, a new note of like tenor for the unredeemed portion thereof and otherwise having the same terms as the note partially redeemed will be issued in the name of the holder of the note upon the presentation and surrender thereof.

"Permitted liens" means (1) liens upon rights-of-way for pipeline purposes; (2) any governmental lien, mechanics', materialmen's, carriers' or similar lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined lien which is incidental to construction; (3) the right reserved to, or vested in, any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to purchase or recapture or to designate a purchaser of, any property; (4) liens of taxes and assessments which are (a) for the then current year, (b) not at the time delinquent, or (c) delinquent but the validity of which is being contested at the time by us or any of our subsidiaries in good faith; (5) liens of, or to secure performance of, leases; (6) any lien upon, or deposits of, any assets in favor of any surety company or clerk of court for the purpose of obtaining indemnity or stay of judicial proceedings; (7) any lien upon property or assets acquired or sold by us or any of our restricted subsidiaries resulting from the exercise of any rights arising out of defaults on receivables; (8) any lien incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations; (9) any lien upon any property or assets in accordance with customary banking practice to secure any debt incurred by us or any of our restricted subsidiaries in connection with the exporting of goods to, or between, or the marketing of goods in, or the importing of goods from, foreign countries; or (10) any lien in favor of the United States or any state thereof, or any other country, or any political subdivision of any of the foregoing, to secure partial, progress, advance, or other payments pursuant to any contract or statute, or any lien securing industrial development, pollution control, or similar revenue bonds.

"Principal property" means (1) any pipeline assets owned by us or any of our subsidiaries, including any related facilities employed in the transportation, distribution or marketing of natural gas, that are located in the United States or Canada, and (2) any processing or manufacturing plant owned or leased by us or any of our subsidiaries that are located within the United States or Canada, except, in the case of either clause (1) or (2), any such assets or plant which, in the opinion of our board of directors, is not material in relation to the activities of us and our subsidiaries as a whole.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

"Reference Treasury Dealer" means Credit Suisse First Boston Corporation and three additional primary U.S. government securities dealers in New York City selected by the trustee after consultation with us, and their respective successors (provided, however, that if any such firm or any such successor shall cease to be a primary U.S. government securities dealer in New York City, the trustee, after consultation with us, shall substitute therefor another dealer).

"Restricted subsidiary" means any of our subsidiaries owning or leasing any principal property.

"Sale-leaseback transaction" means the sale or transfer by us or any of our restricted subsidiaries of any principal property to a person (other than us or a subsidiary) and the taking back by us or any of our restricted subsidiaries, as the case may be, of a lease of such principal property.

"Treasury Rate" means, with respect to any redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the stated maturity, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined, and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month) or (2) if the release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the third Business Day preceding the redemption date.

DEFEASANCE

We will be discharged from our obligations on the notes at any time if we deposit with the trustee sufficient cash or government securities to pay the principal, interest, any premium and any other sums due to the stated maturity date or a redemption date of the notes. If this happens, the holders of the notes will not be entitled to the benefits of the indenture except for registration of transfer and exchange of notes and replacement of lost, stolen or mutilated notes.

METHODS OF RECEIVING PAYMENTS ON THE NOTES

If a holder has given wire transfer instructions to us, we will make all payments of principal of, premium, if any, and interest and liquidated damages (as defined below under the caption "Exchange Offer and Registration Rights"), if any, on the notes in accordance with those instructions. All other payments on these notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless we elect to make interest payments by check mailed to the holders at their address set forth in the security register.

PAYING AGENT AND REGISTRAR FOR THE NOTES

The trustee will initially act as paying agent and registrar. We may change the paying agent or registrar without prior notice to the holders of the notes, and we may act as paying agent or registrar.

SAME-DAY SETTLEMENT AND PAYMENT

Settlement for the notes will be made in immediately available funds. So long as DTC continues to make its settlement system available to us, all payments of principal of and premium, if any, interest and liquidated damages, if any, on the global securities will be made by us in immediately available funds.

TRANSFER AND EXCHANGE

Subject to the restrictions set forth under the caption "Transfer Restrictions," a holder may transfer or exchange notes in accordance with the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and we may require a holder to pay any taxes and fees required by law or permitted by the indenture. In addition, we are not required to transfer or exchange any note between a record date and the next succeeding interest payment date.

The registered holder of a note will be treated as its owner for all purposes.

GOVERNING LAW

The indenture and the notes will be governed by and construed in accordance with the laws of the State of New York.

NOTICES

Notices to holders of the notes will be given by mail to the addresses of such holders as they appear in the security register. No periodic evidence is required to be furnished as to the absence of default or as to compliance with the terms of the indenture.

NO PERSONAL LIABILITY OF OFFICERS, DIRECTORS, EMPLOYEES OR STOCKHOLDERS

No director, officer, employee or stockholder, as such, of El Paso or any of our affiliates will have any personal liability in respect of our obligations under the indenture or the notes by reason of his, her or its status as such.

CONCERNING THE TRUSTEE

Wilmington Trust Company (as successor to JPMorgan Chase Bank) is the trustee under the Indenture. In the ordinary course of business, Wilmington Trust Company and its affiliates have provided and may in the future continue to provide trust services and other financial services to us and our subsidiaries for which they have received and will receive compensation.

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

Except where otherwise stated, the following discussion constitutes the opinion of Locke Liddell & Sapp LLP as to the material United States federal income tax consequences of exchanging Old Notes for New Notes and owning and disposing of New Notes. This discussion is not a complete discussion of all the potential tax consequences that may be relevant to you. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations thereunder, published rulings, and court decisions, all as in effect on the date of this document, and all of which are subject to change, possibly on a retroactive basis. Unless otherwise indicated, this discussion deals only with notes held as a capital asset by a holder who is a United States person and purchased the Old Notes upon original issuance at their original issue price. A "United States person" is:

- a citizen or resident of the United States or any political subdivision thereof;

- a corporation, or a partnership or other entity that is treated as a corporation or partnership for United States federal income tax purposes, that is created or organized in the United States or under the laws of the United States or of any state thereof including the District of Columbia;

- an estate whose income is subject to United States federal income taxation regardless of its source; or

- a trust if a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or it was in existence on August 19, 1996, and has elected to be treated as a United States person.

Your tax treatment may vary depending on your particular situation. This discussion does not address all of the tax consequences that may be relevant to holders that are subject to special tax treatment, such as:

- dealers in securities or currencies;

- financial institutions;

- tax-exempt investors;

- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

- persons liable for alternative minimum tax;

- insurance companies;

- real estate investment trusts;

- regulated investment companies;

- persons holding notes as part of a hedging, conversion, integrated or constructive sale transaction or a straddle;

- United States persons whose functional currency is not the United States dollar;

- partners in a partnership, or other entity treated as a partnership for United States federal income tax purposes, that holds notes;

- controlled foreign corporations;

- foreign personal holding companies;

- corporations that accumulate earnings to avoid United States federal income tax; or

- United States expatriates.

We urge you to consult your own tax advisors regarding your particular

United States federal tax consequences of exchanging, holding and disposing of notes, as well as any tax consequences that may arise under the laws of any relevant foreign, state, local, or other taxing jurisdiction or under any applicable tax treaty.

RECEIPT OF NEW NOTES

Your exchange of Old Notes for New Notes under the exchange offer will not constitute a taxable exchange of the Old Notes. As a result:

- you will not recognize taxable gain or loss when you receive New Notes in exchange for Old Notes;

- your holding period in the New Notes will include your holding period in the Old Notes; and

- your basis in the New Notes will equal your adjusted basis in the Old Notes at the time of the exchange.

TAXATION OF INTEREST

Interest paid on the New Notes generally will be taxable to you as ordinary interest income at the time payments are accrued or received in accordance with your regular method of accounting for United States federal income tax purposes.

SALE OR OTHER TAXABLE DISPOSITION OF NEW NOTES

You must recognize taxable gain or loss on the sale, exchange, redemption, retirement or other taxable disposition of a New Note. The amount of your gain or loss equals the difference between the amount you receive for the New Note in cash or other property, valued at the fair market value, minus the amount attributable to accrued qualified stated interest on the New Note, if any, and your adjusted tax basis in the New Note. Your initial tax basis in a New Note equals the price you paid for the Old Note that you exchanged for the New Note reduced by any payments other than payments of qualified stated interest made on the notes.

Your gain or loss will generally be a long-term capital gain or loss if your holding period in the New Note is more than one year. Otherwise, it will be a short-term capital gain or loss. Payments attributable to accrued qualified stated interest that you have not yet included in income will be taxed as ordinary interest income.

NON-UNITED STATES HOLDERS

The following discussion applies to Non-United States Holders. You are a "Non-United States Holder" if you are not a United States person.

Exchange of Old Notes

Your exchange of Old Notes for New Notes under the exchange offer will not constitute a taxable exchange of the Old Notes, and the consequences of the exchange to you will be the same as those of a United States person described above under the heading "-- Receipt of New Notes."

Interest

Interest that we pay to you will not be subject to United States federal income tax and withholding of United States federal income tax will not be required on interest payments if you:

- do not actually or constructively own 10% or more of the total combined voting power of all classes of our stock;

- are not a controlled foreign corporation with respect to which we are a related person;

- are not a bank whose receipt of interest is described in Section 881(c)(3)(A) of the Code; and

- you certify to us, our payment agent, or the person who would otherwise be required to withhold United States tax, on Form W-8BEN (or applicable substitute form), under penalties of perjury, that you are not a United States person and provide your name and address.

If you do not satisfy the preceding requirements, your interest on a note would generally be subject to United States withholding tax at a flat rate of 28% (or a lower applicable treaty rate).

If you are engaged in a trade or business in the United States, and if interest on a note is effectively connected with the conduct of that trade or business (or in the case of an applicable tax treaty, is attributable to a permanent establishment maintained by you in the United States), you will be exempt from United States withholding tax but will be subject to regular United States federal income tax on the interest in the same manner as if you were a United States person. See "-- Taxation of Interest." In order to establish an exemption from United States withholding tax, you may provide to us, our payment agent or the person who would otherwise be required to withhold United States tax, a properly completed and executed IRS Form W-8ECI (or applicable substitute form). In addition to regular United States federal income tax, if you are a foreign corporation, you may be subject to a United States branch profits tax.

Gain on Disposition

You generally will not be subject to United States federal income tax with respect to gain recognized on a sale, redemption, exchange or other disposition of a note unless:

- the gain is effectively connected with the conduct by you of a trade or business within the United States, or, under an applicable tax treaty, is attributable to a permanent establishment maintained by you in the United States; or

- if you are an individual, you are present in the United States for 183 or more days in the taxable year and certain other requirements are met.

Applicable Tax Treaties

This discussion does not address any benefits you may receive under any applicable tax treaties. You should consult with your own tax advisor as to any applicable income tax treaties that may provide for a lower rate of withholding tax, exemption from, or a reduction of, branch profits tax, or other rules different from the general rules under United States federal income tax laws.

INFORMATION REPORTING AND BACKUP WITHHOLDING

United States Persons

In general, information reporting requirements may apply to payments made to you and to the proceeds of a disposition of the notes, unless you are an exempt recipient such as a corporation. Backup withholding may apply if you fail to supply an accurate taxpayer identification number or otherwise fail to comply with applicable United States information reporting or certification requirements. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

Non-United States Holders

Backup withholding and information reporting will not apply to payments of principal or interest on the notes by us or our paying agent to you if you certify as to your status as a Non-United States Holder under penalties of perjury or otherwise establish an exemption (provided that neither we nor our paying agent has actual knowledge that you are a United States person or that the conditions of any other exemptions are not in fact satisfied).

The payment of the proceeds of the disposition of notes to or through the United States office of a United States or foreign broker will be subject to information reporting and backup withholding unless you provide the certification described above or otherwise establish an exemption. The proceeds of a disposition effected outside the United States by you of notes to or through a foreign office of a broker generally will not be subject to backup withholding or information reporting. However, if that broker is a United States

person, a controlled foreign corporation for United States tax purposes, a foreign person 50% or more of whose gross income from all sources for certain periods is effectively connected with a trade or business in the United States, or a foreign partnership that is engaged in the conduct of a trade or business in the United States or that has one or more partners that are United States persons who in the aggregate hold more than 50% of the income or capital interests in the partnership, information reporting requirements will apply unless that broker has documentary evidence in its files of your status as a Non-United States Holder and has no actual knowledge to the contrary or unless you otherwise establish an exemption.

You should consult your tax advisors regarding the application of information reporting and backup withholding to your particular situation, the availability of an exemption therefrom, and the procedure for obtaining such an exemption, if available. Any amounts withheld from a payment to you under the backup withholding rules will be allowed as a credit against your United States federal income tax liability and may entitle you to a refund, provided you furnish the required information to the Internal Revenue Service.

ERISA CONSIDERATIONS

If you intend to use plan assets to exchange for any of the New Notes offered by this prospectus, you should consult with counsel on the potential consequences of your investment under the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the prohibited transaction provisions of ERISA. If you intend to use governmental or church plan assets to exchange for any of the New Notes, you should consult with counsel on the potential consequences of your investment under similar provisions applicable under laws governing governmental and church plans.

The following summary is based on the provisions of ERISA and the Code and related guidance in effect as of the date of this prospectus. This summary does not attempt to be a complete summary of these considerations. Future legislation, court decisions, administrative regulations or other guidance will change the requirements summarized in this section. Any of these changes could be made retroactively and could apply to transactions entered into before the change is enacted.

FIDUCIARY RESPONSIBILITIES

ERISA imposes requirements on (1) employee benefit plans subject to ERISA, (2) entities whose underlying assets include employee benefit plan assets, for example, collective investment funds and insurance company general accounts, and (3) fiduciaries of employee benefit plans. Under ERISA, fiduciaries generally include persons who exercise discretionary authority or control over plan assets. Before investing any employee benefit plan assets in any note offered in connection with this prospectus, you should determine whether the investment:

(1) is permitted under the plan document and other instruments governing the plan; and

(2) is appropriate for the plan in view of its overall investment policy and the composition and diversification of its portfolio, taking into account the limited liquidity of the notes.

You should consider all factors and circumstances of a particular investment in the notes, including, for example, the risk factors discussed in "Risk Factors" and the fact that in the future there may not be a market in which you will be able to sell or otherwise dispose of your interest in the notes.

We are not making any representation that the sale of any notes to a plan meets the fiduciary requirements for investment by plans generally or any particular plan or that such an investment is appropriate for plans generally or any particular plan.

PROHIBITED TRANSACTIONS

ERISA and the Code prohibit a wide range of transactions involving (1) employee benefit plans and arrangements subject to ERISA and/or the Code, and (2) persons who have specified relationships to the

plans. These persons are called "parties in interest" under ERISA and "disqualified persons" under the Code. The transactions prohibited by ERISA and the Code are called "prohibited transactions." If you are a party in interest or disqualified person who engages in a prohibited transaction, you may be subject to excise taxes and other penalties and liabilities under ERISA and/or the Code. As a result, if you are considering using plan assets to invest in any of the notes offered for sale in connection with this prospectus, you should consider whether the investment might be a prohibited transaction under ERISA and/or the Code.

Prohibited transactions may arise, for example, if the notes are acquired by a plan with respect to which we, or any of our affiliates, are a party in interest or a disqualified person. Exemptions from the prohibited transaction provisions of ERISA and the Code may apply depending in part on the type of plan fiduciary making the decision to acquire a note and the circumstances under which such decision is made. Some of these exemptions include:

(1) Prohibited transaction class exemption or "PTCE" exemptions 75-1 (relating to specified transactions involving employee benefit plans and

broker-dealers, reporting dealers and banks).

(2) PTCE 84-14 (relating to specified transactions directed by independent qualified professional asset managers);

(3) PTCE 90-1 (relating to specified transactions involving insurance company pooled separate accounts);

(4) PTCE 91-38 (relating to specified transactions by bank collective investment funds);

(5) PTCE 95-60 (relating to specified transactions involving insurance company general accounts); and

(6) PTCE 96-23 (relating to specified transactions directed by in-house asset managers);

These exemptions do not, however, provide relief from the self-dealing prohibitions under ERISA and the Code. In addition, there is no assurance that any of these class exemptions or other exemption will be available with respect to any particular transaction involving the notes.

TREATMENT OF NOTES AS DEBT INSTRUMENTS

Some transactions involving our operations could give rise to prohibited transactions under ERISA and the Code if our assets were deemed to be plan assets. Pursuant to Department of Labor Regulations Section 2510.3-101 (which we refer to as the "plan assets regulations"), in general, when a plan acquires an "equity interest" in an entity such as El Paso Natural Gas, the plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless exceptions set forth in the plan assets regulations apply.

In general, an "equity interest" is defined under the plan assets regulations as any interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is very little published authority concerning the application of this definition, we believe that the notes should be treated as debt rather than equity interest under the plan assets regulations because the notes (1) should be treated as indebtedness under applicable local law and debt, rather than equity, for United States tax purposes and (2) should not be deemed to have any "substantial equity features." However, no assurance can be given that the notes will be treated as debt for purposes of ERISA. If the notes were to be treated as an equity interest under the plan assets regulations, the purchase of the notes using plan assets could cause our assets to become subject to the fiduciary and prohibited transaction provisions of ERISA and the Code unless investment in the notes by "benefit plan investors" is not "significant," as determined under the plan assets regulations. We cannot assure you that the criteria for this exception will be satisfied at any particular time and no monitoring or other measures will be taken to determine whether such criteria are met. This means that, if the notes are treated as equity interests under the plan asset regulations and investment in the notes by benefit plan investors is

significant, our assets could be treated as plan assets subject to ERISA and a non-exempt prohibited transaction could arise in connection with our operating activities.

Any insurance company proposing to invest assets of its general account in the notes should consider the implications of the U.S. Supreme Court's decision in John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank, 510 U.S. 86, 114 S. Ct. 517 (1993), which, in some circumstances, treats such general account as including the assets of a plan that owns a policy or other contract with such insurance company, as well as the effect of Section 401(c) of ERISA, as interpreted by regulations proposed by the Department of Labor.

GOVERNMENT AND CHURCH PLANS

Governmental plans and some church plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transactions provisions of ERISA or the Code, may be subject to state or other federal laws that are very similar to the provisions of ERISA and the Code. If you are a fiduciary of a governmental or church plan, you should consult with counsel before purchasing any notes offered for sale in connection with this prospectus.

FOREIGN INDICIA OF OWNERSHIP

ERISA also prohibits plan fiduciaries from maintaining the indicia of ownership of any plan assets outside the jurisdiction of the United States district courts except in specified cases. Before investing in any note offered for sale in connection with this prospectus, you should consider whether the acquisition, holding or disposition of a note would satisfy such indicia of ownership rules.

REPRESENTATIONS AND WARRANTIES

If you acquire or accept a note offered in connection with this prospectus, you will be deemed to have represented and warranted that either:

(1) you have not used plan assets to acquire such note; or

(2) your acquisition and holding of a note (A) is exempt from the prohibited transaction restrictions of ERISA and the Code under one or more prohibited transaction class exemptions or does not constitute a prohibited transaction under ERISA and the Code, and (B) meets the fiduciary requirements of ERISA.

GLOBAL SECURITIES; BOOK-ENTRY SYSTEM

THE GLOBAL SECURITIES

The notes will initially be represented by one or more permanent global notes in definitive, fully registered book-entry form (the "global securities") which will be registered in the name of Cede & Co., as nominee of DTC and deposited on behalf of purchasers of the notes represented thereby with a custodian for DTC for credit to the respective accounts of the purchasers (or to such other accounts as they may direct) at DTC.

We expect that pursuant to procedures established by DTC (a) upon deposit of the global securities, DTC or its custodian will credit on its internal system portions of the global securities which will contain the corresponding respective amount of the global securities to the respective accounts of persons who have accounts with such depositary and (b) ownership of the notes will be shown on, and the transfer of ownership thereof will be affected only through, records maintained by DTC or its nominee (with respect to interests of participants (as defined below) and the records of participants (with respect to interests of persons other than participants). Such accounts initially will be designated by or on behalf of Credit Suisse First Boston Corporation, the initial purchaser, and ownership of beneficial interests in the global securities will be limited to persons who have accounts with DTC (the "participants") or persons who hold interests through participants. Noteholders may hold their interests in a global security directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

So long as DTC or its nominee is the registered owner or holder of any of the notes, DTC or such nominee will be considered the sole owner or holder of such notes represented by such global securities for all purposes under the indenture and under the notes represented thereby. No beneficial owner of an interest in the global securities will be able to transfer such interest except in accordance with the applicable procedures of DTC in addition to those provided for under the indenture and, if applicable, those of the Euroclear System ("Euroclear") and Clearstream Banking, societe anonyme, Luxembourg ("Clearstream Luxembourg").

CERTAIN BOOK-ENTRY PROCEDURES FOR THE GLOBAL SECURITIES

The operations and procedures of DTC, Euroclear and Clearstream Luxembourg are solely within the control of the respective settlement systems and are subject to change by them from time to time. Investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is:

- a limited-purpose trust company organized under the laws of the State of New York;

- a "banking organization" within the meaning of the New York Banking Law;

- a member of the Federal Reserve System;

- a "clearing corporation" within the meaning of the New York Uniform Commercial Code, as amended; and

- a "clearing agency" registered pursuant to Section 17A of the Securities Exchange Act of 1934.

DTC was created to hold securities for its participants (collectively, the "participants") and to facilitate the clearance and settlement of securities transactions, such as transfers and pledges, between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC's participants include securities brokers and dealers (including Credit Suisse First Boston Corporation), banks and trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Indirect access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies (collectively, the "indirect participants") that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants. The rules applicable to DTC and its participants are on file with the SEC.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of those securities in definitive form. Accordingly, the ability to transfer beneficial interests in notes represented by a global security to those persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person holding a beneficial interest in a global security to pledge or transfer that interest to persons or entities that do not participate in DTC's system, or to otherwise take actions in respect of that interest, may be affected by the lack of a physical security in respect of that interest.

So long as DTC or its nominee is the registered owner of a global security, DTC or that nominee, as the case may be, will be considered the sole legal owner or holder of the notes represented by that global security for all purposes of the notes and the Indenture. Except as provided below, owners of beneficial interests in a global security will not be entitled to have the notes represented by that global security registered in their names, will not receive or be entitled to receive physical delivery of certificated securities, and will not be considered the owners or holders of the notes represented by that beneficial

interest under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee. To facilitate subsequent transfers, all global securities that are deposited with, or on behalf of, DTC will be registered in the name of DTC's nominee, Cede & Co. The deposit of global securities with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. We understand that DTC has no knowledge of the actual beneficial owners of the securities. Accordingly, each holder owning a beneficial interest in a global security must rely on the procedures of DTC and, if that holder is not a participant or an indirect participant, on the procedures of the participant through which that holder owns its interest, to exercise any rights of a holder of notes under the Indenture or that global security. We understand that under existing industry practice, in the event that we request any action of holders of notes, or a holder that is an owner of a beneficial interest in a global security desires to take any action that DTC, as the holder of that global security, is entitled to take, DTC would authorize the participants to take that action and the participants would authorize holders owning through those participants to take that action or would otherwise act upon the instruction of those holders.

Conveyance of notices and other communications by DTC to its direct participants, by its direct participants to indirect participants and by its direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the global securities. Under its usual procedures, DTC will mail an omnibus proxy to us as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants of DTC to whose accounts the securities are credited on the applicable record date, which are identified in a listing attached to the omnibus proxy.

Neither we nor the trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to the notes.

Payments with respect to the principal of and premium, if any, and interest on a global security will be payable by the trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the global security under the Indenture. Under the terms of the Indenture, we and the trustee may treat the persons in whose names the notes, including the global securities, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, neither we nor the trustee has or will have any responsibility or liability for the payment of those amounts to owners of beneficial interests in a global security. It is our understanding that DTC's practice is to credit direct its participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe that it will not receive payment on that date. Payments by the participants and the indirect participants to the owners of beneficial interests in a global security will be governed by standing instructions and customary industry practice and will be the responsibility of the participants and indirect participants and not of DTC, us or the trustee, subject to statutory or regulatory requirements in effect at the time. None of us, the trustee or any paying agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial interests in the global securities or for maintaining, supervising or reviewing any records relating to those beneficial interests.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream Luxembourg participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream Luxembourg, as the case may be, by its respective depositary; however, those crossmarket transactions will require delivery of instructions to Euroclear or Clearstream Luxembourg, as

the case may be, by the counterparty in that system in accordance with the rules and procedures and within the established deadlines (Brussels time) of that system. Euroclear or Clearstream Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant global securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream Luxembourg participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream Luxembourg participant purchasing an interest in a global security from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream Luxembourg participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream Luxembourg) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream Luxembourg as a result of sales of interests in a global security by or through a Euroclear or Clearstream Luxembourg participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream Luxembourg cash account only as of the business day for Euroclear or Clearstream Luxembourg following DTC's settlement date.

Although we understand that DTC, Euroclear and Clearstream Luxembourg have agreed to the foregoing procedures to facilitate transfers of interests in the global securities among participants in DTC, Euroclear and Clearstream Luxembourg, they are under no obligation to perform or to continue to perform those procedures, and those procedures may be discontinued at any time. Neither we nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DTC, Euroclear or Clearstream Luxembourg may discontinue providing its services as securities depositary with respect to the global securities at any time by giving reasonable notice to us or the trustee. Under such circumstances, if a successor securities depositary is not obtained, certificates for the securities are required to be printed and delivered.

We may decide to discontinue use of the system of book-entry transfers through DTC or a successor securities depositary. In that event, certificates for the securities will be printed and delivered.

We have provided the foregoing information with respect to DTC to the financial community for information purposes only. We obtained the information in this section and elsewhere in this prospectus concerning DTC, Euroclear and Clearstream Luxembourg and their respective book-entry systems from sources that we believe are reliable. Although we expect DTC, Euroclear or Clearstream Luxembourg and their participants to follow the foregoing procedures in order to facilitate transfers of interests in global securities among their respective participants, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

EXCHANGE OFFER AND REGISTRATION RIGHTS

In connection with the issuance of the Old Notes, we entered into a registration rights agreement with Credit Suisse First Boston Corporation. The following summary of selected provisions of the registration rights agreement is not complete and is subject to all the provisions of the registration rights agreement. Copies of the registration rights agreement are available from us upon request as described under "Where You Can Find More Information."

Pursuant to the registration rights agreement, we agreed to file with the SEC this exchange offer registration statement with respect to a registered offer to exchange the Old Notes for New Notes, which have terms identical to the Old Notes in all material respects except that such notes will not contain terms with respect to transfer restrictions, registration rights and payment of additional interest. Upon the effectiveness of this exchange offer registration statement, pursuant to the exchange offer we will offer to

the holders of Transfer Restricted Securities (as defined below) who are able to make certain representations, the opportunity to exchange their Transfer Restricted Securities for New Notes. If, upon consummation of the exchange offer, Credit Suisse First Boston Corporation holds notes acquired by it as part of the Old Notes' initial distribution, we, simultaneously with the delivery of the New Notes pursuant to the exchange offer, will issue and deliver to Credit Suisse First Boston Corporation, in a private exchange for the notes held by Credit Suisse First Boston Corporation, a like principal amount of our New Notes issued under the indenture and identical in all material respects to the New Notes issued in the exchange offer, except such notes issued in the private exchange shall include restrictions on transfer under the Securities Act and the securities laws of the several states of the United States.

If:

- we are not permitted to file this exchange offer registration statement or consummate the exchange offer because the exchange offer is not permitted by applicable law or SEC policy;

- Credit Suisse First Boston Corporation so requests with respect to notes, including New Notes acquired in a private exchange, not eligible to be exchanged for New Notes in the exchange offer and held by it following consummation of the exchange offer;

- any holder of Transfer Restricted Securities notifies us in writing prior to the consummation of the exchange offer that, based upon an opinion of counsel, it is not eligible to participate in the exchange offer, or, in the case of any holder, other than a broker-dealer, that participates in the exchange offer, such holder does not receive freely tradeable New Notes, or

- the exchange offer is not consummated within 260 days of the closing of the offering of the Old Notes, then we will file with the SEC a shelf registration statement to cover resales of the notes by the holders thereof who satisfy certain conditions relating to the provision of information in connection with the shelf registration statement.

We also agreed to use our reasonable commercial efforts to cause the applicable registration statement to be declared effective as promptly as possible by the SEC. For purposes of the foregoing, "Transfer Restricted Securities" means each note, including notes acquired in a private exchange, until the earlier to occur of:

- the date on which such note has been exchanged by a person other than a broker-dealer for a freely tradeable New Note in the exchange offer;

- following the exchange by a broker-dealer in the exchange offer of an Old Note for a New Note, the date on which such New Note is sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of the prospectus contained in this exchange offer registration statement;

- the date on which such note, including a note acquired in a private exchange, has been effectively registered under the Securities Act and disposed of in accordance with the shelf registration statement; or

- the date on which such note, including a note acquired in a private exchange, is distributed to the public pursuant to Rule 144 under the Securities Act or is saleable pursuant to Rule 144(k) under the Securities Act.

The registration rights agreement also provides that:

- we will file this exchange offer registration statement with the SEC on or prior to 90 days after the closing of the offering of the Old Notes;

- we will use our reasonable commercial efforts to have this exchange offer registration statement declared effective by the SEC within 220 days after the closing of the offering of the Old Notes;

- unless the exchange offer would not be permitted by applicable law or SEC policy, we will commence the exchange offer and use our reasonable commercial efforts to issue on or prior to

30 business days after the date on which this exchange offer registration statement is declared effective by the SEC, New Notes in exchange for all notes properly tendered and not withdrawn prior thereto in the exchange offer; and

- if obligated to file the shelf registration statement, we will use our reasonable commercial efforts to file the shelf registration statement with the SEC as promptly as practicable but in no event more than 30 business days after such filing obligation arises and to thereafter cause the shelf registration statement to be declared effective by the SEC as promptly as practicable thereafter. We are permitted to suspend use of the prospectus that is part of the shelf registration statement during certain periods of time and in certain circumstances relating to pending corporate developments and public filings with the SEC and similar events.

Additional interest with respect to the Old Notes shall be assessed as follows if any of the following events occur:

- if on or prior to the 90 days following the closing of the offering of the Old Notes, neither this exchange offer registration statement nor a shelf registration statement has been filed with the SEC; or

- if on or prior to the 220 days following the closing of the offering of the Old Notes, this exchange offer registration statement has not been declared effective by the SEC or, if required to be filed in lieu thereof, the shelf registration statement has not been declared effective by the SEC; or

- if the exchange offer has not been consummated within 30 business days after this exchange offer registration statement has been declared effective by the SEC; or

- if after either this exchange offer registration statement or the shelf registration statement is declared effective:

  - such registration statement thereafter ceases to be effective; or

  - such registration statement or the related prospectus ceases to be usable, except as permitted in the registration rights agreement, in connection with the exchanges of the notes or resales of Transfer Restricted Securities, as applicable, during the periods specified therein because either any event occurs as a result of which the related prospectus forming part of such registration statement would include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or it shall be necessary to amend such registration statement or supplement the related prospectus to comply with the Securities Act or the Securities Exchange Act or the respective rules thereunder.

Additional interest shall accrue on the Transfer Restricted Securities over and above the interest set forth in the title of the notes at an annual rate of 0.25% for the first 90-day period from and including the date on which any of the previous events shall occur, and such annual rate will increase by an additional 0.25% with respect to each subsequent 90-day period until all such events have been cured, up to a maximum additional annual rate of 0.75%. We are currently paying additional interest at an annual rate of 0.75%.

Holders of notes will be required to make certain representations to us, as described in the registration rights agreement, in order to participate in the exchange offer and will be required to deliver information to be used in connection with the shelf registration statement and to provide comments on the shelf registration statement within the time periods set forth in the registration rights agreement and will be named as a selling security holder in such shelf registration statement in order to have their notes included in the shelf registration statement and benefit from the provisions regarding additional interest set forth above. Any holders, other than Credit Suisse First Boston Corporation, who are eligible to participate in the exchange offer but fail to, or elect not to, participate therein will continue to hold Transfer Restricted Securities and will have no further rights to exchange their Transfer Restricted Securities or have such securities registered under the registration rights agreement.

PLAN OF DISTRIBUTION

Based on interpretations by the staff of the SEC set forth in no action letters issued to third parties, we believe that you may transfer New Notes issued under the exchange offer in exchange for Old Notes unless you are:

- our "affiliate" within the meaning of Rule 405 under the Securities Act;

- a broker-dealer that acquired Old Notes directly from us; or

- a broker-dealer that acquired Old Notes as a result of market-making or other trading activities without compliance with the registration and prospectus delivery provisions of the Securities Act;

provided that you acquire the New Notes in the ordinary course of your business and you are not engaged in, and do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the New Notes. Broker-dealers receiving New Notes in the exchange offer will be subject to a prospectus delivery requirement with respect to resales of the New Notes.

To date, the staff of the SEC has taken the position that participating broker-dealers may fulfill their prospectus delivery requirements with respect to transactions involving an exchange of securities such as this exchange offer, other than a resale of an unsold allotment from the original sale of the Old Notes, with the prospectus contained in the exchange offer registration statement.

Each broker-dealer that receives New Notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the expiration date, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until   , 2003, all dealers effecting transactions in the New Notes may be required to deliver a prospectus.

We will not receive any proceeds from any sale of New Notes by broker-dealers. New Notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the New Notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such New Notes. Any broker-dealer that resells New Notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such New Notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of New Notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 180 days after the expiration date, we will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any broker-dealer that requests such documents in the letter of transmittal. We have agreed to pay all expenses incident to the exchange offer (including the expenses of one counsel for the holders of the notes), other than commissions or concessions of any brokers or dealers, and will indemnify the holders of the notes (including any broker-dealers) against specified liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity and enforceability of the notes offered hereby and certain United States federal income taxation matters will be passed upon for El Paso Natural Gas by Locke Liddell & Sapp LLP, Houston, Texas.

EXPERTS

The consolidated financial statements and financial statement schedule as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002, included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholder of
El Paso Natural Gas Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholder's equity and cash flows present fairly, in all material respects, the consolidated financial position of El Paso Natural Gas Company and its subsidiaries, (the "Company") at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Houston, Texas

March 25, 2003

EL PASO NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS)

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Operating revenues	$564	$572	$508
Operating expenses			
Operation and maintenance	173	190	189
Merger-related costs	--	98	--

Depreciation, depletion and amortization	63	70	66
Western Energy Settlement	412	--	--
Taxes, other than income taxes	21	28	30
	669	386	285
Operating income (loss)	(105)	186	223
Other income (expense)	1	(2)	4
Interest and debt expense	(72)	(87)	(96)
Affiliated interest income	22	58	75
Income (loss) before income taxes	(154)	155	206
Income taxes	(55)	60	78
Net income (loss)	$(99)	$ 95	$128

See accompanying notes.

EL PASO NATURAL GAS COMPANY

CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT SHARE AMOUNTS)

	DECEMBER 31,	
	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents	$ 3	$ --
Accounts and notes receivable		
Customer, net of allowance of $18 in 2002 and $6 in 2001	79	97
Affiliates	432	1,298
Other	13	6
Materials and supplies	43	39
Deferred income taxes	36	--
Other	27	16
Total current assets	633	1,456
Property, plant and equipment, at cost	3,060	2,940
Less accumulated depreciation, depletion and amortization	1,152	1,142
Total property, plant and equipment, net	1,908	1,798

Note receivable from affiliate	565	--
Other	83	90
Total assets	$3,189	$3,344

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities		
Accounts payable		
Trade	$ 43	$ 54
Affiliates	33	9
Other	11	9
Short-term borrowings (including current maturities of long-term debt)	200	654
Accrued interest	15	22
Taxes payable	133	117
Contractual deposits	35	1
Western Energy Settlement payable	100	--
Other	53	70
Total current liabilities	623	936
Long-term debt, less current maturities	758	659
Other liabilities		
Deferred income taxes	221	282
Western Energy Settlement obligation	312	--
Other	122	169
	655	451
Commitments and contingencies		
Stockholder's equity		
Preferred stock, 8%, par value $0.01 per share; authorized 1,000,000 shares; issued 500,000 shares; stated at liquidation value	350	350
Common stock, par value $1 per share; authorized and issued 1,000 shares	--	--
Additional paid-in capital	715	714
Retained earnings	88	234
Total stockholder's equity	1,153	1,298
Total liabilities and stockholder's equity	$3,189	$3,344

See accompanying notes.

EL PASO NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Cash flows from operating activities			
Net income (loss)	$ (99)	$ 95	$ 128
Adjustments to reconcile net income (loss) to net cash from operating activities			
Depreciation, depletion and amortization	63	70	66
Western Energy Settlement	412	--	--
Deferred income tax expense (benefit)	(113)	29	34
Net gain on the sale of assets	(1)	--	(3)
Risk-sharing revenue	(32)	(32)	(32)
Non-cash portion of merger-related costs	--	92	--
Bad debt expense	12	6	--
Other non-cash income items	2	2	3
Working capital changes, net of non-cash transactions			
Accounts receivable	(4)	25	(64)
Accounts payable	(4)	(5)	12
Taxes payable	24	17	16
Other working capital changes			
Assets	4	(6)	(7)
Liabilities	14	12	(2)
Non-working capital changes			
Assets	(1)	28	18
Liabilities	(8)	(9)	(9)
Net cash provided by operating activities	269	324	160
Cash flows from investing activities			
Additions to property, plant and equipment	(193)	(157)	(228)
Net proceeds from the sale of assets	9	--	36
Net change in affiliated advances receivable	304	(298)	344
Other	--	--	3
Net cash provided by (used in) investing activities	120	(455)	155
Cash flows from financing activities			
Net borrowings (repayments) of commercial paper	(439)	159	(287)
Payments to retire long-term debt	(215)	--	--
Net proceeds from the issuance of long-term debt	296	--	--

Dividends paid	(28)	(28)	(28)
Net cash provided by (used in) financing activities	(386)	131	(315)
Increase in cash and cash equivalents	3	--	--
Cash and cash equivalents			
Beginning of period	--	--	--
End of period	$ 3	$ --	$ --

See accompanying notes.

EL PASO NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(IN MILLIONS, EXCEPT SHARE AMOUNTS)

	8% PREFERRED STOCK	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TO STOCKH EQU
January 1, 2000	$350	1,000	$ --	$700	$ 76	$1,
Net income					128	
Preferred stock dividends					(28)	
Allocated tax benefit of El Paso equity plans				5		
Non-cash capital contributions from El Paso				5		
Dividends					(9)	
December 31, 2000	350	1,000	--	710	167	1,
Net income					95	
Preferred stock dividends					(28)	
Allocated tax benefit of El Paso equity plans				4		
December 31, 2001	350	1,000	--	714	234	1,
Net loss					(99)	
Preferred stock dividends					(28)	
Allocated tax benefit of El Paso equity plans				1		
Dividends					(19)	
December 31, 2002	$350	1,000	$ --	$715	$ 88	$1,

See accompanying notes.

EL PASO NATURAL GAS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

Our consolidated financial statements include the accounts of all majority-owned, controlled subsidiaries after the elimination of all significant intercompany accounts and transactions. We consolidate entities when we have the ability to control the operating and financial decisions and policies of that entity. Our financial statements for prior periods include reclassifications that were made to conform to the current year presentation. Those reclassifications had no impact on reported net income or stockholder's equity.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires the use of estimates and assumptions that affect the amounts we report as assets, liabilities, revenues and expenses and our disclosures in these financial statements. Actual results can, and often do, differ from those estimates.

Accounting for Regulated Operations

Our natural gas systems are subject to the jurisdiction of FERC in accordance with the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978, and we apply the provisions of SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. Accounting requirements for regulated businesses can differ from the accounting requirements for non-regulated businesses. Transactions that have been recorded differently as a result of regulatory accounting requirements include the capitalization of an equity return component on regulated capital projects, employee related benefits and other costs and taxes included in, or expected to be included in, future rates.

Our application of SFAS No. 71 is based on the current regulatory environment, our current tariff rates and our ability to collect those rates. Future regulatory developments and rate cases could impact this accounting. Although discounting of our maximum tariff rates does occur, we believe the standards required by SFAS No. 71 for its application are met and the continued use of regulatory accounting under SFAS No. 71 best reflects the results of operations in the economic environment in which we currently operate. Regulatory accounting requires us to record assets and liabilities that result from the rate-making process that would not be recorded under GAAP for non-regulated entities. We will continue to evaluate the application of regulatory accounting principles based on on-going changes in the regulatory and economic environment. Items that may influence our assessment are:

- inability to recover cost increases due to rate caps and rate case moratoriums;

- inability to recover capitalized costs, including an adequate return on those costs through the rate-making process and FERC proceedings;

- excess capacity;
- increased competition and discounting in the markets we serve; and
- impacts of ongoing regulatory initiatives in the natural gas industry.

Cash and Cash Equivalents

We consider short-term investments with an original maturity of less than three months to be cash equivalents.

Allowance for Doubtful Accounts

We establish provisions for losses on accounts receivable and for natural gas imbalances due from shippers and operators if we determine that we will not collect all or part of the outstanding balance. We regularly review collectibility and establish or adjust our allowance as necessary using the specific identification method.

Materials and Supplies

We value materials and supplies at the lower of cost or market value with cost determined using the average cost method.

Natural Gas Imbalances

Natural gas imbalances occur when the actual amount of natural gas delivered from or received by a pipeline system differs from the contractual amount scheduled to be delivered or received. We value thes