

SECURITIES AND EXCHANGE COMMISSION

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. **0000092236-94-000006**

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FILER

SONAT INC

CIK: **92236** | IRS No.: **630647939** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-07179** | Film No.: **94528165**
SIC: **4922** Natural gas transmission

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UNITED STATES 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 1-7179

SONAT INC.

(Exact name of registrant as specified in its charter)

DELAWARE

63-0647939

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

AMSOUTH-SONAT TOWER

BIRMINGHAM, ALABAMA

35203

(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (205) 325-3800

NO CHANGE

(Former name, former address and former fiscal year,
if changed since last report)

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.

COMMON STOCK, \$1.00 PAR VALUE:

87,191,932 SHARES OUTSTANDING ON APRIL 30, 1994

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SONAT INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SONAT INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 1994 (Unaudited)	December 31, 1993
	(In Thousands)	
<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 19,802	\$ 10,822
Accounts and note receivable	286,422	256,925
Inventories	27,872	29,896
Gas supply realignment costs	46,419	59,862
Recoverable natural gas purchase contract settlement costs	2,033	18,535
Gas imbalance receivables	28,620	43,867
Other	34,075	43,953
Total Current Assets	445,243	463,860
Investments in Unconsolidated Affiliates and Other	611,545	509,326
Plant, Property and Equipment	4,443,269	4,400,286
Less accumulated depreciation, depletion and amortization	2,349,352	2,313,168
	2,093,917	2,087,118
Deferred Charges:		
Gas supply realignment costs	125,608	119,724
Other	31,573	33,969
	157,181	153,693
	\$3,307,886	\$3,213,997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Unsecured notes and long-term debt due within one year	\$ 209,959	\$ 232,929
Accounts payable	208,528	193,383
Accrued income taxes	69,177	55,828
Accrued interest	49,089	49,853
Gas imbalance payables	31,360	59,144
Other	35,894	42,274
Total Current Liabilities	604,007	633,411

Long-Term Debt	800,090	741,161
Deferred Credits and Other:		
Deferred income taxes	196,650	192,977
Reserves for regulatory matters	132,599	120,801
Other	182,284	162,432
	511,533	476,210
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, \$1.00 par, 200,000,000 shares authorized; 87,192,704 and 87,157,982 shares outstanding at March 31, 1994 and December 31, 1993, respectively	87,193	87,158
Other capital	39,000	36,074
Retained earnings	1,266,063	1,239,983
Total Stockholders' Equity	1,392,256	1,363,215
	\$3,307,886	\$3,213,997

</TABLE>

See accompanying notes.

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SONAT INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
	1994	1993
	(In Thousands, Except Per-Share Amounts)	
<S>	<C>	<C>
Operating Revenues	\$479,507	\$496,913
Costs and Expenses:		
Natural gas cost	213,575	210,033
Transition cost recovery and gas purchase contract settlement costs	42,920	16,683
Operating and maintenance	38,410	86,521
General and administrative	31,025	39,606
Depreciation, depletion and amortization	66,294	52,707
Taxes, other than income	10,584	8,261
	402,808	413,811
Operating Income	76,699	83,102
Other Income, Net:		
Equity in earnings of unconsolidated affiliates	4,822	1,332
Other	4,451	2,778
	9,273	4,110

Interest Income (Expense):		
Interest income	1,921	29,569
Interest expense	(21,429)	(28,185)
Interest capitalized	1,615	1,011
	(17,893)	2,395
Income before Extraordinary Item and Income Taxes	68,079	89,607
Income Taxes	18,469	20,684
Income before Extraordinary Item	49,610	68,923
Extraordinary Loss, Net of Income Tax Benefit of \$1,972,000	-	(3,829)
Net Income	\$ 49,610	\$ 65,094
Earnings Per Share of Common Stock:		
Earnings before extraordinary item	\$.57	\$.80
Extraordinary loss	-	(.04)
Earnings Per Share	\$.57	\$.76
Weighted Average Shares Outstanding	87,177	86,195
Dividends Paid Per Share	\$.27	\$.25

</TABLE>

See accompanying notes.

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SONAT INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	1994	1993
	(In Thousands)	
<S>	<C>	<C>
Cash Flows from Operating Activities:		
Net income	\$ 49,610	\$ 65,094
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	66,294	52,707
Deferred income taxes	2,794	1,640
Equity in (earnings) losses of unconsolidated affiliates, less distributions	(4,049)	779
(Gain) loss on sale of assets	(594)	121

Reserves for regulatory matters	11,798	(3,718)
Gas supply realignment costs	7,559	-
Natural gas purchase contract settlement costs	16,502	16,683
Change in:		
Accounts receivable	(29,497)	45,721
Inventories	2,024	62,192
Accounts payable	15,145	(34,314)
Accrued interest and income taxes, net	12,673	3,770
Other current assets and liabilities	(9,128)	(41,289)
Other	31,616	21,731
Net cash provided by operating activities	172,747	191,117
Cash Flows from Investing Activities:		
Plant, property and equipment additions	(78,740)	(103,740)
Net proceeds from disposal of assets	2,096	128
Advances to unconsolidated affiliates and other	(100,325)	(7,729)
Net cash used in investing activities	(176,969)	(111,341)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	835,000	220,000
Payments of long-term debt	(776,195)	(278,292)
Changes in short-term borrowings	(22,846)	2,145
Net changes in debt	35,959	(56,147)
Dividends paid	(23,530)	(21,557)
Other	773	7,395
Net cash provided by (used in) financing activities	13,202	(70,309)
Net Increase in Cash and Cash Equivalents	8,980	9,467
Cash and Cash Equivalents at Beginning of Period	10,822	58,007
Cash and Cash Equivalents at End of Period	\$ 19,802	\$ 67,474
Supplemental Disclosures of Cash Flow Information		
Cash Paid for:		
Interest (net of amount capitalized)	\$ 18,813	\$ 18,017
Income taxes (refunds received), net	2,349	1,868

</TABLE>

See accompanying notes.

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Sonat Inc. (Sonat) and its subsidiaries (the Company) have been prepared in accordance with the instructions to Form 10-Q and include the

information and footnotes required by such instructions. In the opinion of management, all adjustments including those of a normal recurring nature have been made that are necessary for a fair presentation of the results for the interim periods presented herein.

Certain amounts in the 1993 condensed consolidated financial statements have been reclassified to conform with the 1994 presentation.

2. Unconsolidated Affiliates

The following table presents the components of equity in earnings of unconsolidated affiliates.

<TABLE>

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(In Thousands)	
<S>	<C>	<C>
Company's Share of Reported Earnings (Loss):		
Exploration and Production		
Sonat/P Anadarko	\$ -	\$ 994
Other exploration and production affiliates	107	82
	107	1,076
Natural Gas Transmission and Marketing		
Citrus Corp.	317	(2,418)
Amortization of Citrus basis difference	347	524
Bear Creek Storage	2,281	2,420
Other natural gas transmission and marketing affiliates	(25)	16
	2,920	542
Other		
Sonat Offshore Drilling	1,695	-
Other affiliates	100	(286)
	1,795	(286)
	\$4,822	\$ 1,332

</TABLE>

Exploration and Production Affiliate - Sonat Exploration Company (Sonat Exploration) had an initial 49 percent interest in Sonat/P Anadarko Limited Partnership (Sonat/P), which acquired oil and gas reserves in the Anadarko Basin of Oklahoma from Louisiana Land and Exploration Company in the third quarter of 1992. On October 4, 1993, Sonat Exploration

acquired the limited partnership interest of Prudential Insurance Company in Sonat/P. For the first quarter of 1993, Sonat/P had revenues of \$4.5 million and reported earnings of \$1.5 million.

Natural Gas Transmission and Marketing Affiliates - Sonat owns 50 percent of Citrus Corp. (Citrus), the parent of Florida Gas Transmission Company. Southern Natural Gas Company (Southern) owns 50 percent of Bear Creek Storage Company (Bear Creek), an underground gas storage company.

The following is summarized income statement information for Citrus:

<TABLE>

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	Three Months Ended March 31,	
	1994	1993
	(In Thousands)	
<S>	<C>	<C>
Revenues	\$103,484	\$129,090
Natural Gas Cost	65,893	92,633
Operating Expenses	26,222	18,155
Depreciation	9,693	16,389
Other Expenses, Net	532	9,540
Income Taxes (Benefits)	511	(2,790)
Income (Loss) Reported	\$ 633	\$ (4,837)

</TABLE>

In connection with the construction of the Phase III expansion, the Company made net non-interest-bearing advances to Citrus of \$95.8 million during the 1994 period.

The following is summarized income statement information for Bear Creek. No provision for income taxes has been included since its income taxes are paid directly by the joint-venture participants.

<TABLE>

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	Three Months Ended March 31,	
	1994	1993
	(In Thousands)	
<S>	<C>	<C>

Revenues	\$9,030	\$9,691
Operating Expenses	1,278	1,511
Depreciation	1,350	1,350
Other Expenses, Net	1,839	1,990
Income Reported	\$4,563	\$4,840

Other Affiliate - On June 4, 1993, the initial public offering (IPO) of Sonat Offshore Drilling Inc.'s (Sonat Offshore) common stock was closed. The Company retained ownership of 39.9 percent of Sonat Offshore's outstanding shares. At March 31, 1994, the Company held 11.3 million shares of Sonat Offshore common stock. The Company's investment in Sonat Offshore has been accounted for on the equity method since June 5, 1993.

The following is summarized income statement information for Sonat Offshore:

<TABLE>
<CAPTION>

Three Months
Ended March 31,
1994
(In Thousands)

<S>	<C>
Revenues	\$66,107
Operating Expenses	53,715
Depreciation	5,818
Other (Income) Expenses, Net	(69)
Income Taxes	2,396
Income Reported	\$ 4,247

</TABLE>

3. Long-Term Debt and Lines of Credit

During the first quarter of 1994, Sonat borrowed \$835 million and repaid \$770 million under its revolving credit agreement resulting in \$200 million outstanding at a rate of 3.84 percent at March 31, 1994.

4. Commitments and Contingencies

Rate Matters - Periodically, Southern and its subsidiaries make general rate filings with the Federal Energy Regulatory Commission (FERC) to provide for the recovery of cost of service and a return on equity. The FERC normally allows the filed rates to become

effective, subject to refund, until it rules on the approved level of rates. Southern and its subsidiaries provide reserves relating to such amounts collected subject to refund, as appropriate, and make refunds upon establishment of the final rates.

On September 1, 1989, Southern implemented new rates, subject to refund, reflecting a general rate decrease of \$6 million. In January 1991 Southern implemented new rates, subject to refund, that restructured its rates consistent with a FERC policy statement on rate design and increased its sales and transportation rates by approximately \$65 million annually. These two proceedings have been consolidated for hearing. On October 7, 1993, the presiding administrative law judge certified to the FERC a contested offer of settlement pertaining to the consolidated rate cases that (1) resolved all outstanding issues in the rate decrease proceeding, (2) resolved the cost of service, throughput, billing determinant and transportation discount issues in the rate increase proceeding, and (3) provided a method to resolve all other issues in the latter proceeding, including the appropriate rate design. The rate design issue will be resolved on briefs based on the existing record in this proceeding. On December 16, 1993, the FERC issued an order (December 16 Order) approving the settlement, but with modifications. On December 22, 1993, Southern filed a letter with the FERC that outlined certain objections with respect to the FERC's modifications to the terms and conditions of the settlement. Southern advised the FERC that the December 16 Order undercut the economic compromise achieved in the settlement. Southern also filed a request for rehearing of the December 16 Order. On May 5, 1994, the FERC issued an order on rehearing substantially reversing, in all material respects, the modifications to which Southern objected.

On September 1, 1992, Southern implemented another general rate change. The rates reflected the continuing shift in the mix of throughput volumes away from sales and toward transportation and a \$5 million reduction in annual revenues. On April 30, 1993, Southern submitted a proposed settlement in the proceeding that, if approved by the FERC, would resolve the throughput and certain cost of service issues. The rate design issue is consolidated with similar issues in Southern's rate proceeding filed May 1, 1993, which is described below, and will be resolved in that proceeding. On

June 4, 1993, the presiding administrative law judge certified the settlement to the FERC. In another order issued on December 16, 1993, the FERC also approved this settlement, but with modifications. Southern objected to these modifications and also requested rehearing of this order. In another order on rehearing issued on May 5, 1994, the FERC also substantially reversed these modifications in all material respects.

On May 1, 1993, Southern implemented a general rate change, subject to refund, that increased its sales and transportation rates by approximately \$57 million annually. The filing is designed to recover increased operating costs and to reflect the impact of competition on both Southern's level and mix of services. A hearing regarding various cost allocation and rate design issues in this proceeding is set for November 29, 1994.

Sea Robin Pipeline Company (Sea Robin), a subsidiary of Southern, has previously filed under the provisions of Order No. 500 to recover \$83.1 million in gas purchase contract settlement payments from its former pipeline sales customers, Koch Gateway Pipeline Company, successor to United Gas Pipe Line Company (Koch), and Southern. Those filings remain subject to refund pending the outcome of any prudence challenges in the proceedings. Although the eligibility issues have been resolved, one party has reserved its rights to challenge prudence until such time as certain take-or-pay allocation issues are resolved with respect to the flow-through of costs billed to Koch.

Southern is authorized to flow through to its jurisdictional customers \$38.1 million of the costs allocated to it by Sea Robin as well as the \$32.7 million in Order No. 500 costs allocated to it by Koch. Southern's flow-through of Koch and Sea Robin's costs remains subject to refund pending the outcome of any challenges to the costs or allocation of the costs in those pipelines' Order No. 500 proceedings. The Company does not believe that the outcome of any such challenges will have a material adverse effect on its financial position.

On July 2, 1993, the FERC issued an order reaffirming its approval of the non-take-or-pay aspects of a settlement filed by Koch in 1988, which included Southern's phased abandonment of its contract demand with Koch. The order rejected the take-or-pay aspects of the settlement, including Koch's proposed Order No. 528 allocation methodology. As a consequence,

various parties that had originally supported the settlement began contesting it. Koch evidenced its intention to honor the non-take-or-pay aspects of the 1988 settlement and induced several of the parties to withdraw their judicial appeals of the July 2 order. On April 29, 1994, Koch filed multiple settlements that settled its outstanding take-or-pay issues with substantially all of its customers, including Southern. The Company cannot predict whether these settlements will be approved by the FERC, but does not believe that the final resolution of this matter will have a material adverse effect on its financial position.

Gas Purchase Contracts - Gas purchase contract settlement payments (other than the gas supply realignment payments discussed below) made by Southern and not previously recovered or expensed are included on the Condensed Consolidated Balance Sheet at March 31, 1994, in "Current Assets". Pursuant to a final and nonappealable FERC order, Southern collected these amounts from its customers over a five-year period that ended on April 30, 1994. Southern currently is incurring essentially no take-or-pay liabilities under its gas purchase contracts. Southern regularly evaluates its position relative to gas purchase contract matters, including the likelihood of loss from asserted or unasserted take-or-pay claims or above-market prices. When a loss is probable and the amount can be reasonably estimated, it is accrued.

Order No. 636 - In 1992 the FERC issued its Order No. 636 (the Order). The Order required significant changes in interstate natural gas pipeline services. Interstate pipeline companies, including Southern, are incurring certain costs (transition costs) as a result of the Order, the principal one being costs related to amendment or termination of existing gas purchase contracts, which are referred to as gas supply realignment (GSR) costs. The Order provided for the recovery of 100 percent of the GSR costs and other transition costs to the extent the pipeline can prove that they are eligible, that is, incurred as a result of customers' service choices in the implementation of the Order, and were incurred prudently. The prudence review will extend both to the prudence of the underlying gas purchase contract, based on the circumstances that existed at the time the contract was executed, and to the prudence of the amendment or termination of the contract. Numerous parties have appealed the Order to the Circuit Courts of Appeal.

On September 3, 1993, the FERC generally approved a compliance plan for Southern and directed Southern to implement its restructured services pursuant to the Order on November 1, 1993 (the September 3 order). Pursuant to Southern's compliance plan, GSR costs that are eligible for recovery include payments to reform or terminate gas purchase contracts. Where Southern can show that it can minimize transition costs by continuing to purchase gas under the contract (i.e., it is more economic to continue to perform), eligible GSR costs would also include the difference between the contract price and the higher of (a) the sales price for gas purchased under the contract or (b) a price established by an objective index of spot-market prices. Recovery of these latter costs is permitted for an initial period of two years.

Southern's compliance plan contains two mechanisms pursuant to which Southern is permitted to recover 100 percent of its GSR costs. The first mechanism is a monthly fixed charge designed to recover 90 percent of the GSR costs from Southern's firm transportation customers. The second mechanism is a volumetric charge designed to collect the remaining 10 percent of such costs from Southern's interruptible transportation customers. These funding mechanisms will continue until the GSR costs are fully recovered or funded. The FERC also indicated that Southern could file to recover any GSR costs not recovered through the volumetric charge after a period of two years. In addition, Southern's compliance plan provides for the recovery of other transition costs as they are incurred and any remaining transition costs may be recovered through a regular rate filing. Southern's customers have generally opposed the recovery of Southern's GSR costs based on both eligibility and prudence grounds.

The September 3 order rejected the argument of certain customers that a 1988 take-or-pay recovery settlement bars Southern from recovering GSR costs under gas purchase contracts executed before March 31, 1989, which comprise most of Southern's GSR costs. Those customers subsequently filed motions urging the FERC to reverse its ruling on that issue. On December 16, 1993, the FERC affirmed its September 3 ruling with respect to the 1988 take-or-pay recovery settlement (the December 16 order). The FERC's finding that the 1988 settlement is not a bar in general to the recovery as GSR costs of payments made to amend or to terminate these contracts does not prevent an eligibility challenge to specific payments, however, on the theory

that they are actually take-or-pay costs that would have been unavoidable regardless of the Order. The December 16 order generally approved Southern's restructuring tariff submitted pursuant to the September 3 order. Various parties have filed motions urging the FERC to modify the December 16 order and have sought judicial review of the September 3 order.

During 1993 Southern reached agreements to reduce significantly the price payable under a number of high cost gas purchase contracts in exchange for payments of approximately \$114 million. On December 1, 1993, Southern filed with the FERC to recover such costs and approximately \$3 million of pre-filing interest (the December 1 filing). On December 30, 1993, the FERC accepted such filing to become effective January 1, 1994, subject to refund, and subject to a determination through a hearing before an administrative law judge that such costs were prudently incurred and eligible under the Order. Southern's customers are opposing its recovery of the GSR costs in this proceeding based on both eligibility and prudence grounds. The December 30 order rejected arguments of various parties that, as a matter of law, a pipeline's payments to affiliates, in this case Southern's payment to a subsidiary of Sonat Exploration that represented approximately \$34 million of the December 1 filing, may not be recovered under the Order. The December 30 order may be appealed, however, and the payment is still subject to challenge on both eligibility and prudence grounds.

In December 1993 Southern reached agreement to reduce the price under another contract in exchange for payments having a present value of approximately \$52 million, which is included in "Deferred Credits and Other" in the Consolidated Balance Sheet. Payments will be made in equal monthly installments over an eight-year period ending December 31, 2001. On February 14, 1994, Southern made a rate filing to recover those costs as well as approximately \$3 million of other settlement costs and pre-filing interest. In an order issued on March 16, 1994, the FERC accepted such filing to become effective on April 1, 1994, subject to refund, and subject to a hearing before an administrative law judge that such costs were prudently incurred and eligible under the Order. In its order the FERC directed that the monthly installment payments be recovered over the eight-year period during which they will be incurred. Southern's customers are opposing, on grounds of both eligibility and prudence, its recovery of the GSR costs

in this proceeding, which has been consolidated with the proceeding on the December 1 filing.

Southern has also incurred approximately \$26.2 million of GSR costs, plus prefiling interest, from November 1, 1993, through March 31, 1994, from continuing to purchase gas under contracts that are in excess of current market prices. On March 1, 1994, Southern made a rate filing to recover \$17.5 million of these costs that had been incurred through January 31, 1994. In an order issued on March 31, 1994, the FERC accepted such filing to become effective on April 1, 1994, subject to refund, and subject to a hearing before an administrative law judge that such costs were prudently incurred and eligible under the Order. Southern's customers are opposing, on grounds of both eligibility and prudence, its recovery of the GSR costs in this proceeding as well, which has also been consolidated with the proceeding on the December 1 filing.

Southern plans to make additional rate filings quarterly to recover its "price differential" costs and any other GSR costs. The total GSR costs of \$172 million, net of recoveries, accrued through March 31, 1994, are included in current and long-term gas supply realignment costs in the Condensed Consolidated Balance Sheet.

Administrative Law Judge Ruling Concerning Recoverability of Investment in Offshore Gas Supply Facilities - In an initial decision issued on May 2, 1994, an administrative law judge ruled, in a rate case Southern had filed before the FERC, that Southern could not include in its rates the approximately \$45 million cost of certain pipeline facilities placed in service by Southern in 1992 to connect to its interstate pipeline system extensive new gas reserves being developed by Exxon Corporation (Exxon) in the Mississippi Canyon and Ewing Bank Area Blocks, offshore Louisiana (the Mississippi Canyon Facilities). The judge ruled that Southern's recovery of these costs was precluded by the 1988 settlement with Southern's customers that limits the amount of take-or-pay payments Southern may recover in its rates. The judge found that the cost of the facilities constitutes non-cash consideration to Exxon for a 1989 take-or-pay settlement and is therefore subject to the dollar "cap" on these payments contained in the 1988 settlement. Southern has previously recovered the maximum amount permitted by the 1988 settlement in its rates.

The judge found alternatively that the Mississippi Canyon Facilities were underutilized for purposes of certain "at-risk" conditions contained in the FERC certificate authorizing the construction of the facilities and that, in the event his decision that the cost of the facilities is subject to the take-or-pay settlement cap were to be overturned on appeal, Southern should recover only the amount of the annual cost of service of the facilities proportional to their level of utilization during the period of time under review, November 1, 1992, through April 30, 1993. He calculated the utilization level at 32 percent, and when this factor is applied to the \$11.9 million cost of service attributable to the facilities accepted by the judge, Southern would be permitted to include only \$3.8 million of that amount in its rates for this period.

Southern intends to file a brief on exceptions with the FERC seeking to overturn the initial decision of the administrative law judge as it relates to the recoverability of its Mississippi Canyon Facilities investment, but Southern cannot predict the action that may be taken by the FERC or the outcome of any subsequent appeal concerning the rate treatment of the \$45 million cost of these facilities.

With respect to the recoverability by Southern under the Order of GSR costs associated with Southern's gas supply contract with Exxon relating to the reserves connected by the Mississippi Canyon Facilities, Southern's customers have asserted in a separate proceeding before the FERC that the gas supply contract was non-cash consideration for the Exxon take-or-pay settlement and that recovery by Southern of GSR costs incurred with respect to such contract is also precluded by the 1988 take-or-pay settlement. Estimated GSR costs under this contract through the scheduled renegotiation of its pricing provisions in 1997 are estimated to be in the range of \$65 million to \$75 million on a present value basis, although such estimate is subject to significant uncertainty since the assumptions inherent in the estimate (including underlying reserves, future deliverability, and a range of estimated future oil and gas market prices) are not known today with certainty and there is a wide range of possible outcomes for each assumption. Southern has given notice to Exxon that it has terminated the gas purchase contract covering gas reserves connected by the Mississippi Canyon Facilities pursuant to certain provisions of the contract and Exxon has filed suit against Southern seeking a declaratory

judgment that Southern does not have the right to terminate the contract or alternatively for damages of an unspecified amount arising out of the alleged repudiation or breach of the contract by Southern. Southern cannot predict the outcome of pending or future proceedings for the recovery of GSR costs related to the gas supplies connected by the Mississippi Canyon Facilities or its pending litigation or settlement discussions with Exxon regarding Southern's notice of termination of the gas supply contract.

Southern has continued to have settlement discussions with its major customers in an effort to resolve all of Southern's outstanding rate and service agreement issues and its Order No. 636 transition cost recovery. Southern cannot predict the outcome of those discussions or whether any settlement will be reached with its customers. Southern is also unable to predict all of the elements of the outcome of its Order No. 636 restructuring proceeding or its rate filings to recover its transition costs.

5. Income Taxes

Net income for the first quarter of 1993 includes a net gain of \$21 million, or \$.24 per share, related to the settlement of an examination of the Company's federal income tax returns for the years 1983 through 1985 and other tax issues.

6. Capital Stock

On April 28, 1994, the shareholders of the Company approved an increase in the common stock shares authorized from 200 million to 400 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

SONAT INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Operating Income

Sonat Inc. and its subsidiaries (the Company) operate in the energy industry through its Exploration and Production and Natural Gas Transmission and

Marketing segments.

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(In Millions)	
<S>	<C>	<C>
Operating Income:		
Exploration and production	\$22	\$22
Natural gas transmission and marketing	53	61
Other	2	-
Operating Income	\$77	\$83

EXPLORATION AND PRODUCTION

The Company is engaged in the exploration for and the acquisition, development, and production of oil and natural gas in the United States through Sonat Exploration Company. Beginning in 1988 Sonat Exploration implemented a strategy to acquire gas properties with significant development potential. As a result of this strategy, Sonat Exploration has more than quintupled its proved reserves. At the end of March 1994, the Company had proved reserves totaling approximately 1.4 trillion cubic feet of natural gas equivalent.

Sonat Exploration intends to continue its strategy of aggressively acquiring domestic gas properties with significant development potential. During the first quarter of 1994, Sonat Exploration acquired oil and gas interests and properties for a total of \$4 million, which increased proved reserves by approximately 6 billion cubic feet of natural gas equivalent. In an acquisition that closed on May 2, 1994, Sonat Exploration paid \$8.8 million for interests in oil and gas properties having proved reserves of approximately 19 billion cubic feet of natural gas equivalent. In addition, Sonat Exploration is engaged in negotiations with respect to proposed purchase agreements that could potentially add oil and gas interests having another 60 billion cubic feet of natural gas equivalent for payments totaling approximately \$34 million.

Sonat Exploration has a substantial producing property acreage position in the eastern extension of

the Austin Chalk trend in Texas and Louisiana. During the first quarter of 1994, Sonat Exploration participated in the drilling of 9 wells, all of which were successful. As of March 31, 1994, Sonat Exploration has participated in the completion of 33 wells in the Austin Chalk trend, 32 of which are commercial.

Sonat Exploration's proved reserves include a portion that qualifies for Section 29 tax credits. During the year ended December 31, 1993, Section 29 tax credits totaled \$19 million; however, production from wells that qualify for these credits has begun to decline in 1994 as these wells follow their normal decline pattern.

Total capital expenditures for Sonat Exploration are expected to approximate \$390 million in 1994, which would be down slightly from 1993. Capital spending in 1994 includes amounts for increased development drilling and additional producing property acquisitions. At March 31, 1994, Sonat Exploration had not entered into any agreements or letters of intent for producing property acquisitions except as described above.

Sonat Exploration's natural gas and liquids production is marketed primarily in the spot market almost entirely by Sonat Marketing Company (Sonat Marketing), a subsidiary of Sonat Energy Services Company (Sonat Energy Services) operating in the Company's Natural Gas Transmission and Marketing Segment. Due to the volatility of spot-market prices, part of Sonat Exploration's production is hedged from time to time through gas futures transactions and oil and gas price swaps to reduce the effects of the volatility of spot-market prices on operating results.

Exploration and Production Operations

<TABLE>

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(In Millions)	
<S>	<C>	<C>
Revenues:		
Sales to others	\$ 31	\$42
Intersegment sales	75	37
Total Revenues	\$106	\$79

Depreciation, Depletion and Amortization	\$ 49	\$31
Operating Income	\$ 22	\$22
Equity in Earnings of Unconsolidated Affiliates	\$ -	\$ 1

Net Sales Volumes:

(Includes Sonat/P)

Gas (Bcf)	43	35
Oil and condensate (MBbls)	953	692
Natural gas liquids (MBbls)	228	164

Average Sales Prices:

(Includes Sonat/P)

Gas (Mcf)	\$ 2.10	\$ 1.89
Oil and condensate (Bbl)	13.04	17.93
Natural gas liquids (Bbl)	9.06	8.32

</TABLE>

Quarter-to-Quarter Analysis

Sonat Exploration's operating income was \$22 million in the first quarter of 1994, unchanged from the same period in 1993. Natural gas production rose 23 percent, reflecting acquisitions completed in late 1993, as well as aggressive development drilling. Oil and condensate production rose 38 percent over the same period last year, primarily due to continued growth in production from the Austin Chalk trend in east Texas. Quarterly results benefited from higher natural gas prices, but oil prices were down sharply from a year ago and amortization and other operating expenses increased as a result of the higher production.

NATURAL GAS TRANSMISSION AND MARKETING

The Company participates in the natural gas transmission and marketing business through Southern Natural Gas Company, Citrus Corp. (a 50 percent-owned company), and Sonat Energy Services Company. Southern and Florida Gas Transmission Company (Florida Gas), a subsidiary of Citrus, operating in the natural gas transmission industry, have historically provided customers of their natural gas pipelines both merchant and transportation services. Effective November 1, 1993, Southern separated its transportation, storage, and merchant services to comply with Order No. 636. (See following discussion.) Florida Gas also restructured its services in compliance with Order No. 636 effective on November 1, 1993. As a result of

Order No. 636, both Southern and Florida Gas have essentially become solely gas transporters, although Southern will continue to make limited sales pending the expiration, termination, or assignment of its remaining gas supply contracts. Sonat Energy Services, through its subsidiaries, manages Sonat's unregulated natural gas businesses, including natural gas marketing and gathering and intrastate natural gas pipeline services. Citrus provides natural gas marketing activities through its affiliates, primarily to customers of Florida Gas.

The natural gas transmission industry, although regulated, is very competitive. During the period from the mid-1980's until the Order No. 636 restructuring, customers had switched much of their volumes from a bundled merchant service to transportation service, reflecting an increased willingness to rely on gas supply under unregulated arrangements such as those provided by Sonat Marketing and affiliates of Citrus. Southern competes with several pipelines for the transportation business of its customers and at times discounts its transportation rates in order to maintain market share.

Southern is pursuing growth opportunities to expand the level of services in its traditional market area and to connect new gas supplies. Southern and South Georgia Natural Gas Company (South Georgia), a wholly owned subsidiary of Southern, received approval from the FERC on May 13, 1993, for an expansion of South Georgia's pipeline system into northern Florida and southwestern Georgia that increased firm daily capacity by 40 million cubic feet per day. Construction on this project has been completed and it was placed in service on May 1, 1994. In January 1994 Southern reached tentative agreement with a group of new customers to expand its service in the growing eastern Tennessee area. The proposed project entails a 23-mile pipeline extension that would deliver approximately nine million cubic feet of natural gas per day to a delivery point near Chattanooga.

Florida Gas, which has a current pipeline system capacity of 925 million cubic feet per day, was granted final certificate authority by the FERC on September 15, 1993, for the further expansion of its pipeline system. This expansion, known as Phase III, will increase system capacity by 530 million cubic feet per day at a capital cost of approximately \$900 million and is expected to be completed by the end of 1994. As part of the expansion project, Florida Gas contracted

for 100 million cubic feet per day of new firm transportation to be delivered from Southern's system. In connection with this expansion, the Company will advance funds to Citrus and expects to increase its equity investment in Citrus by \$150 million by the end of the construction period. Also in connection with this expansion, Florida Gas entered into an agreement to acquire a 20 percent interest in an existing pipeline in the Mobile Bay area that, pursuant to the agreement, will be expanded by over 300 million cubic feet per day and connected to Florida Gas' pipeline system. Additionally, Florida Gas is currently reviewing the prospects for further expansions of its pipeline system that could be in service in 1996 or 1997 into the Florida market.

Sonat Marketing continues to expand its natural gas marketing business. At the end of 1992, Sonat Marketing's volumes were approximately 500 million cubic feet per day and were primarily on the Southern system. During 1993 Sonat Marketing assumed responsibility for marketing almost all of the natural gas and liquids production of Sonat Exploration, including execution of Sonat Exploration's risk management program. This has allowed Sonat Marketing to expand its presence in Gulf Coast, Midwest, and Northeast markets and, in turn, provides an attractive market to unaffiliated producers. As a result of these efforts, Sonat Marketing's average daily sales volumes now exceed 1.1 billion cubic feet per day, making it one of the twenty largest natural gas marketers in the country.

Natural Gas Transmission and Marketing Operations

<TABLE>

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(In Millions)	
<S>	<C>	<C>
Revenues:		
Gas sold by Southern	\$ 72	\$217
Gas sold by Sonat Marketing	229	105
Other sales	5	4
Total Gas Sold	306	326
Market transportation and storage	82	39
Supply transportation	11	12
Other	52	22
Total Revenues	\$451	\$399

Natural Gas Cost:		
Purchased from others	\$214	\$210
Intersegment purchases	75	37
Total Natural Gas Cost	\$289	\$247
Transition Cost Recovery and Gas		
Purchase Contract Settlement Costs	\$ 43	\$ 17
Depreciation and Amortization	\$ 17	\$ 16
Operating Income	\$ 53	\$ 61
Equity in Earnings		
of Unconsolidated Affiliates	\$ 3	\$ 1

(Billion Cubic Feet)

Southern Volumes:		
Gas sold	-	54
Market transportation	159	102
Total Market Throughput	159	156
Supply transportation	79	84
Total Volumes	238	240

Transition gas sales	33	-
----------------------	----	---

Sonat Marketing Sales Volumes	100	56
-------------------------------	-----	----

Florida Gas Volumes (100%):		
Gas sold	-	7
Market transportation	66	58
Total Market Throughput	66	65
Supply transportation	5	12
Total Volumes	71	77

</TABLE>

Quarter-to-Quarter Analysis

Southern's operating results for the first quarter of 1994 were down due primarily to a change in rate design implemented under Order No. 636, which shifts earnings out of the first quarter and into the remainder of the year. The decrease in operating results was also due to the reduction in rate base resulting from the sale of working gas storage to customers as part of the implementation of Order No. 636. These declines were partially offset by lower operating and maintenance

expense resulting from a \$4 million reduction in fuel gas liability and by lower general and administrative expenses due to a \$4 million reduction in stock-based employee compensation.

Gas sales revenue and gas cost at Southern decreased significantly from the 1993 quarter as a result of implementing Order No. 636, but still include \$73 million of transition gas sales from supply remaining under contract (see Order No. 636 discussion below). Total market throughput increased 2 percent during the quarter although Order No. 636 resulted in a shift in volumes from sales to market transportation. Supply transportation decreased due to a decline in deliverability.

Other revenue increased in the 1994 period due primarily to the recovery of transition costs at Southern.

Sonat Marketing's margins and sales volumes increased significantly over the first quarter of 1993 as a result of fully integrating the marketing of Sonat Exploration's production and expanding activities on non-affiliated pipelines through the purchase of additional third-party volumes.

Equity in earnings of Citrus for the first quarter of 1994 increased \$3 million from a loss of \$2 million in 1993 due to lower depreciation expense resulting from a change in the estimated useful life of the pipeline system and to increased equity AFUDC income recognized on the Florida Gas expansion. Operationally, high prices for natural gas relative to competing No. 6 fuel oil contributed to a significant reduction in earnings in 1994.

Order No. 636

In 1992 the FERC issued its Order No. 636 (the Order). As required by the Order, interstate natural gas pipeline companies have made significant changes in the way they operate. The Order required pipelines, among other things, to: (1) separate (unbundle) their sales, transportation, and storage services; (2) provide a variety of transportation services, including a "no-notice" service pursuant to which the customer is entitled to receive gas from the pipeline to meet fluctuating requirements without having previously scheduled delivery of that gas; (3) adopt a straight-fixed-variable (SFV) method for rate design (which

assigns more costs to the demand component of the rates than do other rate design methodologies previously utilized by pipelines); and (4) implement a pipeline capacity release program under which firm customers have the ability to "broker" the pipeline capacity for which they have contracted. The Order also authorized pipelines to offer unbundled sales services at market-based rates and allowed for pregranted abandonment of some services.

In requiring that Southern provide unbundled storage service, the Order resulted in a substantial reduction of Southern's working storage gas inventory and consequently a reduction in its rate base. This reduction was effective on November 1, 1993, when Southern restructured pursuant to the Order and sold, at its cost, \$123 million of its working storage gas inventory to its customers. The Order also resulted in rates that are less seasonal, thereby shifting revenues and earnings for Southern out of the winter months.

The FERC issued an order on September 3, 1993 (the September 3 order), that generally approved a compliance plan for Southern and directed it to implement restructured services on November 1, 1993. In accordance with the September 3 order, Southern solicited service elections from its customers in order to implement its restructured services on November 1, 1993. Southern's largest customer, Atlanta Gas Light Company and its subsidiary, Chattanooga Gas Company (collectively Atlanta) signed firm transportation service agreements with transportation demands of 582 million cubic feet per day for a one-year term ending October 31, 1994, and 118 million cubic feet per day for a term extending until April 30, 2007, at the maximum FERC-approved rates. This represented an aggregate reduction of 100 million cubic feet per day from Atlanta's level of service prior to November 1, 1993. Southern's other customers elected in aggregate to obtain an amount of firm transportation services that represented a slight increase from their level of firm sales and transportation services from Southern prior to Southern's implementation of Order No. 636, at the maximum FERC-approved tariff rates, for terms ranging from one to ten or more years.

Southern's discussions are continuing with Atlanta and its other distribution customers regarding their elections for firm transportation service on Southern's system. It is possible that these discussions could result in a rate reduction by Southern as part of an

overall settlement. Although management believes that most of Southern's distribution customers ultimately will commit to some type of new firm transportation agreements with Southern under its restructuring program beyond those described above, it is unable to predict at what total volume level or for what duration such commitments will be made.

Natural Gas Sales and Supply

As discussed in Note 4 of the Notes to Condensed Consolidated Financial Statements, Southern is incurring certain transition costs as a result of implementing Order No. 636, and for Southern, those are primarily gas supply realignment (GSR) costs relating to amendment or termination of existing gas purchase contracts. In its restructuring settlement discussions, Southern has advised its customers that the amount of GSR costs that it actually incurs will depend on a number of variables, including future natural gas and fuel oil prices, future deliverability under Southern's existing gas purchase contracts, and Southern's ability to renegotiate certain of these contracts. While the level of GSR costs is impossible to predict with certainty because of these numerous variables, based on current spot-market prices, a range of estimates of future oil and gas prices, and recent contract renegotiations, the amount of GSR costs are estimated to be in the range of approximately \$275-\$325 million on a present value basis. This amount includes the payments made to amend or terminate gas purchase contracts described in Note 4.

Sales by Southern are anticipated to continue only until Southern's remaining supply contracts expire, are terminated, or are assigned. Southern is attempting to terminate its remaining gas purchase contracts through which it had traditionally obtained its long-term gas supply. Some of these contracts contain clauses requiring Southern either to purchase minimum volumes of gas under the contract or to pay for it (take-or-pay clauses). Although Southern currently is incurring essentially no take-or-pay liabilities under these contracts, the annual weighted average cost of gas under these contracts is in excess of current spot-market prices. Pending the termination of these remaining supply contracts, Southern has agreed to sell a portion of its remaining gas supply to a number of its firm transportation customers for a one-year term that began November 1, 1993. The sales agreements with Atlanta were extended through March 31, 1995. The remainder of Southern's gas supply will be sold on a month-to-month

basis. Southern will file to recover as a GSR cost pursuant to Order No. 636 the difference between the cost associated with the gas supply contracts and the revenue from the sales agreements and month-to-month sales as well as any cost previously incurred or incurred in the future as a result of Order No. 636 to terminate or reduce the price under Southern's remaining contracts.

Through March 31, 1994, Southern reached agreements to reduce significantly the price payable under a number of high-cost gas purchase contracts in exchange for payments with a present value of approximately \$174 million. Southern's rate filings to recover these payments as GSR costs are described in Note 4.

Southern's purchase commitments under its remaining gas supply contracts for the years 1994 through 1998 (which exclude those under the Exxon contract related to the Mississippi Canyon Facilities discussed in Note 4) are estimated as follows:

<TABLE>

<CAPTION>

Estimated
Purchase
Commitments
(In Millions)

<S>

1994

1995

1996

1997

1998

<C>

\$200

150

85

70

65

Total

\$570

</TABLE>

These estimates are subject to significant uncertainty due both to the number of assumptions inherent in these estimates and to the wide range of possible outcomes for each assumption. None of the three major factors that determine purchase commitments (underlying reserves, future deliverability, and future price) is known today with certainty.

Rate Matters

Several general rate changes have been implemented by Southern and remain subject to refund. See Note 4 of

the Notes to Condensed Consolidated Financial Statements for a discussion of rate matters.

Settlement Discussions

As discussed in Note 4, Southern's customers are challenging its recovery of GSR costs and Southern is subject to other litigation. Southern has continued to have settlement discussions with its major customers in an effort to resolve all of Southern's outstanding rate and service agreement issues and its Order No. 636 transition cost recovery. Southern cannot predict the outcome of those discussions or whether any settlement will be reached with its customers. Southern is also unable to predict all of the elements of the outcome of its Order No. 636 restructuring proceeding or its rate filings to recover its transition costs.

Citrus Corp.

Citrus' historical losses are mainly due to a high level of depreciation and interest expense. Since Citrus was acquired in mid-1986, however, cash generated by operations has been sufficient to fund normal capital expenditures and a portion of major expansion projects. Citrus' restructuring of its services in 1990 has helped to mitigate the effect of declines in the price of No. 6 fuel oil on its revenue and margins. The results of operations from Citrus, however, have continued to be strongly influenced by the level of No. 6 fuel oil prices and the relationship of natural gas prices to fuel oil prices. Citrus has entered into a binding letter agreement to restructure the pricing and extend the term of two gas supply contracts with its major customer on a basis that should eliminate or reduce the price volatility that has historically been experienced under these contracts.

Florida Gas has terminated its gas purchase contracts with a weighted average cost in excess of current spot-market prices and has been negotiating with its customers and the FERC to recover settlement payments made to terminate such contracts as a part of its Order No. 636 proceeding. On September 17, 1993, Florida Gas received approval of its restructuring settlement proposal (the Restructuring Settlement) with regard to the Order. The Restructuring Settlement includes a Transition Cost Recovery (TCR) mechanism that allows Florida Gas, effective November 1, 1993, to recover from its customers 100 percent of payments above the \$106 million level approved in a previous

settlement, up to \$160 million. Florida Gas will be allowed to recover 75 percent of any amounts greater than \$160 million. Florida Gas has substantially completed the renegotiation and termination of these contracts for less than \$160 million, however, and therefore expects to recover all of the amounts spent and not already expensed through its approved TCR mechanism.

Citrus has historically obtained its own financing independent of its parent companies. Debt financing by Citrus with outside parties is nonrecourse to its parent companies and the Company has no contractual or legal requirement to maintain Citrus' liquidity. Citrus recently obtained a \$300 million one-year financing that has support provisions from its parent companies. In connection with the construction of the Phase III expansion, the Company will advance Citrus funds and expects to have made an equity investment of approximately \$150 million in 1994. See Capital Expenditures below.

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(In Millions)	
<S>	<C>	<C>
Other Income - Equity in Earnings of Unconsolidated Affiliates	\$5	\$1

</TABLE>

Equity in earnings of unconsolidated affiliates increased in 1994 due primarily to an increase in equity of Citrus (discussed earlier in the Natural Gas Transmission and Marketing section) and to the inclusion of equity in Sonat Offshore Drilling Inc. (See Note 2 of the Condensed Consolidated Financial Statements for a discussion of Sonat Offshore's initial public offering.) Sonat Offshore's results improved over 1993 due to increased operations in the Gulf Coast and Egypt, lower interest expense, and completion of the final turnkey well under the current Mexican package. Slightly offsetting the increases was a decrease in equity for the exploration and production affiliates resulting from the late 1993 acquisition of the remaining interest in Sonat/P.

<TABLE>
<CAPTION>

Three Months
Ended March 31,
1994 1993
(In Millions)

	<C>	<C>
<S> Other Income - Other	\$ 4	\$ 3

</TABLE>

The increase in other income is due to the recognition of a \$1 million gain from the sale of oil and gas properties.

<TABLE>
<CAPTION>

	<C>	<C>
<S> Interest Income (Expense), Net	\$(18)	\$ 2

</TABLE>

The first quarter of 1993 includes \$28 million in accrued interest income and a net \$1 million of interest expense related to a settlement of an examination of the Company's federal income tax returns for the years 1983-1985 and certain other tax issues. First quarter 1994 interest expense is lower due to average decreased debt levels during the quarter and lower interest rates.

<TABLE>
<CAPTION>

	<C>	<C>
<S> Income Taxes	\$ 18	\$ 21

</TABLE>

In 1994 income taxes decreased due to lower pre-tax income. The effect of this decrease was partially offset by a \$3 million reduction in taxes in the 1993 period related to a settlement of an examination of the Company's federal tax returns for the years 1983-1985. The decrease was also partially offset by lower Section 29 tax credits and other tax preference items and an increase in the federal income tax rate.

FINANCIAL CONDITION

CASH FLOWS

<TABLE>
<CAPTION>

	<C>	<C>
<S> Operating Activities	\$173	\$191

</TABLE>

Net cash provided by operating activities decreased

due to the implementation of Order No. 636 by Southern. Under the Order, Southern currently maintains a limited merchant role and accordingly does not have significant quantities of inventory to sell in the winter months. The reduced gas and inventory sales in the current period resulted in a much lower cash flow for Southern when compared to the 1993 period. Conversely, in the summer months Southern will not have to incur expenditures to replace inventory levels as it has in prior years.

Partially offsetting the decrease in Southern's cash flow from operations was higher cash flow from the Sonat Exploration's operations resulting from much higher production volumes.

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(In Millions)	
<S>	<C>	<C>
Investing Activities	\$ (177)	\$ (111)

</TABLE>

Net cash used in investing activities increased \$66 million over 1993. This increase is due primarily to net advances of \$95.8 million in the Citrus expansion, which is slightly offset by a \$25 million reduction in capital expenditures.

<TABLE>
<CAPTION>

<S>	<C>	<C>
Financing Activities	\$ 13	\$ (70)

</TABLE>

Net cash provided by financing activities reflects increased net borrowings under the Company's revolving credit agreement in 1994. Net cash used in 1993 reflects the redemption of Sonat's 7 1/4 Percent Zero Coupon, Subordinated Convertible Notes, which were not totally refinanced.

Capital Expenditures

Capital expenditures for the Company's business segments (excluding unconsolidated affiliates) were as follows:

<S>	<C>	<C>
Exploration and Production	\$ 65	\$ 94
Natural Gas Transmission and Marketing	14	6
Other	-	4
Total	\$ 79	\$ 104

The Company's share of capital expenditures by its unconsolidated affiliates was \$131 million and \$11 million in the first quarter of 1994 and 1993, respectively. The Company expects that a majority of the \$900 million capital requirements for Citrus' Phase III expansion will be independently financed by Florida Gas or Citrus. The Company expects to make a total equity contribution, however, of approximately \$150 million in 1994 to complete the financing, and during the first quarter of 1994 the Company made net non-interest-bearing advances to Citrus of \$95.8 million.

Liquidity and Capital Resources

At March 31, 1994, the Company had lines of credit and a revolving credit agreement with a total capacity of \$750 million. Of this, \$460 million was unborrowed and available. The amount available under the lines of credit has been reduced by the amount of commercial paper outstanding of \$90 million to reflect the Company's policy that credit line and commercial paper borrowings in the aggregate will not exceed the maximum amount available under its lines of credit and revolving credit agreement. In 1993 Sonat filed a shelf registration with the Securities and Exchange Commission (SEC) for up to \$500 million in debt securities. The net proceeds from the sale of these debt securities are expected to be used for general corporate purposes, which may include refinancing of indebtedness, working capital increases, capital expenditures, possible future acquisitions, and redemption of securities. Southern also has a shelf registration with the SEC for up to \$200 million in debt securities of which \$100 million has been issued. Southern expects to continue to use cash from operations and borrowings on the public or private markets or loans from affiliates to finance its capital and other corporate expenditures.

In April 1994 the Board of Directors of the Company authorized the repurchase of up to two million shares of the Company's common stock. Purchases would be made

from time-to-time on the open market or in privately negotiated transactions. Shares purchased under the authorization, if any, are expected to be reissued in connection with employee stock option and restricted stock programs.

The Company holds four million shares of Baker Hughes Incorporated convertible preferred stock as well as 11.3 million shares of Sonat Offshore common stock. These resources, when combined with a strong cash flow and borrowings in the public or private markets, provide the Company with the means to fund operations and currently planned investment and capital expenditures.

Capitalization Information

<TABLE>

<CAPTION>

	March 31, 1994	December 31, 1993
<S>	<C>	<C>
Debt to Capitalization	42%	42%
Book Value Per Share	\$15.97	\$15.64

</TABLE>

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Vastar Resources, Inc. v. Southern Natural Gas Company was filed in April 1994 in state court in Harris County, Texas. Vastar Resources, Inc. ("Vastar") filed suit against Southern Natural Gas Company ("Southern") regarding a pricing dispute over the amount owed by Southern for gas purchased from Vastar that was produced from the Logansport Field in Louisiana and Texas. Vastar asked for an unspecified amount of monetary damages, specific performance, and attorneys fees. Southern is seeking to have the Texas proceeding stayed on the basis of a petition for declaratory judgment styled Southern Natural Gas Company v. Arco Oil and Gas Company, d/b/a Vastar Resources, Inc. it filed in state court in Orleans Parish, Louisiana, regarding this same pricing dispute. Southern is unable to predict the outcome of either proceeding, but will file to seek to recover as a GSR cost any additional amounts for gas purchases that may ultimately be determined it owes to Vastar as a result of these proceedings.

Arcadian Corporation v. Southern Natural Gas Company and Atlanta Gas Light Company, an antitrust

lawsuit described in Item 3. Legal Proceedings of the Company's Annual Report on Form 10-K for the year ended December 31, 1993, had been settled pending final, nonappealable approval by the FERC of the direct connection and transportation service requested by Arcadian Corporation. At its meeting on May 11, 1994, the FERC approved an order granting such approval. Pursuant to the settlement, the lawsuit will be dismissed with prejudice when the order becomes final and nonappealable.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its 1994 Annual Meeting of Stockholders in Birmingham, Alabama, on April 28, 1994. In addition to the election of Directors and an Auditor, the following matters were voted upon at the Annual Meeting: (1) approval of the Company's Performance Award Plan ("Proposal No. 2"); (2) approval of an amendment to the Company's Restated Certificate of Incorporation ("Charter") to increase the number of authorized shares of Common Stock from 200,000,000 to 400,000,000 shares ("Proposal No. 3"); (3) approval of a Charter amendment deleting from the Charter a provision regarding minimum price protection in certain business combinations ("Proposal No. 4"); (4) approval of a Charter amendment requiring the Board of Directors to call a special stockholder meeting upon the request of certain 3% stockholders, subject to restrictions ("Proposal No. 5"); (5) approval of a Charter amendment reducing the stockholder vote needed to change the Company's By-Laws from 67% of the outstanding shares to 60% ("Proposal No. 6"); and (6) approval of a Charter amendment reducing the stockholder vote needed to approve certain Charter changes from 67% of the outstanding shares to 60% ("Proposal No. 7"). The vote on such Proposals was as follows:

<TABLE>

<CAPTION>

	Voted For	Voted Against	Abstained	Broker Non-Votes
<S>	<C>	<C>	<C>	<C>
Proposal No. 2	67,969,197	5,386,920	486,767	502
Proposal No. 3	66,692,726	6,742,003	407,600	1,057
Proposal No. 4	63,033,322	1,517,904	1,284,214	8,007,946
Proposal No. 5	62,934,012	1,768,556	1,131,972	8,008,846
Proposal No. 6	61,943,883	2,798,349	1,093,209	8,007,945
Proposal No. 7	61,586,743	3,064,244	1,176,455	8,015,944

</TABLE>

Proposals No. 2, 3, 5, 6 and 7 were approved by the stockholders; Proposal No. 4, which required the affirmative vote of 80 percent of the outstanding shares, was not approved by the stockholders.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits(1)

Exhibit Number	Exhibits
3-(a)*	Restated Certificate of Incorporation of Sonat Inc. dated May 2, 1994
10*	Retirement Plan for Directors (as amended and restated as of February 25, 1993)
11*	Computation of Earnings per Share
12*	Computation of Ratio of Earnings to Fixed Charges
23*	Consent of Ernst & Young, Independent Auditors, dated May 11, 1994

* Filed with this Report

(1) The Company will furnish to requesting security holders the exhibits on this list upon the payment of a fee of 10 cents per page up to a maximum of \$5.00 per exhibit. Requests must be in writing and should be addressed to Beverley T. Krannich, Secretary, Sonat Inc., P. O. Box 2563, Birmingham, Alabama 35202-2563.

(b) Reports on Form 8-K

The Company did not file any report on Form 8-K during the quarter ended March 31, 1994.

SONAT INC. AND SUBSIDIARIES

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.

SONAT INC.

Date: May 13, 1994

By: /s/ Thomas W. Barker, Jr.
Thomas W. Barker, Jr.
Vice President-Finance and
Treasurer

Date: May 13, 1994

By: /s/ Ronald B. Pruet, Jr.
Ronald B. Pruet, Jr.
Vice President & Controller

EXHIBIT 3-(a)

RESTATED CERTIFICATE OF INCORPORATION

of

SONAT INC.

(Restating the Certificate of Incorporation
as in effect as of April 28, 1994)

(Originally incorporated under the name Southern
Natural Industries, Inc. on January 25, 1973.)

FIRST: The name of the Corporation is Sonat
Inc.

SECOND: The address, including street, number,
city, and county, of the registered office of the
Corporation in the State of Delaware is 32 Loockerman
Square, Suite L-100, City of Dover, County of Kent;
and the name of the registered agent of the
Corporation in the State of Delaware at such address
is The Prentice-Hall Corporation System, Inc.

THIRD: The purpose of the Corporation is to
engage in any lawful act or activity for which a
corporation may be organized under the General
Corporation Law of Delaware.

FOURTH: The total number of shares which the
Corporation shall have authority to issue is four
hundred ten million (410,000,000), of which ten
million (10,000,000) are to be Serial Preference Stock
of the par value of One Dollar (\$1.00) per share and
four hundred million (400,000,000) are to be Common
Stock of the par value of One Dollar (\$1.00) per
share.

A. SERIAL PREFERENCE STOCK

1. The Board of Directors of the Corporation
is hereby expressly granted authority, subject to the
provisions of this Article, to authorize from time to
time the issue of one or more series of Serial
Preference Stock and with respect to any such series
to fix, by resolution or resolutions adopted prior to
the issuance thereof, the voting powers (full or
limited), if any, and the designations, preferences
and relative, participating, optional or other special
rights, and qualifications, limitations or
restrictions thereof, of such series, including but
without limiting the generality of the foregoing, the

following:

(a) The number of shares to constitute such series, and the distinctive designation thereof;

(b) The dividend rate or rates on shares of such series and any restrictions, limitations or conditions upon the payment of such dividends, and whether dividends shall be cumulative and, if so, the date or dates from which dividends shall cumulate, and the dates on which dividends, if declared, shall be payable;

(c) Whether the shares of such series shall be redeemable and, if so, the time or times, at whose option the shares are redeemable, and the price or prices at which and the other terms and conditions on which the shares may be redeemed;

(d) The rights of the holders of shares of such series in the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary;

(e) Whether the shares of such series shall be subject to the operation of a purchase, retirement or sinking fund and, if so, the terms and conditions thereof;

(f) Whether the shares of such series shall be convertible into, or exchangeable for, shares of any other class or series of stock or any other securities, and if so convertible or exchangeable, the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same;

(g) The voting powers, if any, of the shares of such series in addition to the voting powers provided by law or this Certificate of Incorporation, and if so, the extent thereof; and

(h) Any other preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions of such preferences and/or rights not inconsistent with law or the provisions of this Certificate of Incorporation.

2. All shares of any one series of Serial Preference Stock shall be identical with each other in all respects, except that shares of such series issued at different times may differ as to the dates from which dividends thereon shall cumulate or accrue; and all shares of Serial Preference Stock of all series shall be of equal rank in respect of the preference as to dividends and to payments upon the liquidation, dissolution or winding up, whether voluntary or involuntary, of the Corporation.

3. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, before any payment or distribution of the assets of the Corporation shall be made to or set apart for the holders of shares of any class or classes of stock of the Corporation ranking junior to Serial Preference Stock, the holders of the shares of each series of Serial Preference Stock shall be entitled to receive payment of the amount per share fixed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of the shares of such series, plus an amount equal to all dividends accrued and unpaid thereon to the date of final distribution to such holders. If upon any liquidation, dissolution or winding up of the Corporation, the assets of the Corporation, or proceeds thereof, distributable among the holders of shares of Serial Preference Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed among such holders ratably in accordance with the respective amounts which would be payable on such shares if all amounts payable thereon were paid in full. After payment to holders of Serial Preference Stock of the full preferential amounts as aforesaid, holders of Serial Preference Stock as such shall have no right or claim to any of the remaining assets of the Corporation. A liquidation, dissolution or winding up of the Corporation, as such terms are used in this Article, shall not be deemed to be occasioned by or to include (a) any consolidation or merger of the Corporation with any other corporation

or corporations, or (b) any sale, lease, exchange or other transfer of any or all of the assets of the Corporation to another corporation or corporations pursuant to a plan which shall provide for the receipt by the Corporation or its stockholders, as all or the major portion of the consideration for such sale, lease, exchange or transfer, of securities of such other corporation or corporations or of any corporation or corporations controlled by, controlling or affiliated with such other corporation or corporations.

4. The holders of shares of Serial Preference Stock of each series shall be entitled to cash dividends, when and as declared by the Board of Directors out of the funds legally available therefor, in accordance with the resolution or resolutions adopted by the Board of Directors providing for the issue of such series, payable on such dates in each year as may be fixed in such resolution or resolutions. Dividends in full shall not be declared or paid or set apart for payment on Serial Preference Stock of any one series for any dividend period unless dividends in full have been paid or declared and set apart for payment on all shares of Serial Preference Stock of all series upon which a dividend is then due and payable. When the dividends then due and payable are not paid in full on all series of Serial Preference Stock the shares of all series shall share ratably in the payment of dividends, including accumulations, if any, in accordance with the sums which would be payable on such shares if all dividends then due and payable on such shares were declared and paid in full. A "dividend period" is the period between any two consecutive dividend payment dates (or, when shares are originally issued, the period from the date from which dividends are cumulative or begin to accrue to the first dividend payment date) as fixed for a particular series. Accruals of dividends shall not bear interest.

5. So long as any Serial Preference Stock is outstanding the Corporation will not declare or pay, or set apart for payment, any dividends (other than dividends payable in shares of any class or classes of stock of the Corporation ranking junior to Serial Preference Stock), or make any other distribution, on shares of any class or classes of stock of the Corporation ranking junior to Serial Preference Stock, and will not redeem, purchase or otherwise acquire, directly or indirectly, whether voluntarily, for a

sinking fund, or otherwise, any shares of any class or classes of stock of the Corporation ranking junior to Serial Preference Stock, if at the time of making such declaration, payment, setting apart, distribution, redemption, purchase or acquisition the Corporation shall be in default with respect to any dividend payable on or any obligation to retire shares of Serial Preference Stock, provided that, notwithstanding the foregoing, the Corporation may at any time redeem, purchase or otherwise acquire shares of stock of any class ranking junior to Serial Preference Stock in exchange for, or out of the net cash proceeds from the concurrent sale of, other shares of stock of any such junior class.

6. If in any case the amounts payable with respect to any obligations to retire shares of Serial Preference Stock are not paid in full in the case of all series with respect to which such obligations exist, the number of shares of each of such series to be retired pursuant to any such obligations shall be in proportion to the respective amounts which would be payable on account of such obligations if all amounts payable in respect of such series were discharged in full.

7. If and whenever dividends on any series of Serial Preference Stock shall not have been paid in an aggregate amount at least equal to six quarterly dividends upon the shares of such series, the holders of Serial Preference Stock, voting separately as a class regardless of series, shall be entitled, at any annual meeting of stockholders or special meeting held in lieu thereof, or at a special meeting of the holders of Serial Preference Stock called as hereinafter provided, to elect two additional directors. At any time while the holders of Serial Preference Stock, voting as a class, are entitled to elect two directors as herein provided, they shall not be entitled to participate with the holders of Common Stock in the election of any other directors notwithstanding any right otherwise granted to any series to vote in the election of directors. Whenever all dividends accrued and unpaid on such series of Serial Preference Stock then outstanding having cumulative dividends shall have been paid and dividends thereon for the then current dividend period shall have been paid, or declared and a sum sufficient in payment thereof set apart, or, if dividends on any series of Serial Preference Stock shall not be cumulative, whenever such dividends shall have been

paid regularly for one year, or declared and a sum sufficient in payment thereof set apart, the right of the holders of Serial Preference Stock to elect two directors shall cease, subject always to the same provisions for the vesting of such voting rights in the case of any similar future arrearages in dividends.

At any time after such voting power shall have been so vested in the holders of Serial Preference Stock, the Secretary of the Corporation may, and, upon the written request of the holders of record of 10% or more of Serial Preference Stock then outstanding addressed to him at the principal office of the Corporation shall, call a special meeting of the holders of Serial Preference Stock for the election of the directors to be elected by them to be held within 45 days after such call and at the place and upon the notice provided by law and in the By-Laws for the holding of meetings of stockholders; provided, however, that the Secretary shall not be required to call such special meeting in the case of any such request received less than 90 days before the date fixed for any annual meeting of stockholders or special meeting in lieu thereof. If any such special meeting required to be called as provided shall not be called by the Secretary within 45 days after the receipt of any such request, then the holders of record of 10% or more of Serial Preference Stock then outstanding may designate in writing one of their number to call such meeting, and the person so designated may call such meeting to be held at the place and upon the notice above provided and for that purpose shall have access to the Serial Preference Stock ledger of the Corporation. No such special meeting and no adjournment thereof shall be held on a date later than 30 days before the annual meeting of the stockholders or special meeting held in lieu thereof next succeeding the time when the holders of Serial Preference Stock become entitled to elect directors as above provided. If any such special meeting shall be called as above provided, then, by vote of the holders of at least a majority of the shares of Serial Preference Stock which are present or represented by proxy at such meeting, the then authorized number of directors of the Corporation shall be increased by two, and at such meeting the holders of Serial Preference Stock shall be entitled to elect the additional directors so provided for, but any directors so elected shall not hold office beyond the annual meeting of the stockholders or special

meeting held in lieu thereof next succeeding the time when the holders of Serial Preference Stock become entitled to elect directors as above provided. Whenever the holders of Serial Preference Stock shall be divested of the voting power as above provided, the terms of office of all persons elected as directors by the holders of Serial Preference Stock as a class shall forthwith terminate and the number of the Board of Directors shall be reduced accordingly.

8. So long as any Serial Preference Stock is outstanding, the Corporation shall not, without the consent of the holders of two-thirds of the outstanding shares of Serial Preference Stock, irrespective of series, either given by vote in person or by proxy at a meeting called for that purpose, or given in writing, (a) authorize, or increase the authorized number of shares of, any class of stock ranking prior to Serial Preference Stock, or (b) amend, alter or repeal any of the provisions of this Article so as adversely to affect the preferences, rights or powers of the Serial Preference Stock; and the Corporation shall not amend, alter, or repeal any resolution of the Board of Directors fixing the terms of a series of Serial Preference Stock so as adversely to affect the preferences, rights or powers of shares of such series without the prior consent of the holders of two-thirds in number of the outstanding shares of such series, acting as a class, given as aforesaid.

9. Whenever reference is made to shares "ranking prior to Serial Preference Stock", such reference shall mean and include only those shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends or as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation are given preference over the rights of the holders of Serial Preference Stock; whenever reference is made to shares "on a parity with Serial Preference Stock", such reference shall mean and include only those shares of Serial Preference Stock and all other shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends and as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation rank on an equal basis (except as to the amounts fixed therefor) with the rights of the holders of Serial Preference Stock; and whenever reference is made to

shares "ranking junior to Serial Preference Stock", such reference shall mean and include only those shares of the Corporation in respect of which the rights of the holders as to the payment of dividends and as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation are junior and subordinate to the rights of the holders of Serial Preference Stock.

B. COMMON STOCK

Except as provided by the laws of Delaware, this Certificate of Incorporation or by the resolutions of the Board of Directors of the Corporation establishing any series of Serial Preference Stock, the exclusive voting power for all purposes shall be vested in the holders of Common Stock. Except as required by the laws of Delaware, should the affirmative vote or written consent of the holders of shares of Serial Preference Stock voting as a class, or shares of any series thereof voting as a class, at the time outstanding be required for any purpose, the holders of Common Stock shall not have the right to vote or consent with respect to the action to be taken, either as a class or together with any other class or series, unless the action to be taken would adversely affect the rights or powers of Common Stock.

FIFTH: The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

(1) The number of directors of the Corporation (exclusive of directors (the "Preference Stock Directors") who may be elected by the holders of any one or more series of Serial Preference Stock which may at any time be outstanding, voting separately as a class or classes) shall not be less than five nor more than fifteen, the exact number to be fixed from time to time solely by resolution of the Board of Directors, acting by not less than a majority of the directors then in office, and to be fixed initially at twelve.

(2) The Board of Directors
(exclusive of Preference Stock Directors)

shall be divided into three classes, with the term of office of one class expiring each year. At the annual meeting of stockholders in 1983, four directors of the first class shall be elected to hold office for a term expiring at the 1984 annual meeting, four directors of the second class shall be elected to hold office for a term expiring at the 1985 annual meeting and four directors of the third class shall be elected to hold office for a term expiring at the 1986 annual meeting. Commencing with the annual meeting of stockholders in 1984, each class of directors whose term shall then expire shall be elected to hold office for a three year term and until the election and qualification of their respective successors in office. In case of any increase in the number of directors (other than Preference Stock Directors), the number of directors in each class shall be as nearly equal as possible. Election of directors need not be by ballot unless the By-Laws so provide.

(3) Subject to the rights of the holders of any one or more series of Serial Preference Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled solely by the Board of Directors, acting by not less than a majority of the Directors then in office. Any director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his successor shall be elected and qualified. No decrease in the number of directors shall shorten the term of any incumbent director.

(4) The Board of Directors shall have power without the assent or vote of the stockholders

(a) To make, alter,

amend, change, or repeal the By-Laws of the Corporation other than By-Laws made by the stockholders which provide otherwise for their alteration, amendment, change or repeal.

(b) To determine from time to time whether, and to what extent, and at what times and places, and under what conditions and regulations, the accounts and books of the Corporation (other than the stock ledger) or any of them, shall be open to the inspection of the stockholders.

(5) In addition to the powers and authorities hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation; subject, nevertheless, to the provisions of the statutes of Delaware, of this certificate, and to any By-Laws from time to time made by the stockholders; provided, however, that no By-Laws so made shall invalidate any prior act of the directors which would have been valid if such By-Laws had not been made.

(6) Except as otherwise provided in Article FOURTH of this certificate with respect to the holders of any one or more series of Serial Preference Stock, special meetings of the stockholders for any purpose or purposes shall be called solely by resolution of the Board of Directors, acting by not less than a majority of the entire Board, and, except as set forth in this Section (6), the power of stockholders to call a special meeting is specifically denied. Notwithstanding the foregoing, and subject to the conditions set forth in this Section (6), the Board of Directors shall call a special meeting of stockholders upon the receipt by the

Secretary of the Corporation of a Request (as hereinafter defined) of a Qualified Holder (as hereinafter defined). The place and notice of any special meeting shall be as set forth below and in the By-Laws. Only business properly brought before a special meeting shall be transacted at such meeting. Business shall be deemed properly brought only if it is (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (iii) brought before the meeting by a Qualified Holder entitled to vote at such meeting if written notice of such Qualified Holder's intent to bring such business before such meeting was contained in the Request. The Chairman of the meeting may refuse to transact any business at any special meeting made without compliance with the foregoing procedure.

If the Secretary of the Corporation receives a Request from a Qualified Holder, the Board of Directors shall select a date for the special meeting not less than 60 nor more than 90 days after the date the Request is received; provided, however, that (a) the Board shall not be required to call a special meeting at the request of any Qualified Holder that has, within the twelve months preceding the date the Request is received, delivered to the Corporation a Request pursuant to which a special meeting has been called, and (b) the Board shall not be required to call a special meeting pursuant to a Request received during the 150-day period preceding the anniversary of the most recent annual meeting of stockholders.

For the purposes of this Section
(6):

(a) The term "Qualified Holder" shall mean any individual, corporation, partnership or other person or entity

(collectively, a "Person") which, together with all of its "affiliates" (as such term is defined on December 3, 1993 in Rule 405 under the Securities Act of 1933), has had continuous Ownership (as hereinafter defined) of at least 3 percent of the outstanding shares of capital stock of the Corporation entitled to vote for the election of directors ("Voting Stock") throughout the six-month period prior to the date the Corporation receives the Request from such Person. A "Qualified Holder" shall not include a group of Persons acting in concert or pursuant to a contractual arrangement.

(b) The term "Ownership" of Voting Stock shall mean the sole possession of both the power to vote (or direct the voting of) and the power to dispose of (or direct the disposition of) such Voting Stock.

(c) The term "Request" shall mean a writing received by the Secretary of the Corporation at the principal executive offices of the Corporation, which requests the Board of Directors to call a special meeting of the stockholders and which sets forth: (1) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting; (2) the name and address of the Qualified Holder who intends to propose such business; (3) a representation that the stockholder is a Qualified Holder of Voting Stock, agrees to furnish such supporting documentation with respect to such stockholder's status as a Qualified Holder as the Corporation may request, is entitled to vote at such meeting and intends to appear in person or by proxy at such meeting to propose such business; and (4) any material interest of the stockholder in such business. If the Qualified Holder intends to present a proposal at the special meeting and to have such proposal included in the Corporation's proxy materials for such meeting and the Request includes the proposal and any supporting statement with

respect thereto, the Corporation's proxy materials for the meeting shall include such proposal and supporting statement, provided (A) the Qualified Holder complies with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (or any successor rule), and (B) the Board of Directors does not determine that such proposal and supporting statement may be omitted from the Corporation's proxy materials pursuant to paragraph (c) of such Rule 14a-8.

(7) Subject to the rights of the holders of any one or more series of Serial Preference Stock then outstanding, any director or the entire Board of Directors of the Corporation may be removed only for cause. At any annual meeting of stockholders of the Corporation or at any special meeting of stockholders of the Corporation the notice of which shall state that the removal of a director or directors is among the purposes of the meeting, the holders of capital stock entitled to vote thereon, present in person or by proxy, by vote of a majority of the outstanding shares thereof, may remove such director or directors for cause.

(8) The annual meeting of stockholders of the Corporation shall be held each year at such date during the first five months of each year beginning January 1 as shall be specified in the By-Laws. At such annual meeting, or at such adjournment thereof as may be taken pursuant to the By-Laws, the Board of Directors of the Corporation shall be elected to hold office as provided in Section (2) of this Article FIFTH.

(9) No action required to be taken or which may be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting, and the power of stockholders to consent in writing, without such a meeting, to the taking of any action is specifically denied.

(10) The stockholders of the Corporation may exercise their power to alter, amend, change, repeal or adopt By-Laws of the Corporation only by the affirmative vote of the holders of not less than 60 percent of the outstanding shares of capital stock of the Corporation entitled to vote for the election of directors, provided that notice of such proposed alteration, amendment, repeal or adoption is included in the notice of meeting called for the taking of such action.

(11) At each annual meeting of the stockholders, or at an adjournment thereof, there shall be elected by plurality vote of the outstanding shares of Common Stock an Auditor of the Corporation, who shall hold office until the next annual meeting of the stockholders. The Auditor shall be an individual who is a member in good standing of the American Institute of Accountants or (if said Institute shall cease to exist) of its successor or an organization of comparable standing, or shall be a co-partnership a majority of whose members are members in good standing of said Institute or its successor or comparable organization as aforesaid; and shall in any event have rendered audit reports for at least five corporations or associations each having at the time of such reports assets carried on their respective balance sheets at more than \$20,000,000. The Auditor shall not be a director of the Corporation, nor an officer or salaried employee thereof. Not later than thirty days prior to the day fixed for the annual meeting of stockholders in any year, the Auditor shall submit a written report by the Auditor as to the balance sheet of the Corporation as at the close of business on the December 31 next preceding the date of such report, as to the surplus account of the Corporation and as to the earnings or income of the Corporation since its organization or since the last preceding report by the Auditor as the case may be.

The Corporation shall cause copies of such report to be mailed not later than twenty days prior to the day fixed for such annual meeting to each stockholder of record of the Corporation. The Board of Directors of the Corporation shall cause to be included in the notice given to stockholders of each annual meeting a statement of the name of the individual or co-partnership which the Board of Directors recommends for election as Auditor at such meeting, and also a statement of the name of the Auditor then in office; but no such recommendation by the Board of Directors shall be binding upon the stockholders. The Board of Directors shall cause a copy of such notice to be mailed to the existing Auditor at the same time at which it is mailed or otherwise given to stockholders. No person, other than the Auditor then in office, shall be eligible for election as Auditor at any annual meeting of stockholders unless notice of intention to nominate that person as Auditor has been given by a stockholder to the Corporation not less than ten days before such annual meeting; the Corporation shall promptly mail a copy of such notice to the Auditor then in office. The Auditor shall have the right to attend all meetings of stockholders at which the Auditor or any accounts of the Corporation examined or reported on by the Auditor are considered and to make any statement or explanation regarding the accounts which the Auditor may desire; but the Auditor shall not be entitled to any vote. The Auditor shall have the right of access to all books, accounts, vouchers and records of the Corporation and may require from its officers such information and explanation as may be necessary for the performance of the duties of the Auditor. The officers and directors of the Corporation may rely upon the accuracy of all reports by the Auditor to the Corporation or its stockholders and will be protected in any action or nonaction by them in good faith in reliance thereon. Semi-annual, quarterly or interim reports shall be made

by the Auditor from time to time as may be directed by the Board of Directors of the Corporation. The Board of Directors may fill any vacancy occurring in the office of Auditor, by death, resignation or otherwise, at any time except between the call and final adjournment of an annual meeting of stockholders or of a special meeting of stockholders called for the purpose of removing the Auditor or electing a new Auditor. The Auditor may be removed, and a new Auditor elected to fill the vacancy caused by such removal or otherwise, at any special meeting of the stockholders the notice of which shall include such removal and election as purposes of the meeting, by the vote of a majority of the outstanding shares of the Common Stock of the Corporation; a copy of the notice of any such meeting shall be mailed by the Corporation to the Auditor then in office at the same time at which such notice is mailed or otherwise given to stockholders.

(12) The Board of Directors of the Corporation in its discretion may submit for approval, ratification or confirmation by the stockholders any contract, transaction or act of the Board of Directors or any committee thereof or of any officer, agent or employee of the Corporation, and any such contract, transaction or act which shall have been so approved, ratified or confirmed by the holders of a majority of the issued and outstanding stock entitled to vote shall be as valid and binding upon the Corporation and upon the stockholders thereof as though it had been approved and ratified by each and every stockholder of the Corporation.

(13) No contract or agreement between the Corporation and any other corporation or party which owns a majority of the capital stock of the Corporation or any subsidiary of such other corporation shall be made or entered into without the affirmative vote of a majority of the whole Board of Directors at a regular

meeting of the Board.

(14) No director shall be personally liable to the Corporation or any stockholder for monetary damages for breach of fiduciary duty as a director, except (i) for any breach of such director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this provision to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of directors of the Corporation shall be eliminated or limited to the full extent permitted by the Delaware General Corporation Law, as so amended.

The Corporation shall indemnify to the full extent permitted by the laws of the State of Delaware as from time to time in effect, each person who is or was a director or officer of the Corporation in the event that he was or is a party or is threatened to be made a party to, or otherwise requires representation by counsel in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity. The right to indemnification conferred by this Section (14) shall also include the right of such persons to be paid in advance by the Corporation for their expenses to the

full extent permitted by the laws of the State of Delaware as from time to time in effect. The right to indemnification conferred on the directors and officers of the Corporation by this Section (14) shall be a contract right.

Unless otherwise determined by the Board of Directors of the Corporation, the Corporation shall indemnify to the full extent permitted by the laws of the State of Delaware as from time to time in effect, each person who is or was an employee or agent of the Corporation in the event that he was or is a party or is threatened to be made a party to, or otherwise requires representation by counsel in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity.

The rights and authority conferred in this Section (14) shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of this Certificate of Incorporation or the By-Laws of the Corporation, agreement, vote of stockholders or disinterested directors or otherwise.

Neither the amendment nor repeal of this Section (14), nor the adoption of any provision of the Certificate of Incorporation or By-Laws or of any statute inconsistent with this Section (14), shall eliminate or reduce the effect of this Section (14) in respect of any acts or omissions occurring prior to such amendment, repeal or adoption of an inconsistent provision.

Notwithstanding any other provisions of this Certificate of Incorporation or the By-Laws of the Corporation (and notwithstanding the fact that a lesser percentage may be specified by law, this Certificate of Incorporation or the By-Laws of the Corporation), the affirmative vote of the holders of 60 percent of the outstanding shares of capital stock of the Corporation entitled to vote for the election of directors shall be required to amend, repeal or adopt any provision inconsistent with Sections (1), (2), (3), (6), (7), (8), (9) and (10) of this Article FIFTH.

SIXTH: Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said Court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the Court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

SEVENTH: Any other provision of this Certificate of Incorporation to the contrary notwithstanding, the affirmative vote of the holders of not less than 80 percent of the outstanding shares of capital stock of the Corporation entitled to vote generally (the "Voting Stock") and the affirmative

vote of the holders of not less than 67 percent of the Voting Stock held by stockholders other than a Related Person (as hereinafter defined) shall be required for the approval or authorization of any Business Combination (as hereinafter defined) or of any series of related transactions which, if taken together, would constitute a Business Combination of the Corporation with any Related Person; provided, however, that the 80 percent and 67 percent voting requirements shall not be applicable if:

1. A majority of Continuing Directors (as hereinafter defined) of the Corporation (a) have expressly approved in advance the acquisition of Voting Stock of the Corporation that caused the Related Person to become a Related Person, or (b) have approved the Business Combination; or

2. The Business Combination is a merger or consolidation and the cash or fair market value of the property, securities or other consideration to be received per share by holders of Common Stock of the Corporation in the Business Combination is not less than the highest per share price (with appropriate adjustments for recapitalizations and for stock splits, stock dividends and like distributions), in each case determined in good faith by a majority of Continuing Directors, paid by the Related Person in acquiring any of its holdings of the Corporation's Common Stock either in or subsequent to the transaction or series of transactions in which the Related Person became a Related Person.

Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise.

For purposes of this Article SEVENTH:

(a) The term "Business Combination" shall mean (i) any merger or consolidation of the Corporation or a Subsidiary (as hereinafter defined) with

or into a Related Person, (ii) any sale, lease, exchange, transfer or other disposition, including without limitation a pledge, mortgage or any other security device, of all or any Substantial Part (as hereinafter defined) of the assets either of the Corporation (including without limitation any voting securities of a Subsidiary) or of a Subsidiary, or both, to a Related Person, (iii) any merger or consolidation of a Related Person with or into the Corporation or a Subsidiary of the Corporation, (iv) any sale, lease, exchange, transfer or other disposition of all or any Substantial Part of the assets of a Related Person to the Corporation or a Subsidiary of the Corporation, (v) the issuance of any securities of the Corporation or a Subsidiary of the Corporation to a Related Person, (vi) any reclassification of securities (including a reverse stock split) or any other recapitalization that would have the effect of increasing the voting power of a Related Person and (vii) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Combination.

(b) The term "Related Person" shall mean and include any individual, corporation, partnership or other person or entity which, together with its "Affiliates" and "Associates" (as defined on March 1, 1983 in Rule 12b-2 under the Securities Exchange Act of 1934), "beneficially owns" (as defined on March 1, 1983 in Rule 13d-3 under the Securities Exchange Act of 1934) in the aggregate 10 percent or more of the outstanding Voting Stock of the Corporation, any Affiliate or Associate of any such individual, corporation, partnership or other person or entity, and any assignee of any of the foregoing.

(c) Notwithstanding the definition of "beneficially owned" in subparagraph (b) of this Article SEVENTH, any Voting Stock of the Corporation that any Related Person has the right to

acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, shall be deemed beneficially owned by the Related Person.

(d) The term "Substantial Part" shall mean more than 20 percent of the fair market value of the total assets of the corporation in question, as determined in good faith by a majority of Continuing Directors, as of the end of its most recent fiscal year ending prior to the time the determination is being made.

(e) For the purposes of subparagraph (a) of this Article SEVENTH, the term "Subsidiary" means any corporation of which a majority of any class of equity security is owned directly or indirectly by the Corporation and whose assets constitute a Substantial Part of the assets of the Corporation, as determined in good faith by a majority of Continuing Directors.

(f) For the purposes of the first paragraph of this Article SEVENTH, in any Business Combination of a Subsidiary of the Corporation with a Related Person, the voting provisions contained therein shall be deemed to be required for the Corporation to cause the Subsidiary to approve or authorize such Business Combination.

(g) For the purposes of subparagraph (2) of this Article SEVENTH, the term "other consideration to be received" shall include, without limitation, Common Stock of the Corporation retained by its existing public stockholders in the event of a Business Combination in which the Corporation is the surviving corporation.

(h) The term "Continuing Director" shall mean a Director who was a member of the Board of Directors of the Corporation immediately prior to the time that the Related Person involved in a Business Combination became a Related Person.

EIGHTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by law, and all rights and powers conferred herein on stockholders, directors and officers are subject to this reserved power.

This certificate only restates and integrates, and does not further amend, the provisions of the Corporation's Certificate of Incorporation as theretofore amended or supplemented. There is no discrepancy between the provisions of said Certificate of Incorporation, as amended or supplemented, and the provisions of this certificate.

IN WITNESS WHEREOF, SONAT INC. has caused its corporate seal to be hereunto affixed and this certificate, having been duly adopted by the directors in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware, to be signed by Ronald L. Kuehn, Jr., its Chairman, and Beverley T. Krannich, its Secretary, this 2nd day of May, 1994.

SONAT INC.

/S/ Ronald L. Kuehn, Jr.

By: Ronald L. Kuehn, Jr.
Chairman

/S/ Beverley T. Krannich

Attest: Beverley T. Krannich
Secretary

(Corporate Seal)

EXHIBIT 10

SONAT INC.

RETIREMENT PLAN
FOR DIRECTORS

(as amended and restated as of February 25, 1993)

1. Purpose

The Sonat Inc. Retirement Plan for Directors (the "Plan") is intended to advance the best interests of Sonat Inc. (the "Company") by providing retirement income to eligible directors of the Company, thereby enabling the Company to attract and retain high caliber persons to serve as directors. The Plan is also intended to enhance the ability of directors to evaluate the best interests of the Company and its stockholders in the event of a proposed or threatened Change in Control (as defined in Paragraph 8) by minimizing the personal uncertainties and risks created by such a proposal or threat.

2. Eligibility

Eligible directors are directors of the Company who during some portion of the time of their service as directors were not officers of the Company or any of its subsidiaries. Such directors shall be entitled to the retirement income described in Paragraph 4 or 5 (as the case may be) upon their ceasing to serve as a director of the Company (hereinafter referred to as "retirement") under any of the following circumstances:

- (a) at any time after reaching age 70;
- (b) at any time after having completed five years of service as an outside director;
- (c) upon becoming permanently disabled, as determined by the Board of Directors in its sole judgment;
- (d) death; or
- (e) at any time following a Change in Control.

Notwithstanding the foregoing, no director shall be an eligible director or entitled to retirement income under the Plan if (a) such director is removed from the Board of Directors for cause (which shall mean only dishonesty, conviction of a felony, or wilful unauthorized disclosure of confidential information), or (b) the retirement of such director occurs prior to January 1, 1985 unless such retirement follows a Change in Control.

3. Determination of Form of Payment

If an eligible director's date of retirement occurred prior to February 25, 1993, such director's retirement

income shall be paid in the manner provided for in the Plan prior to such date. If an eligible director's date of retirement occurred on or after February 25, 1993, such director's retirement income shall be paid in lump-sum form as provided in Paragraph 4 below ("Lump-Sum Form") unless, at least twelve full calendar months before the date of the director's retirement, the director filed with the Company an irrevocable written election to have such benefits paid in annuity form as provided in Paragraph 5 below ("Annuity Form"), in which case such benefits shall be paid in Annuity Form.

4. Amount and Payment of Retirement Income in Lump-Sum Form

Upon the retirement of an eligible director who is entitled to receive his retirement income in Lump-Sum Form, the Company will pay to such eligible director (or his beneficiary, in the event of his death) retirement income in the form of a cash lump-sum payment equal to the "present value" (calculated as of the later of the date of payment and January 1, 1992) of a series of payments equal to the "quarterly retainer," based on the assumption that the quarterly retainer is paid quarterly, commencing with the beginning of the calendar quarter next following the date of the director's retirement, for a period of time equal to the "service period."

For purposes of this Paragraph 4 and Paragraph 5:

- (a) "present value" shall be calculated using a discount rate equal to the yield on new 10 year AA rated general obligation tax-exempt bonds as determined by Merrill Lynch & Co. (or its affiliates) and published in The Wall Street Journal (or other financial publication) on the business day immediately preceding the date of the director's retirement (or, if such yield is not so determined and published on such business day, on the most immediately preceding day on which such yield was so determined and published); provided, however, that if such yield has not been so determined and published within 90 days prior to the director's retirement, the discount rate shall be the yield on substantially similar securities on the business day preceding the director's retirement as determined by AmSouth Bank N.A. upon the request of the director or his beneficiary (as the case may be). Notwithstanding the foregoing, the discount rate used with respect to retirement income calculations for directors who retired before January 1, 1992 shall equal the yield on new 10 year AA rated

general obligation tax-exempt bonds as determined by Merrill Lynch & Co. and published in the November 1, 1991 issue of The Wall Street Journal.

- (b) "quarterly retainer" shall mean one-fourth of the basic annual retainer (excluding fees and special retainers paid for meetings and Board Committee appointments) in effect for directors on the date of the director's retirement.
- (c) "service period" shall mean the total of the number of whole calendar quarters of service by such director on the Board of Directors of the Company and service by such director prior to May 25, 1973 on the Board of Directors of Southern Natural Gas Company during which period such director was not an officer of the Company or any of its subsidiaries; provided, however, that if a director's retirement, death or election as an officer occurs prior to the end of a calendar quarter, for purposes of this Paragraph 3 he will be deemed to have served as a non-officer director until the end of such quarter. Notwithstanding the foregoing, the service period of each director who retired before September 26, 1991 shall be reduced by the number of whole calendar quarters of such service for which he had received retirement income from this Plan as in effect prior to September 26, 1991.

The cash lump-sum payment calculated and made pursuant to this Paragraph 4 shall be paid as soon as practicable (and within 60 days) after the later of November 1, 1991 and the date of the director's retirement.

5. Amount and Payment of Retirement Income in Annuity Form

Upon the retirement of an eligible director who is entitled to receive his retirement income in Annuity Form, the Company will pay to such eligible director (or his beneficiary, in the event of his death) retirement income in the form of a series of payments equal to the quarterly retainer. Payments shall be made quarterly, commencing with the beginning of the calendar quarter next following the date of the director's retirement, for a period of time equal to the service period.

6. Beneficiaries

A director shall be entitled to designate a beneficiary (and to change such beneficiary from time to time) for payment of retirement income under this Plan in the event

of the director's death. If no beneficiary has been designated, the director's estate shall be deemed the beneficiary.

7. Funding and Assignment

The Plan shall not be funded. Retirement income under the Plan shall be paid from the general assets of the Company, and may not be assigned or transferred by a director or his beneficiary.

8. Change in Control

A "Change in Control" shall be deemed to have occurred if:

- (a) any "person" (as defined in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934, as in effect on May 1, 1984 (the "Exchange Act")) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of securities of the Company representing 35% or more of the voting power of the outstanding securities of the Company having the right under ordinary circumstances to vote at an election of the Board of Directors;
- (b) there shall occur a change in the composition of a majority of the Board of Directors of the Company within any period of three consecutive years which change shall not have been approved by a majority of the Board of Directors of the Company as constituted immediately prior to the commencement of such period; or
- (c) at any meeting of the stockholders of the Company called for the purpose of electing directors, all persons nominated by the Board of Directors for election as directors shall fail to be elected.

9. Effective Date

The Plan became effective as of July 26, 1984. Effective September 26, 1991, the Plan was amended to provide for payment of retirement income in the Lump-Sum Form for directors in receipt of a retirement income under this Plan on such date and for eligible directors who retired after such date. Effective February 25, 1993, the Plan was amended to provide for payment of retirement income in both the Lump-Sum Form and the Annuity Form.

10. Amendment

The Board of Directors may amend the Plan from time to time and may discontinue the Plan at any time, but no amendment or discontinuance of the Plan shall adversely affect any rights under the Plan of any former director who at the time is entitled to receive retirement income or any director who at the time would be entitled to receive

retirement income if such director had ceased to serve as a director immediately prior to such amendment or discontinuance.

IN WITNESS WHEREOF, pursuant to authorization by the Board of Directors of Sonat Inc., Sonat Inc. has caused this amendment and restatement of the Plan to be executed as of February 25, 1993.

SONAT INC.

/S/ Beverley T. Krannich

Beverley T. Krannich
Vice President-
Human Resources
and Secretary

SONAT INC. AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER SHARE

	Three Months Ended March 31,	
	1994	1993
	(In Thousands Except Per-Share Amounts)	
Primary Earnings Per Share(1)		
Earnings:		
Income from Continuing Operations before Extraordinary Item	\$49,610	\$68,923
Extraordinary Loss	-	(3,829)
Net Income	\$49,610	\$65,094
Common Stock and Common Stock Equivalents:		
Weighted Average Number of Shares of Common Stock Outstanding	87,177	86,195
Common Stock Equivalents Applicable to Outstanding Stock Options	947	801
Weighted Average Number of Shares of Common Stock and Common Stock Equivalents Outstanding	88,124	86,996
Primary Earnings Per Share:		
Income from Continuing Operations before Extraordinary Item	\$.56	\$.79
Extraordinary Loss	-	(.04)
	\$.56	\$.75

(1) This calculation is submitted in accordance with Regulation S-K Item 601(b)(11) although not required by Footnote 2 to Paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3%. For this reason, the primary earnings per share amounts shown for both periods do not agree with primary earnings per share shown on the Condensed Consolidated Statements of Income in Part I.

EXHIBIT 12

SONAT INC. AND SUBSIDIARIES

Computation of Ratios of Earnings
from Continuing Operations to Fixed Charges
Total Enterprise (a)

	Three Months Ended March 31,		Years Ended December 31,				
	1994	1993	1993	1992	1991	1990	1989
	(In Thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Earnings from Continuing Operations:							
Income (loss) before income taxes	\$67,323	\$ 90,221	\$364,198	\$133,728	\$ 98,374	\$127,811	\$145,333
Fixed charges							
(see computation below)	30,355	37,645	128,468	156,428	175,980	165,021	145,873
Less allowance for interest capitalized	(1,615)	(1,011)	(4,101)	(8,422)	(7,951)	(6,184)	(6,116)
Total Earnings Available for Fixed Charges	\$96,063	\$126,855	\$488,565	\$281,734	\$266,403	\$286,648	\$285,090
Fixed Charges:							
Interest expense before deducting interest capitalized	\$28,541	\$ 35,879	\$122,204	\$149,165	\$168,510	\$158,550	\$141,029
Rentals(b)	1,814	1,766	6,264	7,263	7,470	6,471	4,844
	\$30,355	\$ 37,645	\$128,468	\$156,428	\$175,980	\$165,021	\$145,873
Ratio of Earnings to Fixed Charges	3.2	3.4	3.8	1.8	1.5	1.7	2.0

</TABLE>

(a) Amounts include the Company's portion of the captions as they relate to persons accounted for by the equity method.

(b) These amounts represent 1/3 of rentals which approximate the interest factor applicable to such rentals of the Company and its subsidiaries and continuing unconsolidated affiliates.

Consent of Independent Auditors

We consent to the incorporation by reference in (i) the Registration Statement (Form S-8, No. 33-50140) pertaining to the Sonat Inc. Executive Award Plan and in the related Prospectus; (ii) the Registration Statement (Form S-8, No. 33-50142) pertaining to the Sonat Savings Plan and the related Prospectus; and (iii) the Registration Statement (Form S-3, No. 33-62166) of Sonat Inc. and the related Prospectus and Prospectus Supplement of our report dated January 20, 1994, with respect to the consolidated financial statements and schedules of Sonat Inc. included in its Annual Report (Form 10-K) for the year ended December 31, 1993.

ERNST & YOUNG

Birmingham, Alabama
May 11, 1994