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 June 30, 2003

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 1-4874

Colorado Interstate Gas Company

(Exact Name of Registrant as Specified in its Charter)

Delaware	**84-0173305**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
El Paso Building **1001 Louisiana Street** **Houston, Texas**	**77002**
(Address of Principal Executive Offices)	(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 August 13, 2003: 1,000

COLORADO INTERSTATE GAS COMPANY MEETS THE CONDITIONS OF GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS REPORT WITH A REDUCED DISCLOSURE FORMAT AS PERMITTED BY SUCH INSTRUCTION.

COLORADO INTERSTATE GAS 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	MDth	= thousand dekatherm
BBtu	= billion British thermal units		

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

COLORADO INTERSTATE GAS COMPANY

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Operating revenues	$68	$53	$150	$122
Operating expenses				
Operation and maintenance	26	17	45	39
Gain on long-lived assets	(7)	—	(7)	—
Depreciation, depletion and amortization	5	5	11	10
Taxes, other than income taxes	3	3	6	7
	27	25	55	56
Operating income	41	28	95	66
Interest and debt expense	(6)	(6)	(12)	(12)
Affiliated interest income, net	—	2	2	1
Income before income taxes	35	24	85	55
Income taxes	13	9	32	21
Income from continuing operations	22	15	53	34
Discontinued operations, net of income taxes	7	11	8	18
Net income	29	26	61	52
Other comprehensive loss	—	(2)	—	(3)
Comprehensive income	$29	$24	$ 61	$ 49

See accompanying notes.

COLORADO INTERSTATE GAS COMPANY

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

	June 30, 2003	December 31, 2002
Current assets		
Cash and cash equivalents	$ 1	$ 11
Accounts and notes receivable		
Customer, net of allowance of $2 and $1 for 2003 and 2002	32	31
Affiliates	9	42
Other	1	1
Materials and supplies	4	5
Assets of discontinued operations	—	78
Deferred income taxes	11	12
Other	5	4
Total current assets	63	184
Property, plant and equipment, at cost	1,148	1,175
Less accumulated depreciation, depletion and amortization	372	419
Total property, plant and equipment, net	776	756
Other assets		
Note receivable from affiliate	590	444
Assets of discontinued operations	—	30
Other	4	3
	594	477
Total assets	$1,433	$1,417
Current liabilities		
Accounts payable		
Trade	$ 15	$ 7
Affiliates	13	11
Other	12	15
Taxes payable	101	88
Accrued liabilities	14	18
Liabilities of discontinued operations	—	20
Contractual deposits	12	8
Other	2	4
Total current liabilities	169	171
Long-term debt	280	280
Other liabilities		
Deferred income taxes	164	136
Liabilities of discontinued operations	—	9
Other	10	31
	174	176
Commitments and contingencies		
Stockholder's equity		
Common stock, par value $1 per share; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	48	48
Retained earnings	762	742
Total stockholder's equity	810	790
Total liabilities and stockholder's equity	$1,433	$1,417

See accompanying notes.

COLORADO INTERSTATE GAS COMPANY

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

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Cash flows from operating activities		
Net income	$ 61	$ 52
Less income from discontinued operations, net of income taxes	8	18
Net income from continuing operations	53	34
Adjustments to reconcile net income from continuing operations to net cash from operating activities		
Depreciation, depletion and amortization	11	10
Deferred income tax expense	30	2
Other non-cash income items	(8)	(3)
Working capital changes	32	65
Non-working capital changes	(20)	(1)
Cash provided by continuing operations	98	107
Cash provided by (used in) discontinued operations	(4)	4
Net cash provided by operating activities	94	111
Cash flows from investing activities		
Additions to investment	—	(13)
Additions to property, plant and equipment	(24)	(40)
Net proceeds from the sale of assets	9	3
Net change in affiliated advances receivable	(121)	(57)
Other	(1)	—
Cash used in continuing operations	(137)	(107)
Cash provided by (used in) discontinued operations	74	(4)
Net cash used in investing activities	(63)	(111)
Cash flows from financing activities		
Dividends paid	(41)	—
Contributions from discontinued operations	70	—
Cash provided by continuing operations	29	—
Cash used in discontinued operations	(70)	—
Net cash used in financing activities	(41)	—
Net change in cash and cash equivalents from continuing operations	(10)	—
Cash and cash equivalents		
Beginning of period	11	1
End of period	$ 1	$ 1

See accompanying notes.

COLORADO INTERSTATE GAS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

We are an indirect wholly owned 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. 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 in the United States. You should read it along with our 2002 Annual Report on Form 10-K, which includes a summary of our significant accounting policies and other disclosures. The financial statements as of June 30, 2003, and for the quarters and six months ended June 30, 2003 and 2002, are unaudited. We derived the balance sheet as of December 31, 2002, from the audited balance sheet filed in our 2002 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 businesses, information for interim periods may not indicate the results of operations for the entire year. Our results for all periods presented have been reclassified to reflect our Field Services assets as discontinued operations. In addition, prior period information presented in these financial statements includes reclassifications which were made to conform to the current period presentation. These reclassifications have no effect on our previously reported net income or stockholder's equity.

Our accounting policies are consistent with those discussed in our 2002 Form 10-K, except as discussed below:

Accounting for Costs Associated with Exit or Disposal Activities. As of January 1, 2003, we adopted Statement of Financial Accounting Standards (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 requires that we recognize costs associated with exit or disposal activities when they are incurred rather than when we commit to an exit or disposal plan. There was no initial financial statement impact of adopting this standard.

Accounting for Guarantees. On January 1, 2003, we adopted Financial Accounting Standards Board Interpretation (FIN) No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN No. 45 requires that we record a liability for all guarantees, including financial performance and fair value guarantees, issued after December 31, 2002, at fair value when they are issued. There was no initial financial statement impact of adopting this standard.

Accounting for Regulated Operations. Our natural gas pipeline is subject to the regulations and accounting procedures of the Federal Energy Regulatory Commission (FERC) in accordance with the Natural Gas Act of 1938 and Natural Gas Policy Act of 1978. In 1996 we discontinued the application of regulatory accounting principles under SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. We continue to evaluate the application of SFAS No. 71 for changes in the competitive environment and our operating cost structures. See a further discussion of our accounting for regulated operations in our 2002 Form 10-K.

2. Discontinued Operations and Divestitures

Discontinued Operations

In the first quarter of 2003, we announced our plan to sell our Mid-Continent Field Services assets and completed the sale of our Wyoming gathering systems. With this announcement, we had sold or announced the sale of substantially all of the assets in our Field Services segment. As a result, we reclassified our Field Services segment as discontinued operations in our financial statements beginning in the first quarter of 2003 for all periods presented. We sold our Wyoming gathering systems to Western Gas Resources, Inc. in January 2003. Net proceeds from this sale were $14 million, and we recognized a gain in the first quarter of 2003 of approximately $1 million. In June 2003, we completed the sale of our Field Services assets in the Mid-Continent region. These assets primarily included our Greenwood, Hugoton, Keyes and Mocane natural gas gathering systems, our Sturgis processing plant and our processing arrangements at three additional processing plants. Net proceeds from the sale were approximately $46 million, and we recognized a gain in the second quarter of 2003 of approximately $13 million.

In February 2003, we completed the sale of a natural gas gathering system located in the Panhandle field of Texas. Net proceeds on this transaction of approximately $19 million were advanced to us by the purchaser in July 2002. These assets were historically reported in our Pipeline segment and were also reclassified as discontinued operations in the second quarter of 2002.

During the quarter and six months ended June 30, 2002, we classified as discontinued operations our interest in natural gas and oil properties and related contracts located in Texas, Kansas and Oklahoma. We completed these sales in July 2002.

The summarized financial results of our discontinued operations are as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(In millions)			
Operating Results:				
Revenues	$ 20	$ 64	$ 67	$113
Operating expenses	(10)	(47)	(55)	(85)
Operating income	10	17	12	28
Income taxes	(3)	(6)	(4)	(10)
Income from discontinued operations, net of income taxes	$ 7	$ 11	$ 8	$ 18

	December 31, 2002
	(In millions)
Financial Position Data:[1]	
Assets of discontinued operations	
Accounts receivable	$ 43
Other current assets[2]	14
Property, plant and equipment, net	49
Other	2
Total assets	$108
Liabilities of discontinued operations	
Accounts payable and other current liabilities	$ 20
Deferred income taxes	9
Total liabilities	$ 29

(1) As of June 30, 2003, all assets classified as discontinued operations had been sold. As a result, there were no assets or liabilities related to these operations in our June 30, 2003 balance sheet.

(2) Includes $13 million of property and equipment related to natural gas and oil properties that were classified as held for sale at December 31, 2002.

Divestitures

During the second quarter of 2003, we sold assets with a combined net book value of less than $1 million. We received proceeds of approximately $9 million, including $6 million related to the buyout of a gas purchase contract, net of $2 million related to an environmental liability. We recorded a gain on sale of long-lived assets of approximately $7 million.

3. Debt and Credit Facilities

In April 2003, El Paso entered into a new $3 billion revolving credit facility, with a $1.5 billion letter of credit sub-limit, which matures on June 30, 2005. This facility replaces El Paso's previous $3 billion revolving credit facility. Approximately $1 billion of El Paso financing arrangements (including leases, letters of credit and other facilities) were also amended to conform El Paso's obligations to the new $3 billion revolving credit facility. Under the terms of the $3 billion revolving credit facility, upon the retirement of the Clydesdale financing transaction (as discussed below), we will become a borrower under this facility along with El Paso and our affiliates, ANR Pipeline Company, Tennessee Gas Pipeline Company and El Paso Natural Gas Company. El Paso's $3 billion revolving credit facility and the other financing arrangements are secured by El Paso's equity in several of its subsidiaries, including us.

El Paso's equity in us, a production payment from El Paso and various natural gas and oil properties were pledged as collateral under an El Paso financing arrangement known as the Clydesdale financing arrangement. In April of 2003, El Paso restructured the remaining $753 million outstanding under its Clydesdale financing arrangement as a term loan. The term loan will amortize in equal quarterly payments of $100 million over the next two years. The same assets that historically supported the Clydesdale financing arrangement and a guarantee by El Paso collateralize the term loan. As long as the amortization requirements are met and we are in compliance with the Clydesdale transaction, the term loan places no restrictions on our ability to invest or dividend cash to El Paso. On June 30, 2003, the balance on the Clydesdale term loan was $653 million. In August 2003, El Paso made a quarterly principal payment in the amount of $100 million on the loan.

4. Commitments and Contingencies

Legal Proceedings

Grynberg. In 1997, we and a number of our affiliates were named defendants in actions 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 of natural gas produced from royalty properties 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). In May 2001, the court denied the defendants' motion to dismiss. Discovery is proceeding. Our costs and legal exposure related to these lawsuits and claims are not currently determinable.

Will Price (formerly Quinque). We and a number of our affiliates were named defendants in *Quinque Operating Company, et al v. Gas Pipelines and Their Predecessors, et al,* filed in 1999 in the District Court of Stevens County, Kansas. Quinque has been dropped as a plaintiff and Will Price has been added. This class action complaint alleges that the defendants mismeasured natural gas volumes and heating content of natural gas on non-federal and non-Native American lands. The plaintiffs in this case seek certification of a nationwide class of natural gas working interest owners and natural gas royalty owners to recover royalties that the plaintiffs contend these owners 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, attorney's 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 was denied on April 10, 2003. Plaintiffs' motion to file another amended petition to narrow the proposed class to royalty owners in wells in Kansas, Wyoming and Colorado was granted on July 28, 2003. Our costs and legal exposure related to this lawsuit and claims are not currently determinable.

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 of June 30, 2003, we had approximately $2 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 June 30, 2003, we had accrued approximately $14 million for expected remediation costs and associated onsite, offsite and groundwater technical studies, which we anticipate incurring through 2027. Our accrual at June 30, 2003, was based on the most likely outcome that can be reasonably estimated. Below is a reconciliation of our accrued liability as of June 30, 2003 (in millions):

Balance as of January 1, 2003	$13
Additions/adjustments for remediation activities	2
Payments for remediation activities	(1)
Balance as of June 30, 2003	$14

In addition, we expect to make capital expenditures for environmental matters of approximately $1 million in the aggregate for the years 2003 through 2008. These expenditures primarily relate to compliance with clean air regulations. For the remainder of 2003, we estimate that our total expenditures will be approximately $3 million. In addition, this entire amount is being expended under government directed clean-up plans.

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 the reserves are adequate.

Rates and Regulatory Matters

Marketing Affiliate NOPR. In September 2001, the FERC issued a Notice of Proposed Rulemaking (NOPR). The NOPR proposes to apply the standards of conduct governing the relationship between interstate pipelines and marketing affiliates to all energy affiliates. The proposed regulations, if adopted by the FERC, would dictate how we conduct business and interact with our energy affiliates. We have filed comments with the FERC addressing our concerns with the proposed rules, participated in a public conference and filed additional comments. At this time, we cannot predict the outcome of the NOPR, but adoption of the regulations in their proposed form would, at a minimum, place additional administrative and operational burdens on us.

Negotiated Rate Policy. In July 2002, the FERC issued a Notice of Inquiry (NOI) that sought comments regarding its 1996 policy of permitting pipelines to enter into negotiated rate transactions. We have entered into those transactions over the years, and the FERC is now reviewing whether negotiated rates should be capped, whether or not the "recourse rate" (a cost-of-service based rate) continues to safeguard against a pipeline exercising market power and other issues related to negotiated rate programs. El Paso's pipelines and others filed comments on the NOI.

In July 2003, the FERC issued modifications to its negotiated rate policy applicable to interstate natural gas pipelines. The new policy has two primary changes. First, the FERC will no longer permit the pricing of negotiated rates based on natural gas commodity price indices, although it will permit current contracts negotiated on that basis to continue until the end of the applicable contract period. Second, the FERC is imposing new filing requirements on pipelines to ensure the transparency of negotiated rate transactions.

Interim Rule on Cash Management. In August 2002, the FERC issued a NOPR proposing, *inter alia*, that all cash management or money pool arrangements between a FERC-regulated subsidiary and its non-FERC regulated parent be in writing and that, as a condition of participating in such an arrangement, the FERC-regulated entity maintain a minimum proprietary capital balance of 30 percent and both it and its parent maintain investment grade credit ratings. After receiving written comments and hearing industry participants' concerns at a public conference in September 2002, the FERC issued an Interim Rule on Cash Management on June 26, 2003, which did not adopt the proposed limitations on entry into or participation in cash management programs. Instead, the Interim Rule requires natural gas companies to maintain up-to-date documentation authorizing the establishment of the cash management programs in which they participate and supporting all deposits into, borrowings and interest from, and interest expense paid to such programs.

The Interim Rule also seeks comments on a proposed reporting requirement that a FERC-regulated entity file cash management agreements and any changes thereto within ten days and that it notify the FERC within five days when its proprietary capital ratio falls below 30 percent (i.e., its long-term debt-to-equity ratio rises above 70 percent) and when it subsequently returns to or exceeds 30 percent. We filed comments on the Interim Rule on August 7, 2003.

Emergency Reconstruction of Interstate Natural Gas Facilities Final Rule. On May 19, 2003, the FERC issued a Final Rule that amends its regulations to enable natural gas interstate pipeline companies, in emergency situations, resulting in sudden, unanticipated loss of natural gas or capacity, to replace facilities when immediate action is required to restore service for the protection of life or health or for the maintenance of physical property. Specifically, the Final Rule permits a pipeline to replace mainline facilities using a route other than an existing right-of-way, to commence construction without being subject to a 45-day waiting period, and to undertake projects that exceed the existing blanket cost constraints. Lastly, the Final Rule requires that landowners be notified of potential construction but provides for a possible waiver of the 30-day waiting period.

Pipeline Safety Notice of Proposed Rulemaking. In January 2003, the U.S. Department of Transportation issued a NOPR proposing to establish a rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in what the notice refers to as "high consequence areas." The proposed rule resulted from the enactment of the Pipeline Safety Improvement Act of 2002, a new bill signed into law in December 2002. Comments on the NOPR were filed on April 30, 2003. At this time, we cannot predict the outcome of this rulemaking.

While the outcome of our outstanding legal matters, environmental matters, and rates and regulatory matters cannot be predicted with certainty, based on current information and our existing accruals, we do not expect the ultimate resolution of these matters to have a material adverse effect on our financial position, operating results or cash flows. However, it is possible that new information or future developments could require us to reassess our potential exposure related to these matters. It is also possible that these matters could impact our credit rating and that of our parent. Further, for environmental matters, 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 new information for our outstanding legal matters, environmental matters and rates and regulatory matters becomes available, or relevant developments occur, we will review our accruals and make any appropriate adjustments. The impact of these changes may have a material effect on our results of operations, our financial position, and on our cash flows in the period the event occurs.

5. Segment Information

Prior to the sale or announced sale of our remaining Field Services assets, we segregated our business activities into two distinct operating segments: Pipelines and Field Services. These segments were strategic business units that provided a variety of energy products and services. They were managed separately as each business unit required different technology and marketing strategies. In the first quarter of 2003, we reclassified our Field Services segment and a portion of our Pipelines segment to discontinued operations in our financial statements, and all periods were restated to reflect this change. See Note 2 for a further discussion of these operations. As a result of this change, our continuing operations consist solely of our FERC regulated natural gas pipeline business.

6. Related Party Transactions

We participate in El Paso's cash management program which matches short-term cash surpluses and needs of participating affiliates, thus minimizing total borrowings from outside sources. Our continued participation in the program may be dependent on any final rule issued by the FERC in connection with its Interim Rule on Cash Management as discussed in Note 4. As of June 30, 2003 and December 31, 2002, we had advanced to El Paso $590 million and $469 million. The market rate of interest at June 30, 2003 and December 31, 2002 was 1.3% and 1.5%. As of June 30, 2003 and December 31, 2002, we have classified $590 million and $444 million of these advances as non-current notes receivable from affiliates. These receivables are due upon demand; however, we do not anticipate settlement within the next twelve months.

At June 30, 2003 and December 31, 2002, we had other accounts receivable from related parties of $9 million and $17 million. Accounts payable to affiliates was $13 million and $11 million at June 30, 2003 and December 31, 2002. These balances arose in the normal course of our business.

The following table shows revenues and charges from our affiliates, including discontinued operations, for the quarters and six months ended June 30, 2003 and 2002:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2003	**2002**	**2003**	**2002**
	(In millions)			
Revenues from affiliates	$ 9	$20	$15	$29
Operations and maintenance from affiliates	14	14	35	32
Reimbursements for operating expenses from affiliates	3	2	5	5

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, the information disclosed in our 2002 Form 10-K, in addition to the financial statements and notes presented in Item 1 of this Form 10-Q.

General

During the first quarter of 2003, we reclassified the entire Field Services segment as discontinued operations, and in June 2003, we completed the sale of the remaining assets in this segment. Our financial statements and discussion and analysis of financial condition and results of operations have been restated to reflect this reclassification for all periods presented.

Results of Operations

We use earnings before interest expense 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 discontinued operations, (ii) income taxes, (iii) interest and debt expense and (iv) affiliated interest income. We exclude interest and debt expense so that investors may evaluate our operating results without regard to our financing methods. As a result, we believe EBIT is useful to our investors because it allows them to more effectively evaluate the operating performance of our business. In addition, this is the measurement used by El Paso to evaluate the operating performance of its business segments. This measurement may not be comparable to measurements used by other companies and should not be used as a substitute for net income or other performance measures such as operating income or operating cash flow. The following is a reconciliation of our operating income to our EBIT and our EBIT to our net income for the periods ended June 30:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(In millions)			
Operating revenues	$ 68	$ 53	$ 150	$ 122
Operating expenses	(27)	(25)	(55)	(56)
Operating income	$ 41	$ 28	$ 95	$ 66
EBIT	$ 41	$ 28	$ 95	$ 66
Interest and debt expense	(6)	(6)	(12)	(12)
Affiliated interest income, net	—	2	2	1
Income taxes	(13)	(9)	(32)	(21)
Income from continuing operations	22	15	53	34
Discontinued operations, net of income taxes	7	11	8	18
Net income	$ 29	$ 26	$ 61	$ 52
Throughput volumes (BBtu/d)[1]	2,602	2,576	2,767	2,713

[1] Throughput volumes exclude volumes related to discontinued operations. Prior period volumes have been restated to reflect our current year presentation which includes billable transportation throughput volume for storage withdrawal.

Second Quarter 2003 Compared to Second Quarter 2002

Operating revenues for the quarter ended June 30, 2003, were $15 million higher than the same period in 2002. The increase was due to $6 million from completed system expansions and new transportation contracts, $4 million of natural gas recoveries from customers in excess of amounts used in operations, $3 million of increased gas processing revenues resulting from higher liquid prices and $2 million of storage gas sales, which commenced in the fourth quarter of 2002.

Operating expenses for the quarter ended June 30, 2003, were $2 million higher than the same period in 2002. The increase was due to $5 million in volume adjustments related to one of our storage fields in 2003, $4 million of system supply and processing feedstock gas costs and $2 million of higher overhead allocations from El Paso. These increases were partially offset by a $6 million gain on the buyout of a gas purchase contract related to the sale of our Table Rock sulfur extraction facility in 2003 and $4 million due to the revaluation of our natural gas imbalances as a result of changes in natural gas imbalance volumes and prices.

Six Months Ended 2003 Compared to Six Months Ended 2002

Operating revenues for the six months ended June 30, 2003, were $28 million higher than the same period in 2002. The increase was due to $10 million from completed system expansions and new transportation contracts, $6 million of increased gas processing revenues resulting from higher prices, $5 million of storage gas sales, which commenced in the fourth quarter of 2002, $5 million related to the finalization of a rate settlement and $3 million of natural gas recoveries from customers in excess of amounts used in operations.

Operating expenses for the six months ended June 30, 2003, were $1 million lower than the same period in 2002. The decrease was due to a $6 million gain on the buyout of a gas purchase contract related to the sale of our Table Rock sulfur extraction facility in 2003 and $4 million due to the revaluation of our natural gas imbalances as a result of changes in natural gas imbalance volumes and prices. The decrease was partially offset by $5 million in volume adjustments related to one of our storage fields, $2 million in higher overhead allocations from El Paso and $2 million in higher system gas supply and liquids feedstock costs.

Affiliated Interest Income, Net

Second Quarter 2003 Compared to Second Quarter 2002

Affiliated interest income, net for the quarter ended June 30, 2003, was $2 million lower than the same period in 2002 due to lower average advances to El Paso under our cash management program in 2003 and lower short-term interest rates in 2003.

Six Months Ended 2003 Compared to Six Months Ended 2002

Affiliated interest income, net for six months ended June 30, 2003, was $1 million higher than the same period in 2002 due to higher average advances to El Paso under our cash management program in 2003 offset by lower short-term interest rates in 2003.

Income Taxes

	Quarter Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(In millions, except for rates)			
Income taxes	$13	$9	$32	$21
Effective tax rate	37%	38%	38%	38%

Our effective tax rates were different than the statutory rate of 35 percent in all periods, primarily due to state income taxes.

Commitments and Contingencies

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

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains or incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Where any forward-looking statement includes a statement of the assumptions or bases underlying the forward-looking statement, we caution that, while we believe these assumptions or bases to be reasonable and to be made in good faith, assumed facts or bases almost always vary from the actual results, and the differences between assumed facts or bases and actual results can be material, depending upon the circumstances. Where, in any forward-looking statement, we or our management express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis. We cannot assure you, however, that the statement of expectation or belief will result or be achieved or accomplished. The words "believe," "expect," "estimate," "anticipate" and similar expressions will generally identify forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

This information updates, and you should read it in conjunction with, information disclosed in Part II, Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2002, 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 Annual Report on Form 10-K for the year ended December 31, 2002.

Item 4. Controls and Procedures

Evaluation of Controls and Procedures. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (Disclosure Controls) and internal controls over financial reporting (Internal Controls) as of the end of the period covered by this Quarterly Report pursuant to Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (Exchange Act).

Definition of Disclosure Controls and Internal Controls. Disclosure Controls are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified under the Exchange Act. Disclosure Controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Internal Controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

Limitations on the Effectiveness of Controls. Colorado Interstate Gas Company's management, including the principal executive officer and principal financial officer, does not expect that our Disclosure Controls and Internal Controls will prevent all errors and all fraud. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events. Therefore, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Our

Disclosure Controls and Internal Controls are designed to provide such reasonable assurances of achieving our desired control objectives, and our principal executive officer and principal financial officer have concluded that our Disclosure Controls and Internal Controls are effective in achieving that level of reasonable assurance.

No Significant Changes in Internal Controls. We have sought to determine whether there were any "significant deficiencies" or "material weaknesses" in Colorado Interstate Gas Company's Internal Controls, or whether the company had identified any acts of fraud involving personnel who have a significant role in Colorado Interstate Gas Company's Internal Controls. This information was important both for the controls evaluation generally and because the principal executive officer and principal financial officer are required to disclose that information to our Board's Audit Committee and our independent auditors and to report on related matters in this section of the Quarterly Report. The principal executive officer and principal financial officer note that there has not been any change in Internal Controls that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, Internal Controls.

Effectiveness of Disclosure Controls. Based on the controls evaluation, our principal executive officer and principal financial officer have concluded that the Disclosure Controls are effective to ensure that material information relating to Colorado Interstate Gas Company and its consolidated subsidiaries is made known to management, including the principal executive officer and principal financial officer, on a timely basis.

Officer Certifications. The certifications from the principal executive officer and principal financial officer required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 have been included as Exhibits to this Quarterly Report.

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. Changes in 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 and Reports on Form 8-K

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

b. Reports on Form 8-K

None.

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.

COLORADO INTERSTATE GAS COMPANY

Date: August 13, 2003

/s/ JOHN W. SOMERHALDER II

John W. Somerhalder II
Chairman of the Board,
Chief Executive Officer and Director
(Principal Executive Officer)

Date: August 13, 2003

/s/ GREG G. GRUBER

Greg G. Gruber
Senior Vice President,
Chief Financial Officer, Treasurer and Director
(Principal Financial and Accounting Officer)