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, 2004

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 333-106586

El Paso Production Holding Company

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**76-0659544** (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**

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 ☐ No ☑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ 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, par value $1 per share. Shares outstanding on October 28, 2004: 1,000

EL PASO PRODUCTION HOLDING COMPANY

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

/d	= per day	Mcf	= thousand cubic feet
Bbl	= barrels	Mcfe	= thousand cubic feet of natural gas equivalents
Bcfe	= billion cubic feet of natural gas equivalents	MMcf	= million cubic feet
MBbls	= thousand barrels	MMcfe	= million cubic feet of natural gas equivalents

When we refer to natural gas and oil 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. Oil includes natural gas liquids unless otherwise specified. 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", or "El Paso Production", we are describing El Paso Production Holding Company and/or our subsidiaries.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

EL PASO PRODUCTION HOLDING COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions)
(Unaudited)

	Quarter Ended March 31,	
	2004	2003 (Restated)
Operating revenues	$ 219	$ 303
Operating expenses		
Cost of sales	9	15
Operation and maintenance	47	48
Depreciation, depletion and amortization	93	112
Taxes, other than income taxes	6	11
	155	186
Operating income	64	117
Earnings from unconsolidated affiliates	—	9
Affiliated interest income	5	2
Other expense, net	—	(2)
Interest expense	(18)	(5)
Income before income taxes	51	121
Income taxes	18	54
Income from continuing operations	33	67
Cumulative effect of accounting change, net of income taxes	—	1
Net income	$ 33	$ 68

See accompanying notes.

EL PASO PRODUCTION HOLDING COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)
(Unaudited)

	March 31, 2004	December 31, 2003
ASSETS		
Current assets		
Cash and cash equivalents	$ 125	$ 34
Accounts and notes receivable		
Customer, net of allowance of $6 in 2004 and 2003	80	66
Affiliates	458	451
Other	4	4
Deferred income taxes	88	70
Other	8	11
Total current assets	763	636
Property, plant and equipment, at cost		
Natural gas and oil properties		
Proved properties-full cost method	7,188	7,074
Unevaluated costs excluded from amortization	249	252
Other	126	123
	7,563	7,449
Less accumulated depreciation, depletion and amortization	5,231	5,141
Total property, plant and equipment, net	2,332	2,308
Other assets		
Notes receivable from affiliates	247	295
Deferred income taxes	196	204
Other	35	36
	478	535
Total assets	$ 3,573	$3,479
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable		
Trade	$ 81	$ 63
Affiliates	42	7
Other	38	79
Liabilities from price risk management activities	223	173
Income tax payable to affiliate	106	118
Other	57	30
Total current liabilities	547	470
Long-term debt	1,200	1,200
Other		
Liabilities from price risk management activities	304	270
Other	76	76
	380	346
Commitments and contingencies		
Stockholder's equity		
Common stock, par value $1 per share; 1,000 shares authorized and outstanding	—	—
Additional paid-in capital	1,700	1,700
Retained earnings	64	31
Accumulated other comprehensive loss	(318)	(268)
Total stockholder's equity	1,446	1,463
Total liabilities and stockholder's equity	$ 3,573	$3,479

See accompanying notes.

EL PASO PRODUCTION HOLDING COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Quarter Ended March 31, 2004	Quarter Ended March 31, 2003 (Restated)[1]
Cash flows from operating activities		
Net income	$ 33	$ 68
Adjustments to reconcile net income to net cash from operating activities		
Depreciation, depletion and amortization	93	112
Deferred income tax expense (benefit)	18	(135)
Earnings from unconsolidated affiliates	—	(9)
Other non-cash income items	6	11
Asset and liability changes	36	119
Net cash provided by operating activities	186	166
Cash flows from investing activities		
Capital expenditures	(145)	(221)
Net proceeds from the sale of assets and investments	—	501
Change in notes receivable from parent	50	(387)
Change in restricted cash	—	(14)
Net cash used in investing activities	(95)	(121)
Cash flows from financing activities		
Net proceeds from the issuance of long-term debt	—	1,185
Dividends to parent	—	(1,236)
Net cash used in financing activities	—	(51)
Change in cash and cash equivalents	91	(6)
Cash and cash equivalents		
Beginning of period	34	156
End of period	$ 125	$ 150

[1] Cash flows from operating, investing and financing activities have been restated. However, only individual line items in cash flows from operating activities were restated. Overall cash flows were unaffected.

See accompanying notes.

EL PASO PRODUCTION HOLDING COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Quarter Ended March 31,	
	2004	2003 (Restated)
Net income	$ 33	$ 68
Net gains (losses) from cash flow hedging activities:		
Unrealized mark-to-market losses arising during period (net of income taxes of $49 in 2004 and $73 in 2003)	(85)	(123)
Reclassification adjustments for changes in initial value to the settlement date (net of income taxes of $21 in 2004 and $40 in 2003)	35	66
Other comprehensive loss	(50)	(57)
Comprehensive income (loss)	$ (17)	$ 11

See accompanying notes.

EL PASO PRODUCTION HOLDING COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Events Update

We are a wholly-owned direct subsidiary of El Paso Corporation (El Paso). We prepared this Quarterly Report on Form 10-Q under the rules and regulations of the United States Securities and Exchange Commission (SEC). Because this is an interim period filing presented using a condensed format, it does not include all of the disclosures required by generally accepted accounting principles. You should read this Quarterly Report on Form 10-Q along with our 2003 Annual Report on Form 10-K, which includes a summary of our significant accounting policies and other disclosures. The financial statements as of March 31, 2004, and for the quarters ended March 31, 2004 and 2003, are unaudited. We derived the balance sheet as of December 31, 2003, from the audited balance sheet filed in our 2003 Annual Report on Form 10-K. Our results for the quarter ended March 31, 2003 have been restated to reflect the accounting impact of a reduction in our historically reported proved natural gas and oil reserves and to reclassify our historical statements of cash flows for amounts provided to El Paso under the cash management program. These restatements are further discussed in our 2003 Annual Report on Form 10-K. In our opinion, we have made all adjustments which are of a normal, recurring nature to fairly present our interim period results. Due to the seasonal nature of our business, information for interim periods may not be indicative of our results of operations for the entire year.

Liquidity Update

El Paso is a significant potential source of liquidity to us. We participate in El Paso's cash management program. Under this program, depending on whether we have short-term cash requirements or surpluses, El Paso provides cash to us or we can provide cash to El Paso subject to limitations in our indenture. We have historically provided cash to El Paso under this program, and as of March 31, 2004, we had a receivable from El Paso of $638 million, of which $391 million is classified as a current asset in our balance sheet. If El Paso were unable to meet its liquidity needs, we would not have access to this source of liquidity and there is no assurance that El Paso could repay the entire amount owed to us. In that event, we could be required to write-off some amount of these advances, which could have a material impact on our stockholder's equity and, if demanded, we might still be required to repay affiliated company payables. In addition, based on our current estimates of cash flows, we believe we will seek repayment of a portion of these advances in the next twelve months.

If El Paso were subject to voluntary or involuntary bankruptcy proceedings, El Paso and its other subsidiaries and their creditors could attempt to make claims against us, including claims to substantively consolidate our assets and liabilities with those of El Paso and its other subsidiaries. We believe that claims to substantively consolidate us with El Paso and/or its other subsidiaries would be without merit. However, there is no assurance that El Paso and/or its other subsidiaries or their creditors would not advance such a claim in a bankruptcy proceeding. If we were to be substantively consolidated in a bankruptcy proceeding with El Paso and/or its other subsidiaries, there could be a material adverse effect on our financial condition and our liquidity.

The restatements discussed above have resulted in or will result in a delay in filing our Forms 10-Q for the quarterly periods ended June 30, 2004 and September 30, 2004. Our indenture for our 7.75% senior unsecured notes due June 1, 2013 includes covenants that require us to file financial statements within specified time periods. Non-compliance with such covenants does not constitute an automatic event of default. Instead, the debt is subject to acceleration after any applicable cure periods have lapsed and the indenture trustee or the holders of at least 25 percent of the outstanding principal amount of debt under our indenture provide notice that the principal and accrued interest has been declared due and payable. In July 2004, we entered into an agreement approved by a majority of the holders of our 7.75% senior unsecured notes which provides for a waiver of the breach of our covenant to timely file our financial statements and is effective until

December 31, 2004. In connection with the waiver, we have agreed to modify the covenants under our indenture with respect to affiliated party transactions. In particular, the agreement prohibits certain affiliated party transactions in excess of $100 million if the transactions would have a negative effect on our ratio of debt to proved reserves or our ratio of debt to EBITDA (as defined in the indenture).

2. Significant Accounting Policies

Our accounting policies are consistent with those discussed in our 2003 Annual Report on Form 10-K.

Accounting for Asset Retirement Obligations

On January 1, 2003, we adopted Statement of Financial Accounting Standard No. 143, *Accounting for Asset Retirement Obligations.* This standard required that we record a liability for retirement and removal costs of long-lived assets used in our business. In the first quarter of 2003, we recorded a charge as a cumulative effect of an accounting change of approximately $1 million, net of income taxes related to its adoption.

New Accounting Pronouncement Not Yet Adopted

In September 2004, the SEC issued Staff Accounting Bulletin No. 106. This pronouncement will require companies that use the full cost method for accounting for their oil and gas producing activities to include an estimate of future asset retirement costs to be incurred as a result of future development activities on proved reserves in their calculation of depreciation, depletion and amortization. It will also require companies to exclude any future cash outflows associated with settling asset retirement liabilities from their full cost ceiling test calculation. This standard requires that companies disclose the impact of their asset retirement obligations on their oil and gas producing activities, ceiling test calculations and depreciation, depletion and amortization calculations. We will adopt the provisions of this pronouncement in the fourth quarter of 2004 and are currently evaluating its impact, if any, on our consolidated financial statements.

3. Debt

Our restrictive covenants are discussed in our 2003 Annual Report on Form 10-K. For an update of matters that have or could impact these covenants including the restatement of our historical financial statements and associated waivers obtained, see Note 1 of this Quarterly Report on Form 10-Q.

4. Commitments and Contingencies

Legal Proceedings

Grynberg. A number of El Paso entities, including our subsidiary, El Paso Production Company, are named defendants in actions filed in 1997 brought by Jack Grynberg on behalf of the U.S. Government under the False Claims Act. Generally, these complaints allege an industry-wide conspiracy to underreport the heating value as well as the volumes of the natural gas produced from federal and Native American lands, which deprived the U.S. Government of royalties. The plaintiff in this case seeks royalties that he contends the government should have received had the volume and heating value been differently measured, analyzed, calculated and reported, together with interest, treble damages, civil penalties, expenses and future injunctive relief to require the defendants to adopt allegedly appropriate gas measurement practices. No monetary relief has been specified in this case. These matters have been consolidated for pretrial purposes (In re: Natural Gas Royalties *Qui Tam* Litigation, U.S. District Court for the District of Wyoming, filed June 1997). Discovery is proceeding. Our costs and legal exposure related to these lawsuits and claims are not currently determinable.

Will Price (formerly Quinque). A number of El Paso entities, including our subsidiary, El Paso Production Company, are named as defendants in *Will Price et al v. Gas Pipelines and Their Predecessors, et al.*, filed in 1999 in the District Court of Stevens County, Kansas. Plaintiffs allege that the defendants mismeasured natural gas volumes and heating content of natural gas on non-federal and non-Native American lands and seek to recover royalties that they contend they should have received had the volume and heating value of natural gas produced from their properties been differently measured, analyzed, calculated and reported, together with prejudgment and postjudgment interest, punitive damages, treble damages, attorneys' fees, costs and expenses, and future injunctive relief to require the defendants to adopt allegedly appropriate gas measurement practices. No monetary relief has been specified in this case. Plaintiffs' motion for class certification of a nationwide class of natural gas working interest owners and natural gas royalty owners was denied on April 10, 2003. Plaintiffs were granted leave to file a Fourth Amended Petition, which narrows the proposed class to royalty owners in wells in Kansas, Wyoming and Colorado and removes claims as to heating content. A second class action petition has since been filed as to the heating content claims. Our costs and legal exposure related to these lawsuits and claims are not currently determinable.

Black Warrior Methane. In September 2001, an explosion at the Brookwood Coal Mine #5 in Tuscaloosa, Alabama resulted in 13 fatalities and numerous other injuries. El Paso has no ownership interest in the mine. However, we are a 50 percent stockholder in Black Warrior Methane Corporation, which was involved in the extraction of methane from the mine, and which is a named defendant in 22 of the lawsuits filed to date. In addition, we have been added as a defendant in several of the cases. There has been no substantive discovery conducted to date.

Reserve Revisions. In March 2004, El Paso received a subpoena from the SEC requesting documents relating to its December 31, 2003 natural gas and oil reserve revisions. El Paso and its Audit Committee have also received federal grand jury subpoenas for documents regarding these reserve revisions. We are assisting El Paso and its Audit Committee in their efforts to cooperate with the SEC's and the U.S. Attorney's investigations into this matter.

In addition to the above matters, we and our subsidiaries and affiliates are named defendants in numerous lawsuits and governmental proceedings that arise in the ordinary course of our business.

For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies and the likelihood of an unfavorable outcome. If we determine that an unfavorable outcome is probable and can be estimated, we establish the necessary accruals. As this information becomes available, or other relevant developments occur, we will adjust our accrual amounts accordingly. While there are still uncertainties related to the ultimate costs we may incur, based upon our evaluation and experience to date, we believe our current reserves are adequate. As of March 31, 2004, we had approximately $3 million accrued for all outstanding legal matters.

Environmental Matters

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites. As of March 31, 2004, we had no accrual for remediation costs and associated onsite, offsite and groundwater technical studies or for related environmental legal costs.

Air Permit Violation. On March 21, 2003, the Louisiana Department of Environmental Quality (LDEQ) issued a Consolidated Compliance Order and Notice of Potential Penalty to our subsidiary, El Paso Production Company, alleging that it failed to timely obtain air permits for specified oil and gas facilities. El Paso Production Company requested an adjudicatory hearing on the matter. The hearing has been stayed by agreement to allow El Paso Production Company and LDEQ time to possibly settle this matter. The amount of any penalty to be sought by LDEQ, if any, has not been specified.

It is possible that new information or future developments could require us to reassess our potential exposure related to environmental matters. We may incur significant costs and liabilities in order to comply with existing environmental laws and regulations. It is also possible that other developments, such as increasingly strict environmental laws and regulations and claims for damages to property, employees, other persons and the environment resulting from our current or past operations, could result in substantial costs and liabilities in the future. As this information becomes available, or other relevant developments occur, we will adjust our accrual amounts accordingly. While there are still uncertainties relating to the ultimate costs we may incur, based upon our evaluation and experience to date, we believe no reserves are required at this time.

5. Investments in Unconsolidated Affiliates and Related Party Transactions

Investments in Unconsolidated Affiliates

Our investment in unconsolidated affiliate was $6 million at March 31, 2004 and December 31, 2003. Our investment consist of our equity ownership interest in Black Warrior Transmission Corporation. We recognized equity earnings of less than $1 million for the quarter ended March 31, 2004. Our 2003 equity earnings of $9 million included income from our investments in Noric L.L.C. and Clydesdale Associates, L.P. We sold our interest in Noric Holdings I in April 2003, which held these investments.

Related Party Transactions

Affiliate Receivables and Payables

We sell our natural gas primarily to affiliates of El Paso at spot-market prices. Accounts receivable due from affiliates at March 31, 2004 and December 31, 2003, was $67 million and $58 million. Accounts payable due to affiliates at March 31, 2004 and December 31, 2003 was $42 million and $7 million. These affiliate receivables and payables were created in the normal course of business. Additionally, we recorded a $106 million and $118 million income tax payable to affiliate as of March 31, 2004 and December 31, 2003 for our allocated portion of El Paso's income taxes.

Cash Management Program and Other Affiliate Transactions

We participate in El Paso's cash management program which matches short-term cash surpluses and needs of its participating affiliates, thus minimizing total borrowing from outside sources. At March 31, 2004 and December 31, 2003, we had receivables from El Paso of $638 million and $688 million, of which $391 million and $393 million are classified as current notes receivables from affiliates on our balance sheets. We also recognized affiliated interest income of $5 million and $2 million for the quarters ended March 31, 2004 and 2003 on our advances to El Paso under the cash management program.

We enter into a number of transactions with our affiliates in the ordinary course of conducting our business. The following table shows revenues and charges to/from our affiliates for the quarters ended March 31:

	2004	2003
	(In millions)	
Operating revenues	$124	$140
Operations and maintenance expenses to affiliates	22	33
Operations and maintenance expenses from affiliates	24	39

We are a party to a master hedging contract with El Paso Merchant Energy L.P., (El Paso Merchant Energy), a wholly-owned subsidiary of El Paso. Pursuant to that agreement, we hedge a portion of our natural gas production with El Paso Merchant Energy. Realized gains and losses on these hedges are included in operating revenues.

Dividends

During the first quarter of 2003, we paid dividends of $1.4 billion to El Paso, of which $0.2 billion was non-cash. These dividends primarily related to the Red River transaction discussed in our 2003 Annual Report on Form 10-K.

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

The information contained in Item 2 updates, and should be read in conjunction with information disclosed in our 2003 Annual Report on Form 10-K, and the financial statements and notes presented in Item 1 of this Quarterly Report on Form 10-Q. As discussed in our 2003 Annual Report on Form 10-K, we restated our historical financial statements to reflect the accounting impact of a reduction in our historically reported proved natural gas and oil reserves, to adjust two transactions related to historical hedges of our natural gas production to their fair market value and to reclassify our historical statements of cash flows for amounts provided to El Paso under the cash management program.

Liquidity and Capital Resources

Liquidity Update

We rely on cash generated from our internal operations and advances from El Paso through its cash management program as our primary sources of liquidity, as well as asset sales and capital contributions from El Paso. We expect that our future funding for working capital needs, capital expenditures, dividends and debt service will continue to be provided from some or all of these sources. Each of these sources are impacted by factors that influence the overall amount of cash generated by us and the capital available to us. For example, cash generated by our business operations may be impacted by changes in commodity prices or demands for our commodities or services due to weather patterns, competition from other providers or alternative energy sources. Liquidity generated by future asset sales may depend on the overall economic conditions of the industry served by these assets, the condition and location of the assets and the number of interested buyers.

Under El Paso's cash management program, depending on whether we have short-term requirements or cash surpluses, we either provide cash to El Paso, subject to limitations under our indenture, or El Paso provides cash to us. As of March 31, 2004, we had receivables from El Paso under the cash management program of $638 million, of which $391 million is classified as current assets on our balance sheet. Our ability to continue to rely on cash advances from El Paso can be impacted by restrictive covenants in our indenture, El Paso's credit standing, El Paso's requirements to repay debt and other financing obligations and the cash demands from other parts of its business. In addition, we conduct commercial transactions with some of our affiliates, including conducting hedging activities with, and selling a portion of the natural gas we produce to El Paso Merchant Energy. As of March 31, 2004, we have receivables of approximately $67 million from El Paso affiliates. If El Paso is unable to meet its liquidity needs, there can be no assurance that we will be able to access cash under the cash management program or that our affiliates would pay their obligations to us. In that event, we could be required to write-off some amount of these advances, which could have a material impact on our stockholder's equity and we might still be required to satisfy affiliated company payables if demanded. Our inability to recover any intercompany receivables owed to us could adversely affect our ability to repay our outstanding indebtedness.

If El Paso were subject to voluntary or involuntary bankruptcy proceedings, El Paso and its other subsidiaries and their creditors could attempt to make claims against us, including claims to substantively consolidate our assets and liabilities with those of El Paso and its other subsidiaries. We believe that claims to substantively consolidate us with El Paso and/or its other subsidiaries would be without merit. However, there is no assurance that El Paso and/or its other subsidiaries or their creditors would not advance such a claim in a bankruptcy proceeding. If we were to be substantively consolidated in a bankruptcy proceeding with El Paso and/or its other subsidiaries, there could be a material adverse effect on our financial condition and our liquidity.

We believe we will generate sufficient funds through our operations, asset sales and repayments by El Paso of advances under the cash management program to meet all of our cash needs as discussed below.

The restatements discussed above resulted in or will result in a delay in filing our Forms 10-Q for the quarterly periods ended June 30, 2004 and September 30, 2004. Our indenture for our 7.75% senior unsecured notes due June 1, 2013, includes covenants that require us to file financial statements within specified time periods. Non-compliance with such covenants does not constitute an automatic event of default. Instead, the debt is subject to acceleration after any applicable cure periods have lapsed and the indenture trustee or the holders of at least 25 percent of the outstanding principal amount of debt under our indenture provide notice that the principal and accrued interest has been declared due and payable. In July 2004, we entered into an agreement approved by a majority of the holders of our 7.75% senior unsecured notes which provides for a waiver of the breach of our covenant to timely file our financial statements and is effective until December 31, 2004. In connection with the waiver, we have agreed to modify the covenants under our indenture with respect to affiliated party transactions. In particular, the agreement prohibits certain affiliated party transactions in excess of $100 million if the transactions would have a negative effect on our ratio of debt to proved reserves or our ratio of debt to EBITDA (as defined in the indenture).

Our cash flows for the quarters ended March 31 were as follows:

	Quarter Ended	
	2004	2003
	(In millions)	
Cash flows from operating activities	$ 186	$ 166
Cash flows from investing activities	(95)	(121)
Cash flows from financing activities	—	(51)

Cash Flows from Operating Activities

Overall, cash generated from our operating activities increased by $20 million from the first quarter of 2003. Decreases in operating cash flows due to lower natural gas and oil production in 2004 as a result of asset sales in 2003 and normal production declines were more than offset by changes in the timing of settlement of operating assets and liabilities quarter over quarter.

Cash Flows from Investing Activities

Net cash used in our investing activities was $95 million for the three months ended March 31, 2004. Our investing activities consisted primarily of capital expenditures of $145 million, offset by a partial repayment of $50 million from El Paso for amounts advanced to El Paso under the cash management program.

Our capital expenditures were $303 million for the first nine months of 2004. Under our current plan, we expect to spend between $400 million and $450 million annually which will be funded through a combination of internally generated funds and, if needed, repayment by El Paso of advances under the cash management program. These capital expenditures will be spent on acquisition, development, and exploration projects.

Operational Update

For the first quarter of 2004, our total equivalent production declined approximately 19 Bcfe or 27 percent as compared to the same period in 2003. This decline was caused by asset sales in 2003 primarily in Oklahoma, Texas and offshore Gulf of Mexico and normal production declines. For the first nine months of 2004, our production averaged approximately 470 MMcfe/d; however, for the month of September 2004 daily production averaged approximately 386 MMcfe/d. Our production levels are dependent upon the amount of capital allocated to us, the level of success in our drilling programs and any future asset sales or acquisitions. Based on the finding and development costs experienced in our 2004 drilling program, we expect our unit of production depletion rate to increase from $1.72 per Mcfe during the first quarter 2004 to $1.80 per Mcfe for the second quarter of 2004 and to $1.87 per Mcfe for the third quarter of 2004.

Production Hedging

We primarily conduct our hedging activities with El Paso Merchant Energy through natural gas and oil derivatives on our natural gas and oil production to stabilize cash flows and reduce the risk of downward commodity price movements on our sales. Because this hedging strategy only partially reduces our exposure to downward movements in commodity prices, our reported results of operations, financial position and cash flows can be impacted significantly by movements in commodity prices from period to period. For a further discussion of our hedging program and additional hedges put in place in May 2004, refer to our 2003 Annual Report on Form 10-K.

Results of Operations

Our management, as well as El Paso's management, uses earnings before interest and income taxes (EBIT) to assess the operating results and effectiveness of our business. We define EBIT as net income adjusted for (i) items that do not impact our income from continuing operations, such as the impact of accounting changes, (ii) income taxes, (iii) interest and debt expense and (iv) affiliated interest income. Our business consists of consolidated operations as well as investments in unconsolidated affiliates. We exclude interest and debt expense from this measure so that our investors may evaluate our operating results without regard to our financing methods. We believe EBIT is helpful to our investors because it allows them to more effectively evaluate the operating performance of both our consolidated business and our unconsolidated investments using the same performance measure analyzed internally by our management. EBIT may not be comparable to measurements used by other companies. Additionally, EBIT should be considered in conjunction with net income and other performance measures such as operating income or operating cash flow.

The following is a reconciliation of our operating income to our EBIT and our EBIT to our net income for each of the quarters ended March 31:

	2004	2003
	(In millions)	
Operating revenues	$ 219	$ 303
Operating expenses	(155)	(186)
Operating income	64	117
Earnings from unconsolidated affiliates	—	9
Other expense, net	—	(2)
EBIT	64	124
Affiliated interest income	5	2
Interest expense	(18)	(5)
Income taxes	(18)	(54)
Income from continuing operations	33	67
Cumulative effect of accounting changes, net of income taxes	—	1
Net income	$ 33	$ 68

Below are our operating results and an analysis of these results for the quarters ended March 31:

	2004	2003
	(In millions, except volumes and prices)	
Operating revenues:		
Natural gas	$ 179	$ 248
Oil, condensate and liquids	40	58
Other	—	(3)
Total operating revenues	219	303
Transportation and net product costs	(9)	(15)
Total operating margin	210	288
Operating expenses:		
Depreciation, depletion and amortization	(93)	(112)
Production costs[1]	(23)	(30)
General and administrative expenses, net of capitalized cost	(19)	(23)
Taxes, other than production and income taxes	(2)	(3)
Restructuring charges	(9)	(3)
Total operating expenses[2]	(146)	(171)
Operating income	64	117
Earnings from unconsolidated affiliates	—	9
Other expense, net	—	(2)
EBIT	$ 64	$ 124
Volumes, Prices and Costs per unit:		
Natural gas		
Volumes (MMcf)	40,924	56,787
Average realized prices including hedges ($/Mcf)[3]	$ 4.37	$ 4.37
Average realized prices excluding hedges ($/Mcf)[3]	$ 5.70	$ 6.71
Average transportation costs ($/Mcf)	$ 0.16	$ 0.20
Oil, condensate and liquids		
Volumes (MBbls)	1,511	1,963
Average realized prices including hedges ($/Bbl)[3]	$ 26.88	$ 29.31
Average realized prices excluding hedges ($/Bbl)[3]	$ 26.87	$ 30.81
Average transportation costs ($/Bbl)	$ 1.30	$ 1.08
Production costs ($/Mcfe)		
Average lease operating costs	$ 0.37	$ 0.33
Average production taxes	0.08	0.12
Total production costs[1]	$ 0.45	$ 0.45
Average general and administrative costs ($/Mcfe)	$ 0.38	$ 0.33
Unit of production depletion cost ($/Mcfe)	$ 1.72	$ 1.58

(1) Production costs include lease operating costs and production related taxes (including ad valorem and severance taxes).

(2) Transportation costs are included in operating expenses on our consolidated statements of income.

(3) Prices are stated before transportation costs.

EBIT. For the quarter ended March 31, 2004, EBIT was $60 million lower than the same period in 2003. The decrease is due primarily to lower production volumes as a result of asset sales and normal production declines. Partially offsetting these decreases to EBIT were lower operating expenses primarily due to lower depreciation, depletion and amortization.

Operating Revenues. The following table describes the variance in revenue between the quarters ended March 31, 2004 and 2003 due to: (i) changes in average realized market prices excluding hedges, (ii) changes in production volumes, and (iii) the effects of hedges on our revenues.

	Variance			
Production Revenue Variance Analysis	**Prices**	**Volumes**	**Hedges**	**Total**
		(In millions)		
Natural gas	$(41)	$(106)	$78	$(69)
Oil, condensate and liquids	(6)	(14)	2	(18)
Other				3
Total operating revenue variance	$(47)	$(120)	$80	$(84)

For the quarter ended March 31, 2004, operating revenues were $84 million lower than the same period in 2003 primarily due to lower production volumes. The decline in production volumes was primarily due to the sale of properties in 2003 in Oklahoma, Texas, and offshore Gulf of Mexico as well as normal production declines.

Average realized natural gas prices for the first quarter of 2004, excluding hedges, were $1.01 per Mcf lower than the same period in 2003, a decrease of 15 percent. However, more than offsetting the decrease in revenues due to lower natural gas prices were $55 million of hedging losses in 2004 as compared to $133 million of hedging losses in 2003 relating to our natural gas hedge positions. We expect to continue to incur hedging losses in 2004 based on current market prices for natural gas relative to the prices at which our natural gas production is hedged.

Operating Expenses. Total operating expenses were $25 million lower for the first quarter of 2004 as compared to the first quarter of 2003 primarily due to lower depreciation, depletion, and amortization expense, lower production costs, and lower general and administrative expenses. However these lower costs were partially offset by higher restructuring costs.

Total depreciation, depletion, and amortization expense decreased by $19 million in the first quarter of 2004 as compared to the same period in 2003. Lower production volumes in 2004 due to the asset sales and other production declines discussed above reduced our depreciation, depletion, and amortization expenses by $29 million. Partially offsetting this decrease were higher depletion rates due to higher finding and development costs which contributed an increase of $8 million.

Production costs decreased by $7 million in the first quarter of 2004 as compared to the same period in 2003 due to a decrease in production taxes resulting from high cost gas well tax credits in the first quarter of 2004 and due to lower commodity prices in 2004 compared to 2003. Production taxes decreased $0.04 per Mcfe in 2004. However, our total production costs per Mcfe remained the same between the first quarter of 2004 and 2003 as average lease operating costs increased $0.04 per Mcfe in 2004 primarily due to lower production volumes discussed above.

General and administrative expenses decreased $4 million in the first quarter of 2004 as compared to the same period in 2003 primarily due to lower corporate overhead allocations from El Paso, while the increase on a per unit basis was due to lower production volumes.

Earnings from Unconsolidated Affiliates

Earnings from unconsolidated affiliates for the quarter ended March 31, 2004, was $9 million lower than the same period in 2003 due to the sale of our interest in April 2003 of Noric Holdings I, which held our investments in Noric L.L.C. and Clydesdale Associates, L.P.

Interest Expense

Interest expense for the quarter ended March 31, 2004, was $13 million higher than the same period in 2003 due to the issuance in May 2003 of $1.2 billion of 7.75% senior unsecured notes.

Income Taxes

	Quarter Ended March 31,	
	2004	2003
	(In millions except for rates)	
Income taxes	$18	$54
Effective tax rate	35%	45%

Our effective tax rate for the quarter ended March 31, 2003 was different than the statutory rate of 35 percent primarily due to state income taxes on the sale of Oklahoma properties.

Commitments and Contingencies

See Item 1, Note 4, which is incorporated herein by reference.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this document that constitute forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning possible or assumed future results of operations. The words "believe," "expect," "estimate," "anticipate" and similar expressions will generally identify forward-looking statements. These statements may relate to information or assumptions about:

- capital and other expenditures;
- dividends;
- capital structure;
- liquidity and cash flow;
- credit ratings;
- pending legal proceedings, claims and governmental proceedings, including environmental matters;
- future economic performance;
- operating income;
- management's plans; and
- goals and objectives for future operations.

Forward-looking statements are subject to risks and uncertainties. While we believe the assumptions or bases underlying the forward-looking statements are reasonable and are made in good faith, we caution that assumed facts or bases almost always vary from actual results, and these variances can be material, depending upon the circumstances. We cannot assure you that the statements of expectation or belief contained in the forward-looking statements will result or be achieved or accomplished. Important factors that could cause actual results to differ materially from estimates or projections contained in forward-looking statements are described in our 2003 Annual Report on Form 10-K filed with the SEC on September 30, 2004.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

This information updates, and you should read it in conjunction with, information disclosed in our 2003 Annual Report on Form 10-K, in addition to the information presented in Items 1 and 2 of this Quarterly Report on Form 10-Q.

There are no material changes in our quantitative and qualitative disclosures about market risks from those reported in our 2003 Annual Report on Form 10-K.

Item 4. Controls and Procedures

During 2003, we initiated a project to ensure compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX), which will apply to us at December 31, 2005. This project entailed a detailed review and documentation of the processes that impact the preparation of our financial statements, an assessment of the risks that could adversely affect the accurate and timely preparation of those financial statements, and the identification of the controls in place to mitigate the risks of untimely or inaccurate preparation of those financial statements. Following the documentation of these processes, which was substantially concluded by December 2003, we initiated an internal review or "walk-through" of these financial processes by the financial management responsible for those processes to evaluate the design effectiveness of the controls identified to mitigate the risk of material misstatements occurring in our financial statements. We also initiated a detailed process to evaluate the operating effectiveness of our controls over financial reporting. This process involves testing the controls for effectiveness, including a review and inspection of the documentary evidence supporting the operation of the controls on which we are placing reliance.

In September 2004, we completed investigations surrounding matters that gave rise to a restatement of our historical financial statements for the period from 1999 to 2002 and the first nine months of 2003. These investigations identified a number of internal control weaknesses which we reported as material control weaknesses in our Annual Report on Form 10-K.

The following are the internal control deficiencies identified as a result of our SOX implementation and from the independent reviews that led to the restatements of our historical financial statements, which we have previously disclosed:

- A weak control environment surrounding the booking of our proved natural gas and oil reserves;
- Inadequate controls over access to our proved natural gas and oil reserve system;
- Inadequate documentation of policies and procedures related to booking proved natural gas and oil reserves;
- Inadequate documentation of accounting conclusions in prior periods related to complex accounting standards;
- Lack of formal documentation and communication of policies and procedures with respect to accounting matters;
- Ineffective monitoring activities to ensure compliance with existing policies, procedures and accounting conclusions;
- Lack of formal evidence to substantiate monitoring activities were adequately performed (e.g. monitoring activities, such as meetings and report reviews, were not always documented in a way to objectively confirm the monitoring activities occurred);
- Inadequate change management and security access to our information systems (e.g., program developers were allowed to migrate system changes into production, and passwords for some of our applications did not adhere to the corporate policy for effective passwords);
- Lack of proper segregation of duties related to manual journal entry preparation and procurement activities (e.g., our financial accounting system was not designed to prevent the same person from posting an entry that prepared the entry and a buyer of goods could also receive for the goods); and
- Untimely preparation and review of volume and account reconciliations.

We have communicated to El Paso's Audit Committee and to our external auditors the deficiencies identified to date in our internal controls over financial reporting as well as the remediation efforts that we have underway. We are committed to effectively remediating known deficiencies as expeditiously as possible and continue its extensive efforts to comply with Section 404 of SOX by December 31, 2005. Consequently, we have made the following changes to our internal controls:

- Added members to El Paso's Board of Directors, including its Audit Committee and its executive management team with extensive experience in the natural gas and oil industry;
- Formed a committee to provide oversight of the proved natural gas and oil reserve estimation process, which is staffed with appropriate technical, financial reporting and legal expertise;
- Continued use of an independent third-party reserve engineering firm, selected by and reporting annually to the Audit Committee of El Paso's Board of Directors to perform an independent assessment of our proved natural gas and oil reserves;
- Formed a centralized proved natural gas and oil reserve evaluation and reporting function staffed primarily with newly hired personnel that have extensive industry experience that is separate from the operating divisions and reports to our president;
- Restricted security access to the proved natural gas and oil reserve system to the centralized reserve reporting staff;
- Revised our documentation of procedures and controls for estimating proved natural gas and oil reserves;
- Enhanced internal audit reviews to monitor booking of proved natural gas and oil reserves;
- Implemented standard information system policies and procedures to enforce change management and segregation of responsibilities when migrating programming changes to production, and strengthened security policies and procedures around passwords for applications and databases;
- Modified systems and procedures to ensure appropriate segregation of responsibilities for manual journal entry preparation and procurement activities;
- Formalized our account reconciliation policy and timely completed all material account reconciliations; and
- Developed and implemented formal training to educate company personnel on management's responsibilities mandated by SOX Section 404, the components of the internal control framework on which we rely and the relationship to our company values including accountability, stewardship, integrity and excellence.

We are in the process of implementing the following changes to our internal controls and expect to have them implemented by December 31, 2004:

- Improved training regarding SEC guidelines for booking proved natural gas and oil reserves;
- Formal communication of procedures for documenting accounting conclusions involving interpretation of complex accounting standards, including identification of critical factors that support the basis for our conclusions;
- Evaluation, formalization and communication of required policies and procedures;
- Improved monitoring activities to ensure compliance with policies, procedures and accounting conclusions; and
- Review of the adequacy, proficiency and training of our finance and accounting staff.

As we continue our SOX Section 404 compliance efforts, including the testing of the effectiveness of our internal controls, we may identify additional deficiencies in our system of internal controls that either individually or in the aggregate may represent a material weakness requiring additional remediation efforts.

We did not make any changes to our internal controls over financial reporting during the quarter ended March 31, 2004, that have had a material adverse affect or are reasonably likely to have a material adverse affect on our internal controls over financial reporting. However, we have made significant changes to improve our internal controls during the quarter ended March 31, 2004, and subsequent to that date.

We also undertook a review of our overall disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As a result of the deficiencies described above, we concluded that our disclosure controls and procedures were not effective at March 31, 2004. However, to address the deficiencies in our internal controls, we expanded our disclosure controls and procedures to include additional analysis and other post-closing procedures to ensure our disclosure controls and procedures were effective over the preparation of these financial statements. Consequently, we concluded that our disclosure controls and procedures over the preparation of these financial statements were effective.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Item 1, Financial Statements, Note 4, which is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

a. Exhibits

Each exhibit identified below is filed as a part of this report. Exhibits not incorporated by reference to a prior filing are designated by an "*". All exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

Exhibit Number	Description
*31.A	Certification of Chief Executive Officer pursuant to sec. 302 of the Sarbanes-Oxley Act of 2002.
*31.B	Certification of Chief Financial Officer pursuant to sec. 302 of the Sarbanes-Oxley Act of 2002.
*32.A	Certification of Chief Executive Officer pursuant to 18 U.S.C. sec. 1350 as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002.
*32.B	Certification of Chief Financial Officer pursuant to 18 U.S.C. sec. 1350 as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002.

Undertaking

We hereby undertake, pursuant to Regulation S-K, Item 601(b), paragraph (4)(iii), to furnish to the U.S. Securities and Exchange Commission, upon request, all constituent instruments defining the rights of holders of our long-term debt not filed herewith for the reason that the total amount of securities authorized under any of such instruments does not exceed 10 percent of our total consolidated assets.

SIGNATURES

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

EL PASO PRODUCTION HOLDING COMPANY

Date: October 28, 2004

/s/ D. Mark Leland

D. Mark Leland
Executive Vice President,
Chief Financial Officer
and Director
(Principal Financial Officer)

Date: October 28, 2004

/s/ Gene T. Waguespack

Gene T. Waguespack
Senior Vice President,
Treasurer and Controller
(Principal Accounting Officer)