
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, 2002

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 1-2745

Southern Natural Gas Company

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

63-0196650
(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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, par value \$3.75 per share. Shares outstanding on August 13, 2002: 1,000

**SOUTHERN NATURAL 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.**

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

SOUTHERN NATURAL GAS COMPANY **CONDENSED CONSOLIDATED STATEMENTS OF INCOME** **(In millions)** **(Unaudited)**

	Quarter Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Operating revenues	<u>\$100</u>	<u>\$94</u>	<u>\$203</u>	<u>\$205</u>
Operating expenses				
Operation and maintenance	38	41	75	87
Depreciation, depletion and amortization	11	11	22	21
Taxes, other than income taxes	<u>6</u>	<u>4</u>	<u>11</u>	<u>10</u>
	<u>55</u>	<u>56</u>	<u>108</u>	<u>118</u>
Operating income	<u>45</u>	<u>38</u>	<u>95</u>	<u>87</u>
Other income				
Earnings from unconsolidated affiliates	3	4	6	7
Other, net	<u>2</u>	<u>2</u>	<u>4</u>	<u>5</u>
	<u>5</u>	<u>6</u>	<u>10</u>	<u>12</u>
Income before interest and income taxes	<u>50</u>	<u>44</u>	<u>105</u>	<u>99</u>
Non-affiliated interest and debt expense	15	12	28	23
Affiliated interest income	(3)	(6)	(4)	(10)
Income taxes	<u>14</u>	<u>15</u>	<u>30</u>	<u>33</u>
	<u>26</u>	<u>21</u>	<u>54</u>	<u>46</u>
Net income	<u>\$ 24</u>	<u>\$23</u>	<u>\$ 51</u>	<u>\$ 53</u>

See accompanying notes.

SOUTHERN NATURAL GAS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)
(Unaudited)

	<u>June 30, 2002</u>	<u>December 31, 2001</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ —	\$ —
Accounts and notes receivable, net		
Customer	50	58
Affiliates	475	372
Other	4	13
Materials and supplies	14	13
Other	1	—
Total current assets	<u>544</u>	<u>456</u>
Property, plant and equipment, at cost	2,729	2,642
Less accumulated depreciation, depletion and amortization	<u>1,308</u>	<u>1,304</u>
Total property, plant and equipment, net	<u>1,421</u>	<u>1,338</u>
Other assets		
Investments in unconsolidated affiliates	122	116
Regulatory assets	39	43
Other	11	11
	<u>172</u>	<u>170</u>
Total assets	<u><u>\$2,137</u></u>	<u><u>\$1,964</u></u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable		
Trade	\$ 40	\$ 37
Affiliates	4	7
Other	2	3
Current maturities of long-term debt	—	200
Taxes payable	64	48
Accrued interest	20	28
Other	13	1
Total current liabilities	<u>143</u>	<u>324</u>
Long-term debt, less current maturities	<u>798</u>	<u>499</u>
Other liabilities		
Deferred income taxes	180	169
Other	38	45
	<u>218</u>	<u>214</u>
Commitments and contingencies		
Stockholder's equity		
Common stock, par value \$3.75 per share; authorized and issued 1,000 shares	—	—
Additional paid-in capital	105	105
Retained earnings	873	822
Total stockholder's equity	<u>978</u>	<u>927</u>
Total liabilities and stockholder's equity	<u><u>\$2,137</u></u>	<u><u>\$1,964</u></u>

See accompanying notes.

SOUTHERN NATURAL GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended June 30,	
	<u>2002</u>	<u>2001</u>
Cash flows from operating activities		
Net income	\$ 51	\$ 53
Adjustments to reconcile net income to net cash from operating activities		
Depreciation, depletion and amortization	22	21
Undistributed earnings of unconsolidated affiliates	(6)	(7)
Deferred income tax expense	7	14
Net gain on the sale of assets	—	(1)
Working capital changes	37	10
Non-working capital changes and other	<u>(3)</u>	<u>(10)</u>
Net cash provided by operating activities	<u>108</u>	<u>80</u>
Cash flows from investing activities		
Additions to property, plant and equipment	(103)	(43)
Net change in affiliated advances receivable	(103)	(243)
Net proceeds from the sale of assets	<u>1</u>	<u>9</u>
Net cash used in investing activities	<u>(205)</u>	<u>(277)</u>
Cash flows from financing activities		
Payments to retire long-term debt	(200)	(100)
Net proceeds from the issuance of long-term debt	<u>297</u>	<u>297</u>
Net cash provided by financing activities	<u>97</u>	<u>197</u>
Net change in cash and cash equivalents	—	—
Cash and cash equivalents		
Beginning of period	<u>—</u>	<u>—</u>
End of period	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes.

SOUTHERN NATURAL GAS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

We prepared this Quarterly Report on Form 10-Q under the rules and regulations of the United States Securities and Exchange Commission. 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 it along with our 2001 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, 2002, and for the quarters and six months ended June 30, 2002 and 2001, are unaudited. We derived the balance sheet as of December 31, 2001, from the audited balance sheet filed in our Form 10-K. In our opinion, we have made all adjustments, all of 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. 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 Form 10-K, except as discussed below:

Asset Impairments

On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 changed the accounting requirements related to when an asset qualifies as held for sale or as a discontinued operation and the way in which we evaluate impairments of assets. It also changes accounting for discontinued operations such that we can no longer accrue future operating losses in these operations. There was no initial financial statement impact of adopting this statement.

2. Debt and Other Credit Facilities

In January 2002, we repaid \$100 million of our 7.85% notes due 2002. We also filed a new shelf registration statement in January 2002, increasing the amount of debt we could issue from \$100 million to \$300 million. In February 2002, we issued \$300 million aggregate principal amount of 8.0% notes due 2032. Proceeds were approximately \$297 million, net of issuance costs. This issuance used the remaining capacity on our shelf registration statement. In May 2002, we repaid \$100 million of our 8.625% notes due 2002.

3. Commitments and Contingencies

Legal Proceedings

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. 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' motions to dismiss.

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. 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 Quinque complaint was transferred to the same court handling the Grynberg complaint and has now been sent back to Kansas State Court for further proceedings. A motion to dismiss this case is pending.

In addition to the above matters, we are also a named defendant 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, 2002, we had no reserves for our outstanding legal matters.

While the outcome of our outstanding legal matters cannot be predicted with certainty, based on the information known to date, 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. As new information becomes available or relevant developments occur, we will establish accruals as appropriate. The impact of these changes may have a material effect on our results of operations.

Environmental Matters

We are subject to extensive 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, 2002, we had a reserve of approximately \$7 million for expected remediation costs (including related environmental litigation). In addition, we expect to make capital expenditures for environmental matters of approximately \$6 million in the aggregate for the years 2002 through 2007. These expenditures primarily relate to compliance with clean air regulations.

We have been designated and have received notice that we could be designated, or have been asked for information to determine whether we could be designated, as a Potentially Responsible Party with respect to one active site under the Comprehensive Environmental Response, Compensation and Liability Act or state equivalents. We are currently evaluating our potential share, if any, of the remediation costs.

While the outcome of our outstanding environmental matters cannot be predicted with certainty, based on the information known to date 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. It is possible that new information or future developments could require us to reassess our potential exposure related to 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 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.

Rates and Regulatory Matters

In February 2000, the Federal Energy Regulatory Commission (FERC) issued Order No. 637 which revised regulations regarding capacity release, capacity segmentation, imbalance management services, operational flow orders and pipeline penalties. On July 2, 2001, we filed a settlement addressing our compliance with Order No. 637. We received an order on the settlement from the FERC on April 11, 2002. The FERC approved our settlement, subject to modifications related to our segmentation proposal, and rejected our proposed changes to our cash-out mechanism. In May 2002, we sought rehearing and made a compliance filing, which is subject to the outcome of our rehearing request.

In March 2000, the FERC issued an order which authorized the recommissioning of our Elba Island liquefied natural gas (LNG) receiving terminal near Savannah, Georgia. In July 2001, the FERC issued a final order approving a modification of the sendout facilities at the terminal subject to several conditions. In October 2001, we received an initial cargo of LNG in order to test the facilities. In October 2001, we also applied to increase Elba Island's initial rates to reflect an increase in capital and expenses, primarily associated with expenditures mandated by the FERC. In November 2001, the FERC authorized us to commence service on December 1, 2001, but denied our October 2001 request to amend the initial rates, indicating that the

increase should be filed in a limited Section 4 proceeding. In December 2001, we filed a limited proceeding with the FERC to increase rates and received an order accepting the new rates effective March 1, 2002, subject to refund. The increase in capital over the previously approved level is approximately \$43 million. We have reached a settlement-in-principle with the major intervenor and have filed an offer of settlement with the FERC that would track certain dredging costs but would otherwise preserve the filed rates made effective on March 1, 2002. We have established estimated monthly reserve levels that represent revenues collected subject to refund.

In May 2000, we filed an application with the FERC to expand our pipeline system by 336 million cubic feet per day (MMcf/d), at an estimated cost of \$141 million, to serve new power generation loads being sited adjacent to our south system (South System I Expansion). We received a certificate order from the FERC in March 2001. In July 2001, the FERC approved an amendment to the South System I Expansion, which reduced its cost slightly. The first phase of the new facilities was completed and placed in-service in June 2002. The Alabama Municipal Distributors Group and others filed appeals of the FERC's orders authorizing this project in the D.C. Circuit Court of Appeals. On July 26, 2002, we filed a brief in support of the FERC; oral argument is scheduled for November 1, 2002.

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. In December 2001, we filed comments with the FERC addressing our concerns with the proposed rules. A public hearing was held on May 21, 2002, at which interested parties were given an opportunity to comment further on the NOPR. Following the conference, additional comments were filed by El Paso's pipelines and others. We cannot predict the outcome of the NOPR, but adoption of the regulations in substantially the form proposed would, at a minimum, place additional administrative and operational burdens on us.

On July 17, 2002, the FERC issued a Notice of Inquiry (NOI) that seeks comments regarding its policy, established in 1996, of permitting pipelines to enter into negotiated rate transactions. The FERC is now undertaking a review of whether negotiated rates should be capped, whether or not a pipeline's "recourse rate" (its cost of service based rate) continues to serve as a viable alternative and safeguard against the exercise of alleged pipeline market power, as well as other issues related to its negotiated rate program. Comments are due on September 25, 2002, with reply comments due on October 25, 2002. We cannot predict the outcome of this NOI.

On August 1, 2002, the FERC issued a NOPR requiring that all arrangements concerning the cash management or money pool arrangements between a FERC regulated subsidiary and a non-FERC regulated parent must be in writing, and set forth: the duties and responsibilities of cash management participants and administrators; the methods of calculating interest and for allocating interest income and expenses; and the restrictions on deposits or borrowings by money pool members. The NOPR also requires specified documentation for all deposits into, borrowings from, interest income from, and interest expenses related to, these arrangements. Finally, the NOPR proposed that as a condition of participating in a cash management or money pool arrangement, the FERC regulated entity must maintain a minimum proprietary capital balance of 30 percent, and the FERC regulated entity and its parent must maintain investment grade credit ratings. Comments on the NOPR are due on August 22, 2002. We cannot predict the outcome of this NOPR.

Also on August 1, 2002, the FERC's Chief Accountant issued, to be effective immediately, an Accounting Release providing guidance on how jurisdictional entities should account for money pool arrangements and the types of documentation that should be maintained for these arrangements. The Accounting Release sets forth the documentation requirements set forth in the NOPR for money pool arrangements, but does not address the requirements in the NOPR that as a condition for participating in money pool arrangements the FERC regulated entity must maintain a minimum proprietary capital balance of 30 percent and that the entity and its parent must have investment grade credit ratings. Requests for rehearing are due on September 3, 2002.

In October 2001, we filed an application with the FERC to expand our south system by 360 MMcf/d at an estimated cost of \$247 million, to serve existing, new and expanded gas-fired electric generation facilities. The construction will be undertaken in two phases, with a target in-service date for the Phase I facilities of June 1, 2003, and for the Phase II facilities of May 1, 2004. Two shippers subsequently requested a delay in the commencement of their services and one shipper requested to reduce service quantity. As a result, in April 2002, we filed an amendment to the certificate application to reflect these changes. This application remains pending before the FERC.

On May 31, 2002, we filed a certificate application with the FERC to expand the Elba Island LNG terminal based on a precedent agreement for new firm terminalling service entered into with Shell NA LNG in December 2001, following the conclusion of an open season for expansion capacity. This expansion adds a new marine slip, a fourth storage tank with a capacity of 3.3 billion cubic feet equivalent, and new pumps and vaporizers that increase the design send out rate from 446 MMcf/d to 806 MMcf/d and the maximum send out rate from 675 MMcf/d to 1,215 MMcf/d. This application is currently pending before the FERC.

While the outcome of our rates and regulatory matters cannot be predicted with certainty, based on the information known to date 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. As new information 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.

Other Matters

As a result of current circumstances surrounding the energy sector, the creditworthiness of several industry participants has been called into question. We have taken actions to mitigate our exposure to these participants; however, should several of these participants file for Chapter 11 bankruptcy protection and our contracts are not assumed by other counterparties, it could have a material adverse effect on our financial position, operating results or cash flows.

4. Related Party Transactions

We participate in El Paso Corporation's cash management program which matches short-term cash surpluses and needs of its participating affiliates, thus minimizing total borrowing from outside sources. We had advanced at June 30, 2002 and December 31, 2001, \$474 million and \$371 million. The market rate of interest at June 30, 2002 and December 31, 2001 was 1.9% and 2.1%.

At June 30, 2002 and December 31, 2001, we had accounts receivable from affiliates of \$1 million. In addition, we had accounts payable to affiliates of \$4 million at June 30, 2002, and \$7 million at December 31, 2001. These balances arose in the normal course of business.

5. New Accounting Pronouncements Not Yet Adopted

Accounting for Asset Retirement Obligations

In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement requires companies to record a liability for the estimated retirement and removal costs of assets used in their business. The liability is recorded at its present value, and the same amount is added to the recorded value of the asset and is amortized over the asset's remaining useful life. The provisions of SFAS No. 143 are effective for fiscal years beginning after June 15, 2002. We are currently evaluating the effects of this statement.

Accounting for Costs Associated with Exit or Disposal Activities

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement will require us to recognize costs associated with exit or disposal activities when they are incurred rather than when we commit to an exit or disposal plan. Examples of costs covered by this guidance include lease termination costs, employee severance costs that are associated with a restructuring,

discontinued operations, plant closings or other exit or disposal activities. The provisions of this statement are effective for fiscal years beginning after December 31, 2002 and will impact any exit or disposal activities initiated after January 1, 2003.

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

The information contained in Item 2 updates, and you should read it in conjunction with, information disclosed in our Annual Report on Form 10-K filed March 20, 2002, in addition to the financial statements and notes presented in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q.

Recent Developments

As a result of current circumstances surrounding the energy sector, the creditworthiness of several industry participants has been called into question. We have taken actions to mitigate our exposure to these participants; however, should several of these participants file for Chapter 11 bankruptcy protection and our contracts are not assumed by other counterparties, it could have a material adverse effect on our financial position, operating results or cash flows.

Results of Operations

Our interstate transmission system serves markets in the southeastern region of the United States. Our results are relatively stable, but can be subject to variability from a number of factors, such as weather conditions, including those conditions that may impact the amount of power produced by natural gas fired turbines, as well as unforeseen regulatory mandates relating to environmental or operational issues. Our results can also be impacted by our ability to market excess natural gas which is influenced by our rate of recovery for use and efficiencies of the compression equipment. Future revenues may also be impacted by expansion projects in our service areas, competition by other pipelines for those expansion needs and regulatory impact on rates. Below are the operating results and an analysis of these results for the periods ended June 30:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In millions, except volume amounts)			
Operating revenues	\$ 100	\$ 94	\$ 203	\$ 205
Operating expenses	(55)	(56)	(108)	(118)
Other income, net	5	6	10	12
Earnings before interest expense and income taxes ..	<u>\$ 50</u>	<u>\$ 44</u>	<u>\$ 105</u>	<u>\$ 99</u>
Throughput volumes (BBtu/d) ⁽¹⁾	<u>1,780</u>	<u>1,657</u>	<u>2,030</u>	<u>1,943</u>

⁽¹⁾ BBtu/d means billion British thermal units per day.

In March 2000, the FERC issued an order allowing us to reactivate our Elba Island LNG facility. The facility received its first LNG shipment in October 2001 and was officially placed in service on December 1, 2001.

Second Quarter 2002 Compared to Second Quarter 2001

Operating revenues for the quarter ended June 30, 2002, were \$6 million higher than the same period in 2001. The increase is primarily due to revenues from our Elba Island facility which was placed in service in December 2001 and higher remarketing rates and volumes in the second quarter of 2002 on seasonal turned-back capacity that resulted from our 2000 rate case settlement. Partially offsetting the increase were lower prices and volumes on sales under natural gas purchase contracts in 2002.

Operating expenses for the quarter ended June 30, 2002, were \$1 million lower than the same period in 2001 primarily due to lower purchased natural gas costs due to lower prices and volumes and lower corporate overhead allocations in the second quarter of 2002. The decrease was partially offset by higher operating expenses due to our Elba Island facility being in service in 2002 and a one-time favorable adjustment in 2001 of expenses related to the sales of the Sea Robin system and Destin Pipeline Company.

Six Months Ended 2002 Compared to Six Months Ended 2001

Operating revenues for the six months ended June 30, 2002, were \$2 million lower than the same period in 2001. The decrease is primarily due to lower prices and volumes in the first half of 2002 on sales under natural gas purchase contracts and on sales of excess natural gas recoveries. Partially offsetting the decrease were revenues from our Elba Island facility which was placed in service in December 2001, higher remarketing rates and volumes in the second quarter of 2002 on seasonal turned-back capacity that resulted from our 2000 rate case settlement and increased throughput from our interruptible transportation service in 2002.

Operating expenses for the six months ended June 30, 2002, were \$10 million lower than the same period in 2001 primarily due to lower purchased natural gas costs due to lower prices and volumes and lower corporate overhead allocations in the second quarter of 2002. The decrease was partially offset by higher operating expenses due to our Elba Island facility being in service in 2002 and a one-time favorable adjustment in 2001 of expenses related to the sales of the Sea Robin system and Destin Pipeline Company.

Other income for the six months ended June 30, 2002, was \$2 million lower than the same period in 2001 primarily due to a contract termination fee received in the first quarter of 2001 and higher capitalization of allowance for funds used during the reactivation of our Elba Island facility during 2001. Partially offsetting the decrease was increased interest capitalization due to capital spending for expansion projects in 2002.

Interest and Debt Expense

Non-Affiliated Interest and Debt Expense

Non-affiliated interest and debt expense for the quarter and six months ended June 30, 2002, was \$3 million and \$5 million higher than the same periods in 2001 due to increased net long-term borrowings in 2002.

Affiliated Interest Income

Affiliated interest income for the quarter and six months ended June 30, 2002, was \$3 million and \$6 million lower than the same periods in 2001 primarily due to lower short-term interest rates in 2002 on average advances to El Paso under our cash management program.

Income Taxes

Income tax expense for the quarters ended June 30, 2002 and 2001, was \$14 million and \$15 million, resulting in effective tax rates of 38 percent and 39 percent. Income tax expense for the six months ended June 30, 2002 and 2001, was \$30 million and \$33 million, resulting in effective tax rates of 38 percent for both periods. 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 3, which is incorporated herein by reference.

New Accounting Pronouncements Not Yet Adopted

See Item 1, Financial Statements, Note 5, 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, 2001, 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, 2001.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Item 1, Financial Statements, Note 3, 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.

- *99.A — Certification of Chairman of the Board (Principal Executive Officer) pursuant to 18 U.S.C. § 1350 as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
- *99.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 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.

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.

SOUTHERN NATURAL GAS COMPANY

Date: August 13, 2002

/s/ JOHN W. SOMERHALDER II

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

Date: August 13, 2002

/s/ GREG G. GRUBER

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