EL PASO CORP/DE
Form 10-Q
November 07, 2011

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission File Number 1-14365

El Paso Corporation
(Exact Name of Registrant as Specified in Its Charter)

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

Telephone Number: (713) 420-2600
Internet Website: www.elpaso.com

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

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

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

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

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

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

Common stock, par value $3 per share. Shares outstanding on November 1, 2011: 771,195,525

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

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

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

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarters Ended September 30, 2011	Quarters Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating revenues	$ 1,403	$ 1,213	$ 3,628	$ 3,632
Operating expenses				
Cost of products and services	44	57	135	163
Operation and maintenance	366	327	994	911
Loss on deconsolidation of subsidiary (Note 15)	600		600	
Ceiling test charges	152	14	152	16
Depreciation, depletion and amortization	299	239	815	699
Taxes, other than income taxes	63	58	217	181
	1,524	695	2,913	1,970
Operating income (loss)	(121)	518	715	1,662
Earnings from unconsolidated affiliates	36	28	98	167
Loss on debt extinguishment	(101)	(104)	(169)	(104)
Other income, net	5	71	186	188
Interest and debt expense	(242)	(255)	(721)	(782)
Income (loss) before income taxes	(423)	258	109	1,131
Income tax expense (benefit)	(130)	75	(73)	343
Net income (loss)	(293)	183	182	788
Net income attributable to noncontrolling interests	(75)	(41)	(226)	(101)
Net income (loss) attributable to El Paso Corporation	(368)	142	(44)	687
Preferred stock dividends of El Paso Corporation		9		28
Net income (loss) attributable to El Paso Corporation s common stockholders	$ (368)	$ 133	$ (44)	$ 659
Basic earnings per common share				
Net income (loss) attributable to El Paso Corporation s common stockholders	$ (0.48)	$ 0.19	$ (0.06)	$ 0.95
Diluted earnings per common share				
Net income (loss) attributable to El Paso Corporation s common stockholders	$ (0.48)	$ 0.19	$ (0.06)	$ 0.90

Dividends declared per El Paso Corporation s common share	$ 0.01	$ 0.01	$ 0.03	$ 0.03

See accompanying notes.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income (loss)	$ (293)	$ 183	$ 182	$ 788
Pension and postretirement obligations:				
Unrealized actuarial gains on postretirement benefit plans (net of income taxes of $6 and $6 in 2011)	13		13	
Reclassification of net actuarial losses during period (net of income taxes of $8 and $22 in 2011 and $6 and $18 in 2010)	15	11	46	35
Cash flow hedging activities:				
Unrealized mark-to-market losses arising during period (net of income taxes of $27 and $40 in 2011 and $20 and $45 in 2010)	(42)	(31)	(66)	(71)
Recognition of loss associated with interest rate swaps upon deconsolidation of subsidiary (net of income taxes of $46 and $46 in 2011)	79		79	
Reclassification adjustments for changes in initial value to the settlement date (net of income taxes of $6 and $8 in 2011 and $1 and $3 in 2010)	7	1	14	5
Other comprehensive income (loss)	72	(19)	86	(31)
Comprehensive income (loss)	(221)	164	268	757
Comprehensive loss attributable to noncontrolling interests	(79)	(41)	(230)	(101)
Comprehensive income (loss) attributable to El Paso Corporation	$ (300)	$ 123	$ 38	$ 656

See accompanying notes.

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

	September 30, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents (includes $31 in 2010 held by variable interest entities)	$ 390	$ 347
Accounts and notes receivable		
Customer, net of allowance of $4 in both 2011 and 2010	322	333
Affiliates	8	7
Other	165	160
Materials and supplies	167	169
Assets from price risk management activities	314	265
Deferred income taxes	107	165
Other	154	106
Total current assets	1,627	1,552
Property, plant and equipment, at cost		
Pipelines (includes $3,232 in 2010 held by variable interest entities)	19,771	22,385
Oil and natural gas properties, at full cost	21,556	21,692
Other	513	416
	41,840	44,493
Less accumulated depreciation, depletion and amortization	23,102	23,421
Total property, plant and equipment, net	18,738	21,072
Other long-term assets		
Investments in unconsolidated affiliates	2,756	1,673
Assets from price risk management activities	51	61
Other	906	912
	3,713	2,646
Total assets	$ 24,078	$ 25,270

See accompanying notes.

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

	September 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable		
Trade	$ 384	$ 610
Affiliates	11	9
Other	447	386
Short-term financing obligations, including current maturities	350	489
Liabilities from price risk management activities	152	176
Asset retirement obligations	62	63
Accrued interest	224	202
Other	612	630
Total current liabilities	2,242	2,565
Long-term financing obligations, less current maturities	12,531	13,517
Other long-term liabilities		
Liabilities from price risk management activities	271	397
Deferred income taxes	527	568
Other	1,352	1,461
	2,150	2,426
Commitments and contingencies (Note 10)		
Preferred stock of subsidiaries		698
Equity		
El Paso Corporation stockholders equity:		
Preferred stock, par value $0.01 per share; authorized 50,000,000 shares; issued 750,000 shares of 4.99% convertible perpetual stock as of December 31, 2010; stated at liquidation value		750
Common stock, par value $3 per share; authorized 1,500,000,000 shares; issued 785,546,406 shares in 2011 and 719,743,724 shares in 2010	2,357	2,159
Additional paid-in capital	5,449	4,484
Accumulated deficit	(2,478)	(2,434)
Accumulated other comprehensive loss	(669)	(751)
	(283)	(291)

Treasury stock (at cost); 15,063,780 shares in 2011 and 15,492,605 shares in 2010				
Total El Paso Corporation stockholders equity		4,376		3,917
Noncontrolling interests		2,779		2,147
Total equity		7,155		6,064
Total liabilities and equity	$	24,078	$	25,270

See accompanying notes.

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

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities		
Net income	$ 182	$ 788
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, depletion and amortization	815	699
Ceiling test charges	152	16
Loss on deconsolidation of subsidiary (Note 15)	600	
Deferred income tax expense (benefit)	(28)	339
Earnings from unconsolidated affiliates, adjusted for cash distributions	(50)	(115)
Loss on debt extinguishment	169	104
Other non-cash income items	(72)	(34)
Asset and liability changes	(151)	(385)
Net cash provided by operating activities	1,617	1,412
Cash flows from investing activities		
Capital expenditures	(2,989)	(2,641)
Cash paid for acquisitions, net of cash acquired	(2)	(25)
Net proceeds from the sale of assets and investments	592	332
Increase in notes receivable	(115)	(23)
Other	(69)	37
Net cash used in investing activities	(2,583)	(2,320)
Cash flows from financing activities		
Net proceeds from issuance of long-term debt	5,168	1,399
Payments to retire long-term debt and other financing obligations	(5,001)	(1,273)
Net proceeds from issuance of noncontrolling interests (Note 12)	948	956
Net proceeds from issuance of preferred stock of subsidiary	30	120
Dividends paid	(31)	(49)
Distributions to noncontrolling interest holders	(143)	(64)
Distributions to holders of preferred stock of subsidiary	(10)	(15)
Proceeds from stock option exercises	48	6
Other		2
Net cash provided by financing activities	1,009	1,082
Change in cash and cash equivalents	43	174
Cash and cash equivalents		

Beginning of period	347	635
End of period	$ 390	$ 809

See accompanying notes.

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

	Nine Months Ended September 30, 2011	2010
El Paso Corporation stockholders equity:		
Preferred stock:		
Balance at beginning of period	$ 750	$ 750
Conversion of preferred stock	(750)	
Balance at end of period		750
Common stock:		
Balance at beginning of period	2,159	2,148
Conversion of preferred stock	174	
Other, net	24	11
Balance at end of period	2,357	2,159
Additional paid-in capital:		
Balance at beginning of period	4,484	4,501
Conversion of preferred stock	576	
Dividends	(22)	(49)
Issuances of noncontrolling interests (Note 12)	338	
Other, including stock-based compensation	73	32
Balance at end of period	5,449	4,484
Accumulated deficit:		
Balance at beginning of period	(2,434)	(3,192)
Net income (loss) attributable to El Paso Corporation	(44)	687
Balance at end of period	(2,478)	(2,505)
Accumulated other comprehensive income (loss):		
Balance at beginning of period	(751)	(718)
Other comprehensive income (loss) attributable to noncontrolling interests	82	(31)
Balance at end of period	(669)	(749)
Treasury stock, at cost:		
Balance at beginning of period	(291)	(283)
Stock-based and other compensation	8	(7)
Balance at end of period	(283)	(290)

Total El Paso Corporation stockholders equity at end of period	4,376	3,849
Noncontrolling interests:		
Balance at beginning of period	2,147	785
Issuance of noncontrolling interests (Note 12)	610	956
Distributions to noncontrolling interests	(143)	(64)
Net income attributable to noncontrolling interests (Note 12)	161	75
Other comprehensive income attributable to noncontrolling interests	4	
Balance at end of period	2,779	1,752
Total equity at end of period	$ 7,155	$ 5,601

See accompanying notes.

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

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

We prepared this Quarterly Report on Form 10-Q under the rules and regulations of the United States Securities and Exchange Commission (SEC). As an interim period filing presented using a condensed format, it does not include all of the disclosures required by U.S. generally accepted accounting principles (GAAP) and should be read along with our 2010 Annual Report on Form 10-K. The financial statements as of September 30, 2011, and for the quarters and nine months ended September 30, 2011 and 2010, are unaudited. The condensed consolidated balance sheet as of December 31, 2010 was derived from the audited balance sheet filed in our 2010 Annual Report on Form 10-K. In our opinion, we have made adjustments, all of which are of a normal, recurring nature, to fairly present our interim period results. Our financial statements for prior periods include reclassifications that were made to conform to the current year presentation, none of which impacted our reported net income or stockholders equity. Additionally, our statement of cash flows for the nine months ended September 30, 2010 reflects a decrease in both net cash provided by operating activities and net cash used in investing activities related to the timing of certain capital expenditures which was considered immaterial to our 2010 consolidated financial statements. Due to the seasonal nature of our businesses, information for interim periods may not be indicative of our operating results for the entire year. Our disclosures in this Form 10-Q are an update to those provided in our 2010 Annual Report on Form 10-K.

On October 16, 2011, we announced a definitive agreement with Kinder Morgan, Inc. (KMI) whereby KMI will acquire El Paso Corporation (El Paso) in a transaction that values El Paso at approximately $38 billion, including the assumption of debt. The transaction has been approved by each of our and KMI s board of directors. The completion of the transaction is subject to satisfaction or waiver of certain closing conditions including, among others, customary regulatory approvals, approval of the transaction by our stockholders and approval of the issuance of KMI stock and warrants by KMI s stockholders. A voting agreement has been executed by certain stockholders of KMI, holding approximately 75% of the voting power of KMI, in which such stockholders have agreed to vote in favor of the merger and issuance of KMI stock and warrants. The completion of the merger will constitute a change of control for El Paso that may trigger change in control provisions in certain agreements (e.g., debt) to which we are a party. KMI has announced that they intend to sell our exploration and production assets and as such, we will no longer pursue the tax-free spin-off of our exploration and production business into a new publicly traded company.

Upon the merger, El Paso shareholders will receive a combination of Class P shares of common stock of KMI, common stock purchase warrants of KMI and cash. Each share of El Paso common stock (excluding any shares held by KMI or its subsidiaries or by El Paso and dissenting shares in accordance with Delaware law), will, at the effective time of the merger, be converted into the right to receive, at the election of the holder but subject to pro-ration with respect to the stock and cash portion such that approximately 57% of the aggregate merger consideration (excluding the warrants) is paid in cash and approximately 43% (excluding the warrants) is paid in Class P common stock of KMI, par value $0.01 per share (the KMI Class P Common Stock): (i) 0.9635 of a share of KMI Class P Common Stock and 0.640 of a common stock purchase warrant of KMI (a KMI Warrant), (ii) $25.91 in cash without interest and 0.640 of a KMI Warrant or (iii) 0.4187 of a share of KMI Class P Common Stock, $14.65 in cash without interest and 0.640 of a KMI Warrant. Each KMI Warrant will entitle its holder to purchase one share of KMI Class P Common Stock at an exercise price of $40.00 per share, subject to certain adjustments, at any time during the five-year period following the closing of the merger.

Significant Accounting Policies

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

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2. Divestitures

During 2011, we sold non-core oil and natural gas properties located in our Central, Western and Southern divisions in several transactions from which we received proceeds that totaled approximately $570 million. During 2010, we also sold non-core natural gas producing properties located in our Southern division for approximately $22 million. No gain or loss was recorded on the sale of the oil and gas properties in either year. Additionally, during the nine months ended September 30, 2010 we completed the sale of certain of our interests in Mexican pipeline and compression assets for approximately $300 million and recorded a pretax gain of approximately $80 million in earnings from unconsolidated affiliates.

3. Ceiling Test Charges

We are required to conduct quarterly impairment tests of our capitalized costs in each of our full cost pools. During the quarters and nine months ended September 30, 2011 and 2010, we recorded the following ceiling test charges:

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In millions)			
Full cost pool:				
Brazil	$ 152	$	$ 152	$
Egypt		14		16
Total	$ 152	$ 14	$ 152	$ 16

Our Brazilian charge was driven, in part, by the release of certain unevaluated costs into the Brazilian full cost pool primarily as a result of the recent denial of a necessary environmental permit. See Note 8 for a further discussion. We may incur additional ceiling test charges in Brazil in the future depending on the value of our proved reserves, which are subject to change as a result of factors such as prices, costs and well performance. Additionally, we may incur ceiling test charges in Egypt depending on the results of our activities in that country.

4. Other Income, Net

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In millions)			
Other Income, Net				
Allowance for equity funds used during construction	$ 16	$ 55	$ 187	$ 156
Other	(11)	16	(1)	32
Total	$ 5	$ 71	$ 186	$ 188

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

5. Income Taxes

Income taxes for the quarters and nine months ended September 30 were as follows:

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
		(In millions, except rates)		
Income tax expense (benefit)	$ (130)	$ 75	$ (73)	$ 343
Effective tax rate	31%	29%	(67)%	30%

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

For the quarter ended September 30, 2011, our effective tax rate was significantly impacted by income attributable to nontaxable noncontrolling interests and a Brazilian ceiling test charge without a corresponding U.S. or Brazilian tax benefit (deferred tax benefits related to the Brazilian ceiling test charge were offset by an equal valuation allowance).

For the nine months ended September 30, 2011, our income taxes included in net income differs from the amount computed by applying the statutory federal income tax rate of 35 percent for the following reasons:

		September 30, 2011 (In millions, except rates)
Income taxes at the statutory federal rate of 35%	$	38
Increase (decrease)		
Income attributable to nontaxable noncontrolling interests		(92)
Foreign income taxed at different rates		45
State income taxes, net of federal income tax effect		(31)
Earnings from unconsolidated affiliates where we anticipate receiving dividends		(29)
Other		(4)
Income tax expense (benefit)	$	(73)
Effective tax rate		(67)%

Foreign income taxed at different rates in the table above includes $53 million related to the impact of the Brazilian ceiling test charge without a corresponding U.S. or Brazilian tax benefit (deferred tax benefits related to the Brazilian ceiling test charge were offset by an equal valuation allowance) and the favorable resolution of certain tax matters in the first half of 2011. *State income taxes, net of federal income tax effect* in the table above includes the state tax benefit associated with the third quarter non-cash loss on the deconsolidation of Ruby (see Note 15) and the favorable resolution of certain tax matters in the first half of 2011.

In the fourth quarter of 2011, we will record a significant deferred state tax benefit of approximately $65 million due to an expected reduction to state tax rates as a result of a conversion of a subsidiary to a limited liability company on October 1, 2011.

For the quarter and nine months ended September 30, 2010, our effective tax rate was impacted by income attributable to nontaxable noncontrolling interests and the liquidation of certain foreign entities. Also impacting our effective tax rate for the nine months ended September 30, 2010 was the sale of certain of our interests in Mexican pipeline and compression assets. Partially offsetting these items was $18 million of additional deferred income tax expense recorded in the first quarter of 2010 from healthcare legislation enacted in March 2010.

Unrecognized Tax Benefits. We believe it is reasonably possible that the total amount of unrecognized tax benefits (including interest and penalty) could decrease by as much as $70 million over the next 12 months as a result of the anticipated favorable resolution of certain tax matters.

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6. Earnings Per Share

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

Quarters Ended September 30,

	2011		2010	
	Basic	Diluted	Basic	Diluted
	(In millions, except per share amounts)			
Net income (loss) attributable to El Paso Corporation	$ (368)	$ (368)	$ 142	$ 142
Preferred stock dividends of El Paso Corporation			(9)	
Net income (loss) attributable to El Paso Corporation s common stockholders	$ (368)	$ (368)	$ 133	$ 142
Weighted average common shares outstanding	764	764	699	699
Effect of dilutive securities:				
Options and restricted stock				5
Convertible preferred stock				58
Weighted average common shares outstanding and dilutive securities	764	764	699	762
Basic and diluted earnings (loss) per common share:				
Net income (loss) attributable to El Paso Corporation s common stockholders	$ (0.48)	$ (0.48)	$ 0.19	$ 0.19

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Nine Months Ended September 30,

	2011		2010	
	Basic	Diluted	Basic	Diluted
	(In millions, except per share amounts)			
Net income (loss) attributable to El Paso Corporation	$ (44)	$ (44)	$ 687	$ 687
Preferred stock dividends of El Paso Corporation			(28)	
Net income (loss) attributable to El Paso Corporation s common stockholders	$ (44)	$ (44)	$ 659	$ 687
Weighted average common shares outstanding	747	747	698	698
Effect of dilutive securities:				
Options and restricted stock				5
Convertible preferred stock				58
Weighted average common shares outstanding and dilutive securities	747	747	698	761
Basic and diluted earnings (loss) per common share:				
Net income (loss) attributable to El Paso Corporation s common stockholders	$ (0.06)	$ (0.06)	$ 0.95	$ 0.90

We exclude potentially dilutive securities from the determination of diluted earnings per share (as well as their related income statement impacts) when their impact on net income attributable to El Paso Corporation per common share is antidilutive. Our potentially dilutive securities consist of employee stock options, restricted stock, trust preferred securities and convertible preferred stock. In March 2011, we converted our preferred stock to common stock as further described in Note 12. For the quarters and nine months ended September 30, 2011, we incurred losses attributable to El Paso Corporation and, accordingly, excluded all potentially dilutive securities from the determination of diluted earnings per share. For the quarter and nine months ended September 30, 2010, certain of our employee stock options and our trust preferred securities were antidilutive.

7. Financial Instruments

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

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Long-term financing obligations, including current maturities	$ 12,881	$ 14,230	$ 14,006	$ 14,686
Marketable securities in non-qualified compensation plans	20	20	20	20
Commodity-based derivatives	(45)	(45)	(186)	(186)
Interest rate derivatives	(13)	(13)	(61)	(61)
Other	(11)	(11)	(11)	(11)

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

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

Production-Related Commodity Based Derivatives. As of September 30, 2011 and December 31, 2010, we have production-related derivatives (oil and natural gas swaps, collars, basis swaps and option contracts) to mitigate a portion of our commodity price risk and stabilize cash flows associated with forecasted sales of oil and natural gas production on 15,956 MBbl and 12,240 MBbl of oil and 149 TBtu and 283 TBtu of natural gas. None of these contracts are designated as accounting hedges.

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

Interest Rate Derivatives. We have long-term debt with variable interest rates that exposes us to changes in market-based interest rates. As of September 30, 2011 and December 31, 2010, we had interest rate swaps that are designated as cash flow hedges that effectively convert the interest rate on approximately $0.2 billion and $1.3 billion of debt from a floating LIBOR interest rate to a fixed interest rate. The majority of the balance at December 31, 2010 related to interest rate swaps on $1.1 billion of Ruby debt. These hedges began accruing interest on June 30, 2011 and have termination dates ranging from June 2013 to June 2017 which correspond to the estimated principal outstanding on the Ruby debt over the term of these swaps. In connection with the deconsolidation of Ruby, these interest rate swaps and the related accumulated other comprehensive loss are no longer reflected on our balance sheet. For a further discussion of Ruby, see Note 15.

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

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

	September 30, 2011				December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Commodity-based derivatives								
Production-related oil and natural gas derivatives	$	$ 379	$	$ 379	$	$ 373	$	$ 373
Other natural gas derivatives		74	16	90		139	18	157
Power-related derivatives			16	16			31	31
Total commodity-based derivative assets		453	32	485		512	49	561
Interest rate derivatives designated as hedges								
Fair value hedges		3		3		8		8
Impact of master netting arrangements		(113)	(10)	(123)		(229)	(14)	(243)
Total price risk management assets	$	$ 343	$ 22	$ 365	$	$ 291	$ 35	$ 326
Marketable securities in non-qualified compensation plans	20			20	20			20
Total net assets	$ 20	$ 343	$ 22	$ 385	$ 20	$ 291	$ 35	$ 346
Liabilities								
Commodity-based derivatives								
	$	$ (83)	$	$ (83)	$	$ (136)	$	$ (136)

Production-related oil and natural gas derivatives								
Other natural gas derivatives		(88)	(56)	(144)		(162)	(90)	(252)
Power-related derivatives			(303)	(303)			(359)	(359)
Total commodity-based derivative liabilities		(171)	(359)	(530)		(298)	(449)	(747)
Interest rate derivatives designated as hedges								
Cash flow hedges		(16)		(16)		(69)		(69)
Impact of master netting arrangements		113	10	123		229	14	243
Total price risk management liabilities	$	$ (74)	$ (349)	$ (423)	$	$ (138)	$ (435)	$ (573)
Other			(12)	(12)			(12)	(12)
Total net liabilities	$	$ (74)	$ (361)	$ (435)	$	$ (138)	$ (447)	$ (585)
Total	$ 20	$ 269	$ (339)	$ (50)	$ 20	$ 153	$ (412)	$ (239)

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

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

	Balance at Beginning of Period	Change in Fair Value Reflected in Operating Revenues[1]	Change in Fair Value Reflected in Operating Expenses[2]	Settlements	Balance at End of Period
			(In millions)		
Quarter Ended September 30, 2011					
Assets	$ 28	$ (5)	$	$ (1)	$ 22
Liabilities	(396)	4	(1)	32	(361)
Total	$ (368)	$ (1)	$ (1)	$ 31	$ (339)
Nine Months Ended September 30, 2011					
Assets	$ 35	$ (11)	$	$ (2)	$ 22
Liabilities	(447)	1	(7)	92	(361)
Total	$ (412)	$ (10)	$ (7)	$ 90	$ (339)

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

(2) Includes approximately $1 million and $5 million of net losses that had not been realized through settlements for the quarter and nine months ended September 30, 2011.

Below are the impacts of our commodity-based and interest rate derivatives to our statements of income and statements of comprehensive income for the quarters and nine months ended September 30:

	2011			2010		
	Operating Revenues	Interest Expense	Other Comprehensive Income (Loss)	Operating Revenues	Interest Expense	Other Comprehensive Income (Loss)
			(In millions)			
Quarters ended September 30,						
Production-related derivatives	$ 251	$	$ 2	$ 184	$	$ 2
Other natural gas and power derivatives	(1)			(14)		
Total interest rate derivatives		12	84(1)		4	(43)

Total	$	250	$	12	$	86	$	170	$	4	$	(41)