FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
SEC Accession No. 0000950134-94-000579

FILER

EL PASO NATURAL GAS CO

CIK:**31986**| IRS No.: **740608280** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-02700** | Film No.: **94528291**
SIC: **4922** Natural gas transmission

Business Address
ONE PAUL KAYSER CENTER
304 TEXAS AVE
EL PASO TX 79901
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1994

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-2700

EL PASO NATURAL GAS COMPANY
(Exact Name of Registrant as Specified in its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	74-0608280 (I.R.S. Employer Identification No.)
ONE PAUL KAYSER CENTER, 304 TEXAS AVENUE, EL PASO, TEXAS (Address of Principal Executive Offices)	79901 (Zip Code)

Registrant's Telephone Number, Including Area Code (915) 541-2600

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

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

CLASS	OUTSTANDING
Common Stock, par value $3.00 per share, as of April 30, 1994	36,909,195 shares

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EL PASO NATURAL GAS COMPANY

CONSOLIDATED STATEMENT OF INCOME
(IN THOUSANDS, EXCEPT PER COMMON SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

	FIRST QUARTER	
	1994	1993
<S>	<C>	<C>
Operating revenues	$221,945	$210,912
Operating charges		
Operation and maintenance	69,840	73,738
Natural gas and liquids	62,960	50,544
Depreciation and amortization	16,229	14,257
Litigation special charge	15,062	--
Taxes, other than income taxes	10,057	9,189
	174,148	147,728
Operating income	47,797	63,184
Other (income) and income deductions		
Interest and debt expense	19,715	16,669
Allowance for funds used during construction	(374)	(1,446)
Other -- net	(6,250)	(1,877)
	13,091	13,346
Income before income taxes	34,706	49,838
Income taxes	13,591	18,998
Net income	$ 21,115	$ 30,840
Earnings per common share	$ .57	$ .83
Average common shares outstanding	36,892	37,177
Dividends declared per common share	$ 0.3025	$ 0.2750

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

EL PASO NATURAL GAS COMPANY

CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT PER SHARE AMOUNT)
(UNAUDITED)

ASSETS

	MARCH 31, 1994	DECEMBER 31, 1993
Current assets		
Cash and temporary cash investments	$ 31,233	$ --
Accounts and notes receivable, net	121,669	133,437
Materials and supplies inventory	34,281	34,665
Take-or-pay buy-outs, buy-downs and prepayments, net	36,000	34,019
Other regulatory assets	12,000	12,000
Deferred income tax benefit	44,726	44,141
Costs recoverable through insurance	23,834	23,260
Other	16,290	22,490
Total current assets	320,033	304,012
Property, plant and equipment, net	1,754,650	1,765,486
Take-or-pay buy-outs, buy-downs and prepayments, net	38,909	48,106
Other regulatory assets	67,479	62,249
Other	92,522	89,810
	1,953,560	1,965,651
Total assets	$2,273,593	$2,269,663

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, 1994	DECEMBER 31, 1993
Current liabilities		
Accounts payable	$ 200,282	$ 217,279
Commercial paper	6,800	1,300
Take-or-pay financing liability	40,162	40,125
Accrual for regulatory issues	46,474	29,867
Current maturities of long-term debt	6,495	6,184
Other	56,089	61,709
Total current liabilities	356,302	356,464
Long-term debt, less current maturities	792,495	795,783
Deferred income taxes, less current portion	308,265	298,080
Take-or-pay financing liability, less current portion	27,938	40,383
Deferred credits	35,459	25,540
Other liabilities	34,293	45,865
	1,198,450	1,205,651
Commitments and contingent liabilities (See Notes 3, 4 and 5)		
Stockholders' equity		
Common stock, par value $3 per share; authorized 100,000 shares; issued 37,350 shares	112,051	112,051

Additional paid-in capital	455,496	455,496
Retained earnings	167,115	157,506
Less: Treasury stock (at cost) 442 shares and 486 shares	15,821	17,505
Total stockholders' equity	718,841	707,548
Total liabilities and stockholders' equity	$2,273,593	$2,269,663

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

EL PASO NATURAL GAS COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

<TABLE>
<CAPTION>

	FIRST QUARTER	
	1994	1993
Cash flows from operating activities		
Net income	$ 21,115	$ 30,840
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	16,229	14,257
Deferred income taxes	9,869	8,998
Net take-or-pay recoveries	7,216	17,035
Other working capital changes		
Accounts and notes receivable	10,843	21,648
Materials and supplies inventory	384	4,629
Other current assets	5,295	14,556
Costs recoverable through insurance	(574)	(4,829)
Accounts payable	7,383	(57,897)
Accrual for regulatory issues	(789)	11,808
Other current liabilities	(5,667)	(12,480)
Other	(4,199)	(254)
Net cash provided by operating activities	67,105	48,311
Cash flows from investing activities		
Capital expenditures	(15,610)	(13,929)
Proceeds from property dispositions	1,504	753
Other	(2,271)	(2,483)
Net cash used in investing activities	(16,377)	(15,659)
Cash flows from financing activities		
Proceeds from reissuance of treasury stock	1,117	2,602
Long-term debt retirements	(3,010)	--
Net commercial paper borrowings	5,500	--
Repayment of volumetric take-or-pay receivable	(12,408)	(10,012)
Dividends paid	(10,135)	(9,166)

Other	(559)	2,964
Net cash used in financing activities	(19,495)	(13,612)
Increase in cash and temporary cash investments	31,233	19,040
Cash and temporary cash investments		
Beginning of period	--	48,638
End of period	$ 31,233	$ 67,678

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

EL PASO NATURAL GAS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The 1993 Annual Report on Form 10-K for El Paso Natural Gas Company and subsidiaries includes a summary of significant accounting policies and should be read in conjunction with this Form 10-Q. As used herein, "Company" refers to El Paso Natural Gas Company and its subsidiaries and "EPG" refers to El Paso Natural Gas Company, unless the context otherwise requires. The financial statements for the periods presented are unaudited, condensed and do not contain all of the information required by generally accepted accounting principles to be included in a full set of financial statements. In the opinion of management, all material adjustments necessary to present fairly the results of operations for such periods have been included. All such adjustments are of a normal recurring nature. Results of operations for any interim period are not necessarily indicative of the results of operations for the entire year. Financial statements for previous periods include certain reclassifications which were made to conform to current presentation. Such reclassifications have no effect on reported net income or stockholders' equity.

2. ACQUISITION

On June 1, 1993, the Company acquired from a wholly owned subsidiary of Enron Corp., that subsidiary's 50 percent interest in Mojave Pipeline Company ("MPC"), a general partnership, for approximately $40 million in cash, representing the approximate book value of the investment. The acquisition, which was funded by internally generated cash flow, gives the Company 100 percent ownership of MPC. The acquisition was accounted for using the purchase method.

The Company's Consolidated Statement of Income for the first quarter of 1994 includes the operating results of MPC. The income effect of the Company's previously owned 50 percent equity interest in MPC for the first quarter of 1993 is included in other-net in the Consolidated Statement of Income.

The following pro forma summary presents the consolidated results of operations of the Company as if the acquisition had occurred as of January 1, 1993. This pro forma result has been prepared for comparative purposes only and does not purport to be indicative of what may have resulted had the acquisition occurred as of that date or of results which may occur in the future.

	FIRST QUARTER 1993 (IN THOUSANDS, EXCEPT PER SHARE AMOUNT)
Operating revenues	$ 220,847
Net income	31,486
Earnings per common share	0.85

3. RATES AND REGULATORY MATTERS

General Rate Filings and Other

On January 14, 1994, EPG filed an application with the Federal Energy Regulatory Commission ("FERC") seeking an order which would terminate, effective January 1, 1996, certificates applicable to certain gathering and production area facilities owned by EPG on the basis that such facilities are not subject to FERC jurisdiction.

EPG intends, effective January 1, 1996, to transfer all of its nonjurisdictional gathering and production area facilities to a wholly owned subsidiary of EPG. Such facilities are used for gathering and other nonjurisdictional functions and are an inherent part of EPG's current gathering operations. The facilities to be transferred consist of approximately 6,700 miles of various sized pipelines, compressors with a combined horsepower of 40,600 and various treating and processing plants. These nonjurisdictional facilities, together

with the facilities included in the January 14, 1994 FERC application, constitute substantially all of EPG's gathering and production area facilities.

Several producers and other shippers filed protests and requests for a formal hearing of the January 14, 1994 FERC application. The primary issues focus on the extent of competition in EPG's producing basins and the proper functionalization of its facilities. In response to the producer and shipper protests, EPG made a filing on March 15, 1994 asserting that the protests raise issues already settled under EPG's 1993 settlement agreement.

EPG's 1993 settlement agreement provided, in part, for the accelerated recovery of a substantial portion of EPG's investment in its underground storage facility. The amount to be recovered was approximately $56.7 million plus interest accruing beginning February 1, 1993 at the FERC allowed rate, which approximates the prime rate. On March 25, 1994, EPG received a final FERC letter order approving the $56.7 million of underground storage facility costs. This is being recovered by a demand charge mechanism over the period from October 1, 1993 through December 31, 1996. The amount recovered through March 31, 1994 was $23 million. The outstanding balance at March 31, 1994 and December 31, 1993 was $33 million and $37 million, respectively, of which $12 million is reflected in the current portion of other regulatory assets for both periods and $21 million and $25 million, respectively, is included in other regulatory assets in the

Consolidated Balance Sheet.

MPC filed a service and rate design restructuring plan on November 3, 1992, in compliance with FERC's industry-wide restructuring directives. On March 2, 1993, FERC issued an order essentially approving MPC's compliance filing, subject to changes, which were made in an amended restructuring plan on March 29, 1993. Several of MPC's customers filed protests and requests for rehearing of the March 2, 1993 FERC order. The rehearing requests were denied, and FERC approved the amended restructuring plan on July 9, 1993, with an effective date of August 1, 1993. On October 15, 1993, FERC issued an order which denied requests for rehearing of the July 9, 1993 order. Several of MPC's customers have filed petitions with the United States Court of Appeals for review of the March 2, 1993, July 9, 1993 and October 15, 1993 orders. These petitions are currently pending.

The primary issues on appeal pertain to FERC's requirement that MPC's rates for firm transportation service be based upon Straight Fixed Variable ("SFV") rate design rather than Modified Fixed Variable ("MFV") rate design. The application of SFV rates requires MPC's existing firm shippers to pay a higher proportion of their total transportation rate in the reservation component of the rate. Such shippers have contended that FERC's application of SFV rate design to MPC unlawfully abrogates the rate provisions of MPC's service agreements and constitutes an unlawful rate increase. Management believes the United States Court of Appeals will uphold SFV rates as applied to MPC.

Take-or-Pay Settlements

EPG has made buy-out and buy-down payments and recoupable prepayments to resolve past and future take-or-pay exposure, to terminate and reform gas purchase contracts, to amend pricing and take provisions of gas purchase contracts and to settle related litigation. EPG is collecting its buy-out and buy-down costs under FERC cost recovery procedures. Under FERC procedures, take-or-pay cost recovery filings may be challenged by pipeline customers on prudence and certain other grounds. FERC has approved orders, subject to rehearing, resolving all but one of the outstanding issues regarding EPG's take-or-pay proceedings. The remaining issue involves the claim of several customers that EPG has sought to recover an excessive amount for the value of certain production properties which were transferred to a producer as part of a 1989 take-or-pay settlement. On March 8, 1993, an initial decision from the presiding Administrative Law Judge ("ALJ") was rendered which, if adopted without changes by FERC, would require EPG to refund to or forgo collection from its customers of up to $30 million, plus interest. Exceptions to this initial decision were filed with FERC by both parties on April 7, 1993. On April 27, 1993, briefs opposing exceptions were filed by the same parties as well as by FERC staff. EPG has established reserves for this issue, and management does not believe that

the ultimate outcome will have a materially adverse effect on the Company's financial condition or results of operations.

4. LEGAL PROCEEDINGS

In El Paso Natural Gas Company and Meridian Oil Gathering Inc. v. Amoco Production Company, filed in Delaware Chancery Court on May 8, 1991, Amoco

Production Company ("Amoco") alleged breaches by EPG and a then affiliated company, Meridian Oil Gathering Inc. ("MOGI"), of certain gas purchase, gathering and transportation agreements pertaining to natural gas produced by Amoco in the San Juan Basin. Amoco alleged breach of "favored nations" contractual provisions regarding services to be performed by EPG, including those relating to transportation capacity and rates, and has sought a court order requiring specific performance by EPG and MOGI with respect to future transportation services and an award of monetary damages of an undetermined amount for alleged past breaches of contract. On March 4, 1992, the Court issued a Memorandum Opinion which, among other things, denied Amoco's motion for partial summary judgment and concluded that the Amoco contracts at issue do not contain the general "favored nations" rights claimed by Amoco. The Court further concluded that EPG's and MOGI's motions for summary judgment, seeking dismissal of Amoco's counterclaim against MOGI, should be granted. Conoco Inc. ("Conoco") asserted claims similar to Amoco's original claims, involving lesser quantities of gas, in a separate Delaware Chancery Court proceeding filed on December 30, 1991, Conoco Inc. v. El Paso Natural Gas Company. In August 1992, the Amoco and Conoco cases were consolidated, MOGI was dismissed as a party, and Amoco and Conoco filed amended pleadings to restate their claims in light of the court's March 4, 1992 ruling. EPG and Conoco concluded a settlement agreement which resulted in dismissal of the Conoco claims. Trial of the Amoco claims concluded on July 15, 1993 and post-trial briefing and oral arguments concluded in early November, 1993. On March 29, 1994, the Court rendered a decision in favor of Amoco. As a result of the Court's decision, EPG may be required to refund to Amoco amounts which at March 31, 1994 were approximately $15 million, plus interest of $4 million. In connection with the Amoco decision, EPG recorded a litigation special charge of approximately $19 million in the first quarter of 1994. Additional briefs have been requested to determine the actual amount of refunds to which Amoco may be entitled. EPG intends to appeal the Court's decision. Management does not expect the outcome of this matter to have a materially adverse effect on the Company's financial condition or future results of operations.

EPG and FERC Enforcement Section, Office of the General Counsel ("Enforcement"), have entered into a settlement agreement resolving all issues in Enforcement's investigation of EPG's installation of certain delivery taps. Enforcement asserted that EPG commenced installation of the delivery taps prior to receiving clearances from the appropriate State Historic Preservation Office and the United States Fish and Wildlife Service. Under the settlement agreement, EPG has agreed to pay total civil penalties of $160,000. The settlement agreement is currently pending FERC approval.

The Company is a named defendant in numerous lawsuits and a named party in numerous governmental proceedings arising in the ordinary course of business. While the outcome of such lawsuits or other proceedings against the Company cannot be predicted with certainty, management does not expect these matters to have a materially adverse effect on the Company's financial condition.

5. ENVIRONMENTAL

Accruals for environmental compliance costs are established when environmental assessments and/or remediation are probable and when costs can be reasonably estimated. As of March 31, 1994, EPG had a reserve of $38 million for the following environmental contingencies with income statement impact:

1 -- EPG has been conducting remediation of polychlorinated biphenyl ("PCB") contamination at its facilities. The majority of the required PCB remediation has been completed. Future PCB remediation costs are estimated to range between $8 million and $11 million over the next five years.

2 -- EPG executed an Administrative Order on Consent with the United States Environmental Protection Agency ("EPA") on June 25, 1993 to conduct a Remedial Investigation/Feasibility Study ("RI/FS") for a Burlington Industries, Inc. ("BI") site located in Statesville, North Carolina, that has been identified for cleanup. BI and EPG have entered into an agreement to jointly fund the RI/FS for the site. EPG's share of the potential remediation costs is estimated to be between $17 million and $20 million over a 30 year period.

3 -- On November 2, 1993, in accordance with an EPA order, EPG and Atlantic Richfield Company ("ARCO") submitted work plans for remediation of the subsurface at the Prewitt Refinery in McKinley County, New Mexico. EPG and ARCO have a cost sharing agreement to each pay one-half of any remediation costs at this site. EPG's share of the remediation costs is estimated to be between $10 million and $20 million over a 30 year period.

4 -- EPG is involved in other environmental assessment and remediation activities which include two additional Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") sites (Fountain Inn, South Carolina and Odessa, Texas) and one state Superfund site (Etowah, Tennessee). The amount reserved as of March 31, 1994 will cover these and other small environmental assessments and other remediation projects.

EPG also has potential expenditures, of a capital nature, for the following environmental projects:

1 -- EPG has analyzed the Clean Air Act Amendments of 1990 ("CAAA"), and believes that these rules will impact the Company's operations primarily in the following areas: (i) potential required reductions in the emissions of nitrogen oxides ("NOx") in non-attainment areas; (ii) the requirement for air emissions permitting of existing facilities; and (iii) enhanced monitoring of air emissions. The Company anticipates capitalizing the equipment costs associated with complying with CAAA and estimates that approximately $5 million to $27 million will be spent during the 1995 through 1997 time frame. However, EPA's proposed enhanced monitoring rules, when finalized, could potentially impose greater costs to the Company.

2 -- EPG has been conducting remediation of mercury contamination at certain facilities and is replacing mercury containing meters with dry flow devices. The remaining remediation costs are estimated to be between $8 million and $12 million, most of which will be incurred over the next two years. EPG will close and retire about 5,400 earthen siphon/dehydration pits in the San Juan Basin as recently required by certain environmental regulations. EPG estimates costs of approximately $17 million to $25 million to retire these pits over the next two years. The mercury remediation and pit closure costs, which are associated with the retirement of equipment, will be recorded as adjustments to accumulated depreciation, as permitted by regulatory accounting.

On December 21, 1993, EPA issued EPG a Notice of Liability for the Colorado School of Mines Research Institute ("CSMRI") site in Golden, Colorado. Because EPA has not yet determined the volume of hazardous substances sent to the site by all parties, there is no way to estimate EPG's potential share of remediation costs. However, based on the volumes EPA presently lists as contributed by EPG and other

EL PASO NATURAL GAS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

potentially responsible parties, it appears that EPG is not a significant contributor and its potential share of remediation costs would be minor.

The State of Tennessee has asserted a claim that EPG is a liable party under state environmental laws for clean up costs associated with a site in Elizabethton, Tennessee. The State and EPA are in the preliminary stages of investigating the nature and extent of contamination, as well as identifying other potentially responsible parties. Since testing is in the initial stages, EPG is unable to estimate its potential share of any remediation costs.

It is possible that new information or future developments could require the Company to reassess its potential exposure related to environmental matters. As such information or developments occur, related accrual amounts will be adjusted accordingly.

6. POSTEMPLOYMENT BENEFITS

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 112, which requires companies to account for benefits to former or inactive employees after employment but before retirement (referred to in SFAS 112 as "postemployment benefits"). The Company recorded a liability of approximately $8 million in postemployment benefit costs in the first quarter of 1994. Management expects to fully recover these costs through rates and has recorded a regulatory asset equal to the liability.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 1994 and December 31, 1993 consisted of the following:

<TABLE>
<CAPTION>

	1994	1993
	(IN THOUSANDS)	
<S>	<C>	<C>
Property, plant and equipment, at cost......................	$2,872,078	$2,873,301
Less accumulated depreciation..............................	1,220,493	1,212,233
	1,651,585	1,661,068
Additional acquisition cost assigned to utility plant, net of accumulated amortization...........................	103,065	104,418
Property, plant and equipment, net................	$1,754,650	$1,765,486

</TABLE>

8. SUPPLEMENTAL DISCLOSURE OF CASH FLOW ACTIVITIES

<TABLE>
<CAPTION>

FIRST QUARTER

	1994	1993
	(IN THOUSANDS)	
Cash Payments (Refunds)		
Interest	$30,431	$27,659
Income taxes	(3,346)	343

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION AND LIQUIDITY

Net cash provided by operating activities was $67 million for the quarter ended March 31, 1994 compared with $48 million for the same period of 1993. The increase from the previous period was primarily due to the timing of working capital receipts and disbursements.

Acquisition

On June 1, 1993, the Company acquired from a wholly owned subsidiary of Enron Corp., that subsidiary's 50 percent interest in MPC, a general partnership, for approximately $40 million in cash, representing the approximate book value of the investment. The acquisition, which was funded by internally generated cash flow, gives the Company 100 percent ownership of MPC. The acquisition was accounted for using the purchase method.

The Company's Consolidated Statement of Income for the first quarter of 1994 includes the operating results of MPC. The income effect of the Company's previously owned 50 percent equity interest in MPC for the first quarter of 1993 is included in other-net in the Consolidated Statement of Income.

The following pro forma summary presents the consolidated results of operations of the Company as if the acquisition had occurred as of January 1, 1993. This pro forma result has been prepared for comparative purposes only and does not purport to be indicative of what may have resulted had the acquisition occurred as of that date or of results which may occur in the future.

	FIRST QUARTER 1993 (IN THOUSANDS, EXCEPT PER SHARE AMOUNT)
Operating revenues	$220,847
Net income	31,486
Earnings per common share	0.85

Rates and Regulatory Matters

On January 14, 1994, EPG filed an application with FERC seeking an order which would terminate, effective January 1, 1996, certificates applicable to certain gathering and production area facilities owned by EPG on the basis that such facilities are not subject to FERC jurisdiction.

EPG intends, effective January 1, 1996, to transfer all of its nonjurisdictional gathering and production area facilities to a wholly owned subsidiary of EPG. Such facilities are used for gathering and other nonjurisdictional functions and are an inherent part of EPG's current gathering operations. The facilities to be transferred consist of approximately 6,700 miles of various sized pipelines, compressors with a combined horsepower of 40,600 and various treating and processing plants. These nonjurisdictional facilities, together with the facilities included in the January 14, 1994 FERC application, constitute substantially all of EPG's gathering and production area facilities.

Several producers and other shippers filed protests and requests for a formal hearing of the January 14, 1994 FERC application. The primary issues focus on the extent of competition in EPG's producing basins and the proper functionalization of its facilities. In response to the producer and shipper protests, EPG made a filing on March 15, 1994 asserting that the protests raise issues already settled under EPG's 1993 settlement agreement.

EPG's 1993 settlement agreement provided, in part, for the accelerated recovery of a substantial portion of EPG's investment in its underground storage facility. The amount to be recovered was approximately $56.7 million plus interest accruing beginning February 1, 1993 at the FERC allowed rate, which approximates the prime rate. On March 25, 1994, EPG received a final FERC letter order approving the $56.7 million of underground storage facility costs. This is being recovered by a demand charge mechanism over the period from October 1, 1993 through December 31, 1996. The amount recovered through March 31, 1994 was $23 million. The outstanding balance at March 31, 1994 and December 31, 1993 was $33 million and $37 million, respectively, of which $12 million is reflected in the current portion of other regulatory assets for

both periods and $21 million and $25 million, respectively, is included in other regulatory assets in the Consolidated Balance Sheet.

MPC filed a service and rate design restructuring plan on November 3, 1992, in compliance with FERC's industry-wide restructuring directives. On March 2, 1993, FERC issued an order essentially approving MPC's compliance filing, subject to changes, which were made in an amended restructuring plan on March 29, 1993. Several of MPC's customers filed protests and requests for rehearing of the March 2, 1993 FERC order. The rehearing requests were denied, and FERC approved the amended restructuring plan on July 9, 1993, with an effective date of August 1, 1993. On October 15, 1993, FERC issued an order which denied requests for rehearing of the July 9, 1993 order. Several of MPC's customers have filed petitions with the United States Court of Appeals for review of the March 2, 1993, July 9, 1993 and October 15, 1993 orders. These petitions are currently pending.

The primary issues on appeal pertain to FERC's requirement that MPC's rates for firm transportation service be based upon SFV rate design rather than MFV rate design. The application of SFV rates requires MPC's existing firm shippers to pay a higher proportion of their total transportation rate in the reservation component of the rate. Such shippers have contended that FERC's application of SFV rate design to MPC unlawfully abrogates the rate provisions of MPC's service agreements and constitutes an unlawful rate increase. Management believes the United States Court of Appeals will uphold SFV rates as applied to MPC.

Take-or-Pay Settlements

EPG has made buy-out and buy-down payments and recoupable prepayments to resolve past and future take-or-pay exposure, to terminate and reform gas purchase contracts, to amend pricing and take provisions of gas purchase contracts and to settle related litigation. EPG is collecting its buy-out and buy-down costs under FERC cost recovery procedures. Under FERC procedures, take-or-pay cost recovery filings may be challenged by pipeline customers on prudence and certain other grounds. FERC has approved orders, subject to rehearing, resolving all but one of the outstanding issues regarding EPG's take-or-pay proceedings. The remaining issue involves the claim of several customers that EPG has sought to recover an excessive amount for the value of certain production properties which were transferred to a producer as part of a 1989 take-or-pay settlement. On March 8, 1993, an initial decision from the presiding ALJ was rendered which, if adopted without changes by FERC, would require EPG to refund to or forgo collection from its customers of up to $30 million, plus interest. Exceptions to this initial decision were filed with FERC by both parties on April 7, 1993. On April 27, 1993, briefs opposing exceptions were filed by the same parties as well as by FERC staff. EPG has established reserves for this issue, and management does not believe that the ultimate outcome will have a materially adverse effect on the Company's financial condition or results of operations.

Financing Transactions

EPG established a $300 million revolving credit facility with a group of banks which expires in March 1996. As of March 31, 1994, there were no borrowings outstanding under this facility. Approximately $7 million and $1 million of commercial paper was outstanding as of March 31, 1994 and December 31, 1993, respectively.

Environmental

Accruals for environmental compliance costs are established when environmental assessments and/or remediation are probable, and when costs can be reasonably estimated. As of March 31, 1994, EPG had a reserve of $38 million for the following environmental contingencies with income statement impact:

1 -- EPG has been conducting remediation of PCB contamination at its facilities. The majority of the required PCB remediation has been completed. Future PCB remediation costs are estimated to range between $8 million and $11 million over the next five years.

2 -- EPG executed an Administrative Order on Consent with EPA on June 25, 1993 to conduct a RI/FS for a BI site located in Statesville, North Carolina, that has been identified for cleanup. BI and EPG have entered into an agreement to jointly fund the RI/FS for the site. EPG's share of the potential remediation costs is estimated to be between $17 million and $20 million over a 30 year period.

3 -- On November 2, 1993, in accordance with an EPA order, EPG and ARCO submitted work plans for remediation of the subsurface at the Prewitt Refinery in McKinley County, New Mexico. EPG and ARCO have a cost sharing agreement to each pay one-half of any remediation costs at this site. EPG's share of the remediation costs is estimated to be between $10 million and $20 million over a 30 year period.

4 -- EPG is involved in other environmental assessment and remediation activities which include two additional CERCLA sites (Fountain Inn, South Carolina and Odessa, Texas) and one state Superfund site (Etowah,

Tennessee). The amount reserved as of March 31, 1994 will cover these and other small environmental assessments and other remediation projects.

EPG also has potential expenditures, of a capital nature, for the following environmental projects:

1 -- EPG has analyzed CAAA, and believes that these rules will impact the Company's operations primarily in the following areas: (i) potential required reductions in the emissions of NOx in non-attainment areas; (ii) the requirement for air emissions permitting of existing facilities; and (iii) enhanced monitoring of air emissions. The Company anticipates capitalizing the equipment costs associated with complying with CAAA and estimates that approximately $5 million to $27 million will be spent during the 1995 through 1997 time frame. However, EPA's proposed enhanced monitoring rules, when finalized, could potentially impose greater costs to the Company.

2 -- EPG has been conducting remediation of mercury contamination at certain facilities and is replacing mercury containing meters with dry flow devices. The remaining remediation costs are estimated to be between $8 million and $12 million, most of which will be incurred over the next two years. EPG will close and retire about 5,400 earthen siphon/dehydration pits in the San Juan Basin as recently required by certain environmental regulations. EPG estimates costs of approximately $17 million to $25 million to retire these pits over the next two years. The mercury remediation and pit closure costs, which are associated with the retirement of equipment, will be recorded as adjustments to accumulated depreciation, as permitted by regulatory accounting.

On December 21, 1993, EPA issued EPG a Notice of Liability for the CSMRI site in Golden, Colorado. Because EPA has not yet determined the volume of hazardous substances sent to the site by all parties, there is no way to estimate EPG's potential share of remediation costs. However, based on the volumes EPA presently lists as contributed by EPG and other potentially responsible parties, it appears that EPG is not a significant contributor and its potential share of remediation costs would be minor.

The State of Tennessee has asserted a claim that EPG is a liable party under state environmental laws for clean up costs associated with a site in Elizabethton, Tennessee. The State and EPA are in the preliminary stages of investigating the nature and extent of contamination, as well as identifying other potentially responsible parties. Since testing is in the initial stages, EPG is unable to estimate its potential share of any remediation costs.

It is possible that new information or future developments could require the Company to reassess its potential exposure related to environmental matters. As such information or developments occur, related accrual amounts will be adjusted accordingly.

Other

On April 28, 1994, EPG and Meridian Oil Inc. ("Meridian") entered into an agreement dedicating certain Meridian reserves in the San Juan Basin to EPG gathering and production area facilities located in northwestern New Mexico. In addition, EPG and Meridian have entered into various long-term firm transportation contracts. The agreement also provides for EPG to construct and operate a new natural gas liquids extraction plant.

In January 1993, EPG experienced flood damage to its pipeline system in the Gila, Arizona area due to heavy rain. Since that time, EPG has been incurring costs for repairs and expects to be reimbursed through its property insurance policies once all repairs have been completed.

DIVIDENDS

On October 12, 1993, EPG's Board of Directors (the "Board") declared a quarterly dividend of $0.2750 per share on EPG's common stock. That dividend total of $10 million was paid on January 4, 1994. On January 14, 1994, the Board declared a quarterly dividend of $0.3025 per share on EPG's common stock. That dividend total of $11 million was paid on April 4, 1994. On April 15, 1994, the Board declared a quarterly dividend of $0.3025 per share on EPG's common stock, payable on July 1, 1994, to the shareholders of record as of June 10, 1994.

CAPITAL EXPENDITURES

The Company's planned capital expenditures for 1994 of $210 million are primarily for maintenance of business, system expansion and system enhancement. Capital expenditures for the quarter ended March 31, 1994 were $16 million compared to $14 million for the same period of 1993.

On July 7, 1992, EPG filed an application with FERC, which was amended on November 27, 1992, to expand the delivery capacity of its system in the vicinity of Yuma, Arizona and, through an extension of its system south to San Luis Rio Colorado, Sonora, Mexico, to serve northern Mexican markets. The proposed expansion would provide shippers the opportunity to deliver natural gas to Mexican markets in northern Baja California via new pipeline capacity of 348 million cubic feet per day ("MMcf/d"). This project is expected to cost approximately $71 million and will be financed through internally generated funds or through short-term borrowings. On November 29, 1993, FERC issued an order which approved the siting, construction and operation of facilities necessary for a border crossing facility in Yuma, Arizona which would connect the proposed extension with pipeline facilities in Mexico. The order also made a preliminary determination on environmental issues. FERC is deferring action on the remainder of the July 7, 1992 filing until EPG demonstrates that it has long-term executed contracts or binding precedent agreements for a substantial amount of the firm capacity of the proposed facilities.

EPG is a member of a five-company consortium that plans to build the proposed Samalayuca II Power Plant near Ciudad Juarez, Mexico. On December 17, 1992, an award for construction was granted to the consortium by the Comision Federal de Electricidad, the Mexican government-owned utility. On March 16, 1993, EPG filed an application with FERC to expand its system in order to provide natural gas service to the proposed Samalayuca II Power Plant and to an existing power plant in the same location. The proposed expansion would provide an additional 300 MMcf/d of capacity at a cost of approximately $57 million and will be financed through internally generated funds or through short-term borrowings. In the November 29, 1993 order, FERC also approved the proposed border crossing facility south of Clint, Texas which would connect EPG's facilities with facilities in Mexico. FERC is deferring action on the remainder of the March 16, 1993 filing until EPG demonstrates that it has long-term executed contracts or binding precedent agreements for a substantial amount of the firm capacity of the proposed facilities.

On December 29, 1993, Pacific Gas & Electric Company ("PG&E"), the California Public Utilities Commission ("CPUC") and Southern California Gas Company jointly filed a motion with FERC seeking clarification or rehearing of the November 29, 1993 FERC order for both the Yuma, Arizona and the Samalayuca II Power Plant projects discussed above.

On April 1, 1994, EPG filed an application with FERC for a certificate of public convenience and necessity to build a 98 mile pipeline to parallel and loop its existing Havasu Crossover Line. The proposed pipeline would allow for the transfer of 468 MMcf/d of San Juan basin gas to EPG's south system and would enhance EPG's overall system flexibility to meet market demands. The project is expected to cost approximately $62 million and will be financed through internally generated funds or through short-term borrowings.

To accommodate increased volumes and to provide markets with enhanced access to San Juan Basin supplies, EPG plans to file an application with FERC to expand its existing system in the San Juan Basin by approximately 250 MMcf/d at a cost of approximately $25 million.

On March 17, 1993, MPC filed an application, which was amended on November 8, 1993 and April 18, 1994, for a certificate of public convenience and necessity to build and operate a 475 MMcf/d expansion of its existing system. The proposed expansion will extend from MPC's existing east lateral, located near

Bakersfield, California, approximately 352 miles northward to the vicinity of Sacramento and the East Bay area near San Francisco. The expansion will also include 56 miles of looping of the existing pipeline along with 207 miles of laterals. The estimated cost of the entire system is $467 million which is expected to be funded primarily through project financing. MPC expects to receive its FERC certificate in 1994 and put the expansion into service in January 1996.

On December 16, 1993, FERC held a public conference to examine a jurisdictional question raised by CPUC and PG&E regarding MPC's system expansion. The primary issue was whether FERC or CPUC should have jurisdiction over the proposed expansion. Written comments were filed by interested parties on January 10, 1994. On February 15, 1994, FERC issued an order determining that it has exclusive jurisdiction over MPC and its proposed system expansion project. On March 17, 1994, CPUC, PG&E and other parties filed for rehearing or clarification of FERC's February 15, 1994 order.

RESULTS OF OPERATIONS

First Quarter 1994 Compared to First Quarter 1993

Operating revenues for the quarter ended March 31, 1994 were $11 million higher than for the same period of 1993. The consolidation of MPC contributed $10 million to the increase in revenues. Also contributing to the increase was $10 million in lower accruals for regulatory issues. Higher sales rates and production area rates increased revenues by $5 million and $3 million, respectively. Lower transportation rates and transportation volumes partially offset the increase in operating revenues by $10 million and $5 million, respectively.

Operating charges were $26 million higher for the quarter ended March 31, 1994 than for the same period of 1993. The increase in operating charges was due to a $15 million special charge for litigation in connection with the Amoco decision. Higher average cost of gas also contributed to the increase. The decrease in operation and maintenance expense was due primarily to lower employee benefit costs and a decrease in Gas Research Institute expense.

EPG's throughput for the quarter ended March 31, 1994 was 313 billion cubic feet ("Bcf") compared to 364 Bcf for the same period of 1993. The decrease was due primarily to lower California deliveries that resulted from higher storage withdrawals and increased competition for the California market. The decrease was partially offset by increased throughput to the East-of-California and off-system markets.

Interest and debt expense for the quarter ended March 31, 1994 was $3 million higher than for the same period of 1993 due primarily to the consolidation of MPC.

Other-net was $4 million higher for the quarter ended March 31, 1994 than for the same period of 1993. Contributing to the higher income was $14 million related to the recovery of EPG's investment in its underground storage facility. The amount of EPG's underground storage facility costs was approved in the March 25, 1994 FERC letter order. The increase was offset by interest expense related to the special charge for litigation in connection with the Amoco decision of approximately $4 million and a reduction in partnership earnings due to the consolidation of MPC.

OTHER

Effective January 1, 1994, the Company adopted SFAS No. 112, which requires companies to account for benefits to former or inactive employees after employment but before retirement (referred to in SFAS 112 as "postemployment benefits"). The Company recorded a liability of approximately $8 million in postemployment benefit costs in the first quarter of 1994. Management expects to fully recover these costs through rates and has recorded a regulatory asset equal to the liability.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Notes 3, 4 and 5 of Notes to Consolidated Financial Statements.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of stockholders on March 17, 1994. Proposals presented for a stockholder vote included the election of seven directors and the ratification of the appointment of the Company's independent certified public accountants for the fiscal year 1994. Each of the seven incumbent directors nominated by the Company were elected with the following voting results:

<TABLE>
<CAPTION>

<S>	FOR <C>	WITHHELD <C>
Byron Allumbaugh	30,965,098	164,531
Luino Dell'Osso, Jr.	30,969,618	160,011
Eugenio Garza Laguera	30,932,322	197,307

James F. Gibbons	30,960,397	169,232
Ben F. Love	30,947,107	182,522
Kenneth L. Smalley	30,954,064	175,565
William A. Wise	30,969,868	159,761

</TABLE>

The appointment of Coopers & Lybrand as the Company's independent certified public accountants for the fiscal year 1994 was ratified with the following voting results:

For:	30,952,382
Against:	68,421
Abstain:	108,826

There were no broker non-votes for either proposal.

ITEM 5. OTHER INFORMATION

Continuous Odd-Lot Stock Sales Program

EPG has made available a Continuous Odd-Lot Stock Sales Program (the "Program") in which shareholders of EPG owning beneficially fewer than 100 shares of EPG's common stock (the "Odd-lot Holders") are offered a convenient method of disposing their shares without incurring the customary brokerage costs associated with the sale of an odd-lot. Only Odd-lot Holders are eligible to participate in the Program. The Program is strictly voluntary and no Odd-lot Holder is obligated to sell pursuant to the Program. A brochure and related materials describing the Program were sent to Odd-lot Holders in February 1994. The Program currently does not have a termination date, but EPG may suspend the Program at any time. Inquiries regarding the Program should be directed to The First National Bank of Boston, the agent for the Program, at 1-800-442-2001.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

<TABLE>

<S>	<C>
10.F.1*	-- Replacement of $30,000,000 Note dated September 30, 1991, executed by Mojave Pipeline Company and payable to Banque Indosuez with a $30,000,000 Note dated September 30, 1991, executed by Mojave Pipeline Company and payable to Bank of Scotland.
11	-- Computation of Earnings Per Common Share

</TABLE>

B. Reports on Form 8-K

On March 31, 1994, the Company filed a Current Report on Form 8-K, dated March 31, 1994, regarding the decision rendered by the Delaware Chancery Court in the matter of El Paso Natural Gas Company v. Amoco Production Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EL PASO NATURAL GAS COMPANY
(Registrant)

Date: May 2, 1994

/s/ H. BRENT AUSTIN
H. Brent Austin
Senior Vice President and
Chief Financial Officer

Date: May 2, 1994

/s/ THOMAS E. RICKS
Thomas E. Ricks
Vice President, Controller and
Chief Accounting Officer

EXHIBIT INDEX

Exhibit Number	Exhibit
10.F.1*	Replacement of $30,000,000 Note dated September 30, 1991, executed by Mojave Pipeline Company and payable to Banque Indosuez with a $30,000,000 Note dated September 30, 1991, executed by Mojave Pipeline Company and payable to Bank of Scotland.
11	Computation of Earnings Per Common Share.

NOTE

$30,000,000 September 30, 1991

FOR VALUE RECEIVED, MOJAVE PIPELINE COMPANY, a Texas general partnership (the "Borrower"), hereby promises to pay to the order of BANK OF SCOTLAND (the "Bank") in lawful money of the United States of America in immediately available funds, at the Payment Office of the Administrative Agent (as such terms are defined in the Credit Agreement, as defined below, and all other capitalized terms used but not defined herein shall also have the meaning ascribed thereto in the Credit Agreement) for the account of the Bank, the principal sum of Thirty Million and No/100 Dollars ($30,000,000) or, if less than such principal sum, the aggregate unpaid principal amount of all Loans made by the Bank to the Borrower, pursuant to the Credit Agreement (including, without limitation, Construction Loans, Re-Advance Loans and Interconnect Cost Loans); on the dates and in the amounts determined in accordance with the Credit Agreement; provided, however, that the entire unpaid principal amount of all Loans made by the Bank shall be due and payable in full on the Final Repayment Date.

The Borrower promises also to pay interest on the unpaid principal amount of each Loan in like money at the Payment Office of the Administrative Agent from the date such Loan is made until paid, at the rates and on the dates provided in the Credit Agreement, and subject to the limitations set forth in Section 12.17 of the Credit Agreement (to the extent same is applicable to this Note).

At the option of the Bank, all Loans made by the Bank pursuant to the Credit Agreement and all payments of the principal amount of such Loans shall be recorded by the Bank on a Schedule annexed hereto, to which the Bank may add additional pages (but the failure to record or any error in recording any such payments or amounts shall not affect the obligations of the Borrower hereunder or under the Credit Agreement to repay the principal amount of such Loans, together with all interest accrued thereon). The Borrower agrees promptly to confirm in writing the accuracy of such Schedule if the Bank so requests from time to time (or to specify any errors thereon).

This Note is one of the Notes issued pursuant to the Credit Agreement (as may be from time to time modified, amended or supplemented, the "Credit Agreement") dated as of September 30, 1991 among the Borrower, Deutsche Bank AG, New York Branch and Swiss Bank Corporation, New York Branch, individually and as agents for the Banks named therein, and all of the terms and provisions of the Credit Agreement are incorporated herein by this reference. This Note is secured by and entitled to the benefits of the Credit Documents. As provided in the Credit Agreement, this Note is subject to voluntary and mandatory prepayment, in whole or in part.

If an Event of Default shall occur and be continuing, then the principal of and accrued interest on this Note may be declared to be immediately due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower hereby waives presentment, demand, protest, notice (including notice of non-payment, notice of protest, notice of intent to accelerate and notice of acceleration of maturity), bringing of suit and diligence in taking any action to collect amounts owing hereunder or in proceedings against any of the rights and properties securing payment hereof. The Borrower additionally waives any right it may have to require the Bank to proceed against any other party or to proceed against any collateral given to secure payment of this Note. The Borrower agrees that the time for payments under this Note may be extended from time to time without notice and the Borrower consents to the acceptance of further security or the release of any existing security for this Note, all without in any way affecting its liability under or with respect to this Note. No extension of the time for payment of this Note or any installment hereof shall affect the liability of the Borrower, even though the Borrower is not a party to the agreement effecting such extension.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE PRINCIPLES THEREOF RELATING TO CONFLICTS OF LAWS EXCEPT SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW, AS MORE FULLY DESCRIBED IN THE CREDIT AGREEMENT.

MOJAVE PIPELINE COMPANY

By: El Paso Mojave Pipeline Co.,
a general partner

By: /s/ H. Brent Austin
Name: H. Brent Austin
Title: Vice President and Treasurer

By: EPNG Mojave, Inc.,
a general partner

By: /s/ H. Brent Austin
Name: H. Brent Austin
Title: Vice President and Treasurer

EL PASO NATURAL GAS COMPANY

EARNINGS PER COMMON SHARE
FORM 10-Q, EXHIBIT 11

	QUARTER ENDED MARCH 31, 1994	QUARTER ENDED MARCH 31, 1993
Income available for common stock dividends	$21,115,000	$30,840,000
Fully diluted average common shares outstanding	37,364,214	37,613,054
Fully diluted earnings per common share	$ 0.5651	$ 0.8199

Outstanding stock options of EPG are common stock equivalents but are excluded from primary earnings per common share due to immateriality. See following calculation:

	QUARTER ENDED MARCH 31, 1994	QUARTER ENDED MARCH 31, 1993
Total primary earnings per common share	$ 0.5723	$ 0.8295
Fully diluted earnings per common share (includes stock options)	$ 0.5651	$ 0.8199
Percent dilution	1.2581%	1.1573%