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 September 30, 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 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 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 November 12, 2004: 1,000

SOUTHERN NATURAL 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	Mcf	= thousand cubic feet
BBtu	= billion British thermal units	MMcf	= million cubic feet

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," or "ours," we are describing Southern Natural Gas Company and/or our subsidiaries.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

SOUTHERN NATURAL GAS COMPANY

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Operating revenues	$121	$111	$367	$342
Operating expenses				
Operation and maintenance	53	49	147	138
Depreciation, depletion and amortization	13	12	38	35
Taxes, other than income taxes	7	5	19	16
	73	66	204	189
Operating income	48	45	163	153
Earnings from unconsolidated affiliates	21	14	55	42
Other income, net	2	3	7	9
Interest and debt expense	(23)	(24)	(70)	(63)
Affiliated interest income, net	1	1	3	3
Income before income taxes	49	39	158	144
Income taxes	16	11	50	46
Net income	$ 33	$ 28	$108	$ 98
Comprehensive income	$ 33	$ 28	$108	$ 98

See accompanying notes.

SOUTHERN NATURAL GAS COMPANY

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

	September 30, 2004	December 31, 2003
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ —
Accounts and notes receivable		
Customer, net of allowance of $3 in 2004 and 2003	58	83
Affiliates	1	—
Other	2	1
Materials and supplies	11	12
Other	14	12
Total current assets	86	108
Property, plant and equipment, at cost	3,183	3,055
Less accumulated depreciation, depletion and amortization	1,337	1,326
Total property, plant and equipment, net	1,846	1,729
Other assets		
Investments in unconsolidated affiliates	844	788
Notes receivable from affiliate	132	153
Other	57	52
	1,033	993
Total assets	$2,965	$2,830
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable		
Trade	$ 40	$ 34
Affiliates	11	8
Other	—	1
Accrued interest	10	30
Taxes payable	96	59
Contractual deposits	4	13
Other	3	5
Total current liabilities	164	150
Long-term debt	1,194	1,194
Other liabilities		
Deferred income taxes	301	286
Other	52	54
	353	340
Commitments and contingencies		
Stockholder's equity		
Common stock, par value $1 per share; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	340	340
Retained earnings	922	814
Accumulated other comprehensive loss	(8)	(8)
Total stockholder's equity	1,254	1,146
Total liabilities and stockholder's equity	$2,965	$2,830

See accompanying notes.

SOUTHERN NATURAL GAS COMPANY

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Cash flows from operating activities		
Net income	$108	$ 98
Adjustments to reconcile net income to net cash from operating activities		
Depreciation, depletion and amortization	38	35
Deferred income tax expense	15	36
Earnings from unconsolidated affiliates, adjusted for cash distributions	(55)	(42)
Other non-cash income items	(3)	(1)
Asset and liability changes	8	2
Net cash provided by operating activities	111	128
Cash flows from investing activities		
Additions to property, plant and equipment	(132)	(181)
Net change in affiliate advances	21	(6)
Net proceeds from the disposal of assets	4	8
Other	(4)	—
Net cash used in investing activities	(111)	(179)
Cash flows from financing activities		
Net proceeds from the issuance of long-term debt	—	384
Dividends paid	—	(290)
Net cash provided by financing activities	—	94
Net change in cash and cash equivalents	—	43
Cash and cash equivalents		
Beginning of period	—	—
End of period	$ —	$ 43

See accompanying notes.

SOUTHERN NATURAL GAS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

We are a 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. You should read it 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 September 30, 2004 and for the quarters and nine months ended September 30, 2004 and 2003, are unaudited. We derived the balance sheet as of December 31, 2003, from the audited balance sheet filed in our 2003 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. In addition, prior period information presented in these financial statements includes reclassifications which were made to conform to the current period presentation. These reclassifications had no effect on our previously reported net income or stockholder's equity.

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

2. Liquidity

El Paso is a significant potential source of liquidity to us. We participate in El Paso's cash management program whereby, depending on whether we have short-term cash surpluses or requirements, we either provide cash to El Paso or El Paso provides cash to us. We have historically provided cash advances to El Paso and as of September 30, 2004, we had a cash advance receivable from El Paso of $132 million, classified as a non-current asset in our balance sheet. We believe that our cash flows from operating activities will be adequate to meet our short term capital and debt service requirements for our existing operations, therefore we do not believe we will need to seek repayment of these advances within the next twelve months.

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 amounts owed to us. In that event, we could be required to write-off some or all of these advances, which could have a material impact on our stockholder's equity and we would still be required to repay affiliated company payables, if demanded. Although increases in our debt to EBITDA (as defined in our agreements) ratio that cause the ratio to exceed 6 to 1 could prohibit us from incurring additional debt, the equity reduction that would result if we wrote off these receivables would not result in an event of default under our existing debt agreements.

During 2004, El Paso restated its historical financial statements to reflect the accounting impact of revisions to its natural gas and oil reserve estimates and for changes in the manner in which it accounted for certain derivative contracts, primarily those related to the hedging of its natural gas production. El Paso believes that the restatement of its historical financial statements would have constituted events of default under its revolving credit facility and various other financings; specifically under the provisions of those agreements related to representations and warranties on the accuracy of its historical financial statements and on El Paso's debt to total capitalization ratio. During 2004, El Paso received a series of waivers on its revolving credit facility and these other financing transactions to address these issues. These waivers continue to be in effect. El Paso also received an extension of time from various lenders until November 30, 2004 to file its second quarter 2004 Form 10-Q which it expects to meet. If El Paso is unable to file its second quarter 2004 Form 10-Q by that date and is not able to negotiate an additional extension of the filing deadline, its revolving credit facility and various other financings could be accelerated. As part of obtaining the waivers, El Paso amended various provisions of the revolving credit facility, including provisions related to events of default and limitations on the ability of El Paso, as well as its subsidiaries, to prepay debt that matures after June 30, 2005.

See Note 4 below for a further discussion of the revolving credit facility and the potential refinancing of this facility.

Based upon a review of the covenants contained in our long-term debt agreements, we believe that a default on El Paso's revolving credit facility would not result in an event of default under our debt agreements.

Our equity investment in Bear Creek Storage Company (Bear Creek) serves as collateral under El Paso's revolving credit facility and other of El Paso's financing transactions. If El Paso's lenders under these facilities were to exercise their rights to this collateral, our investment could be liquidated. However, this liquidation would not constitute an event of default under our existing debt agreements.

If, as a result of the events described above, 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.

3. Accounting For Hedging Activities

As of September 30, 2004 and December 31, 2003, our equity interest in the value of Citrus Corp.'s (Citrus) cash flow hedges included in accumulated other comprehensive income was an unrealized loss of $8 million, net of income taxes. This amount will be reclassified to earnings over the term of Citrus' outstanding debt. We estimate that $1 million of this unrealized loss will be reclassified from accumulated other comprehensive loss over the next twelve months. For the quarters and nine months ended September 30, 2004, and 2003, no ineffectiveness was recorded in earnings on these cash flow hedges.

4. Credit Facilities

El Paso maintains a revolving credit facility, with a $1.5 billion letter of credit sublimit, which matures on June 30, 2005. El Paso liquidated a portion of the collateral supporting the revolving credit facility, which reduced the overall borrowing availability from $3 billion to $2.5 billion in October 2004. We are not a borrower under El Paso's revolving credit facility; however, El Paso's equity in several of its subsidiaries, including our equity in Bear Creek, collateralizes the revolving credit facility and other financing arrangements including leases, letters of credit and other credit facilities. See Note 2 for a discussion regarding El Paso's waivers on the revolving credit facility.

El Paso is in the process of negotiating the refinancing of this facility as the combination of a three year revolving credit facility and a five year term loan and currently expects to be successful in this refinancing by December 31, 2004.

Under our indentures, we are subject to a number of restrictions and covenants. The most restrictive of these include (i) limitations on the incurrence of additional debt, based on a ratio of debt to EBITDA (as defined in the agreements), the most restrictive of which shall not exceed 6 to 1; (ii) limitations on the use of proceeds from borrowings; (iii) limitations, in some cases, on transactions with our affiliates; (iv) limitations on the incurrence of liens; (v) potential limitations on our ability to declare and pay dividends; and (vi) potential limitations on our ability to participate in El Paso's cash management program discussed in Note 7.

5. 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 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.

Key. We were named as a defendant in *Randall Key v. LDI Contractors, Inc., et al.*, filed in 2002 in the Circuit Court of Jefferson County, Alabama. The plaintiff, an employee of a contractor, suffered paralysis as a result of a coupling failure during a pipeline repressurization in May 2002. The plaintiff is seeking compensatory and punitive damages against us and three other defendants. In September 2004, we reached a settlement with the plaintiff and two co-defendants. We are continuing to pursue contribution and indemnity claims against the other co-defendant and their insurers.

Royalty Claim. In five contract settlements reached in the late 1980s with Elf Aquitaine (Elf) pertaining to the pricing of gas produced from certain federal offshore blocks, we indemnified Elf against royalty claims that potentially could have been asserted by the Minerals Management Service (MMS). Following its settlements with us, Elf received demands from MMS for royalty payments related to the settlements. With our approval, Elf protested the demands for over a decade while trying to reach a settlement with the MMS. Elf, which is now Total E&P USA (Total), has recently advised us that it is now renewing efforts to settle claims by the MMS for excess royalties attributable to price reductions that we achieved in the gas contract settlements in the late 1980s. Total has informed us that the MMS is claiming $10.2 million in royalties, including $7.3 million of interest, for the five settlements with us and that Total is proposing to make a settlement offer to MMS. If Total cannot resolve these claims administratively with MMS, then an appeal can be taken to the federal courts. We have the right under a pre-existing settlement with our customers to recover through a surcharge payable by our customers a portion of the amount ultimately paid to MMS under the royalty indemnity with Total.

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 September 30, 2004, we had accrued approximately $1 million for our 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 September 30, 2004, we had accrued approximately $2 million for expected remediation costs and associated onsite, offsite and groundwater technical studies. Our accrual was based on the most likely outcome that can be reasonably estimated. Below is a reconciliation of our environmental remediation liabilities as of September 30, 2004 (in millions):

Balance as of January 1, 2004	$ 3
Additions/adjustments for remediation activity	1
Payments for remediation activities	(2)
Balance as of September 30, 2004	$ 2

In addition, we expect to make capital expenditures for environmental matters of approximately $9 million in the aggregate for the years 2004 through 2006, excluding the Toca Air Permit Violation discussed below. These expenditures primarily relate to compliance with clean air regulations. For the remainder of 2004, we estimate that our total remediation expenditures will be approximately $1 million, which primarily will be expended under government directed clean-up plans.

Toca Air Permit Violation. In June 2003, we notified the Louisiana Department of Environmental Quality (LDEQ) that we had discovered possible compliance issues with respect to operations at our Toca Compressor Station. In response to a request from the LDEQ, we submitted a report in September 2003 documenting that there had been unpermitted emissions from nine condensate storage tanks and a tank truck loading station. In December 2003, the LDEQ issued an order requiring us to correct the existing operating permit and achieve compliance with federal and state laws and regulations. We are investing an estimated $6 million to upgrade the environmental controls at the Toca Compressor Station by 2005. We filed a revised permit application and a plan for compliance with the LDEQ in January 2004. The LDEQ and the Louisiana Attorney General's office have agreed to assess a penalty of $66,000 to resolve this matter.

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 our reserves are adequate.

Rates and Regulatory Matters Rate Case. In August 2004, we filed a new rate proceeding with the Federal Energy Regulatory Commission (FERC) seeking an annual rate increase of $35 million, or 11 percent in jurisdictional rates, no changes to cost allocation, rate design or current fuel retention percentage, and certain revisions to our effective tariff regarding terms and conditions of service. In September 2004, the FERC issued a suspension order accepting certain proposed tariff revisions, including the elimination of right of first refusal matching term limitations, changes in the imbalance cash-out price calculations, and permitting formularized discounting as a non-material deviation. These revisions became effective in October 2004. The order established a technical conference to assess other proposed tariff revisions, including notice to exercise public service commission (PSC) outs, restrictions on firm receipt point amendments, the application of the Storage Reconciliation Mechanism Surcharge to additional services on our system, and the change in cash-out pricing for imbalances of less than 2 percent, to become effective on the earlier of a subsequent order of the FERC or March 2005. The FERC established a hearing on our proposed rate increase, to become effective in March 2005, subject to refund and conditions, for July 2005. The FERC staff has indicated that it will convene the technical conference on remaining tariff issues in December 2004.

Accounting for Pipeline Assessment Costs. In November 2004, the FERC issued an industry-wide Proposed Accounting Release that, if enacted as written, will disallow the capitalization of certain costs that are part of our pipeline integrity program. The accounting release is proposed to be effective January 2005 following a period of public comment on the release. We are currently reviewing the release and have not determined what impact this release will have on our consolidated financial statements.

There are several regulatory rules and orders in various stages of adoption, review and/or implementation, none of which we believe will have a material impact on us.

While the outcome of our outstanding rates and regulatory matters cannot be predicted with certainty, based on current information, 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.

Other Matters

Atlanta Gas Light. The majority of our contracts for firm transportation service with our largest customer, Atlanta Gas Light Company (AGL), were due to expire in 2005. In January 2004, we and AGL executed a Letter of Intent (LOI) pursuant to which AGL agreed to extend its firm transportation service contracts with us for 926,534 Mcf/d for a weighted average term of 6.5 years between 2008 and 2015 in exchange for the sale by us to AGL of approximately 250 miles of certain pipeline facilities and nine measurement facilities in the metropolitan Atlanta area at a transfer price now estimated at approximately $31 million. We and AGL reached an agreement on terms for the contract extensions and facility sales and executed the definitive agreements to implement the transactions (Triangle Project) in April 2004, subject to approvals by the FERC and the Georgia Public Service Commission (GPSC). We filed the FERC application in May 2004. That application was the subject of protests and comments by several parties, including SCANA Energy Marketing. We have filed an answer to the protests in the proceeding, and the matter is currently pending before the FERC. AGL filed its Capacity Supply Plan with the GPSC in July 2004. We provided testimony and briefs in support of AGL at hearings before the GPSC. The GPSC issued an order in the proceeding in September 2004, generally approving the Triangle Project, as negotiated between us and AGL. However, the GPSC required that regulatory out language be included in service agreements between us and AGL. We and AGL filed for rehearing of the order. In October 2004, the GPSC approved an alternate ordering paragraph proposed by AGL which eliminated the regulatory out language.

Enron Bankruptcy. In December 2001, Enron Corp. (Enron) and a number of its subsidiaries, including Enron North America Corp. (ENA), filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Southern District of New York. We had contracts with ENA for, among other things, the transportation of natural gas. Following the rejection of these contracts by ENA, we filed a proof of claim totaling $1.9 million with the Bankruptcy Court. We have fully reserved for the amounts due from ENA.

In addition, we own 50 percent of the outstanding stock of Citrus with Enron owning the other 50 percent. El Paso and Enron are parties to a Capital Stock Agreement that governs, among other things, the ownership of capital stock in Citrus. The Capital Stock Agreement contains restrictions on the transferability of the capital stock of Citrus. These restrictions include rights of first refusal if either owner desires to sell its interest in Citrus. Those shares must first be offered to the other stockholder before the shares can be sold or transferred to a party other than a wholly-owned subsidiary.

In October 2003, Enron filed a motion with the Bankruptcy Court seeking approval to assign the Capital Stock Agreement to CrossCountry Energy Corp., which would acquire Enron's stock in Citrus and then be distributed to Enron's creditors. We objected to the motion on the basis that we must consent to the assignment and that the assignment would effectively circumvent the transferability restrictions under the Capital Stock Agreement, including our right of first refusal. The Bankruptcy Court granted the motion to assign the Capital Stock Agreement in December 2003. In March 2004, Enron gave notice that this assignment would be effective in April 2004.

In September 2004, an auction was held in Houston, Texas, at which a joint venture of Southern Union (SU) and General Electric (GE) was declared the winning bidder for CrossCountry. On September 9, 2004, the Bankruptcy Court approved a purchase agreement between Enron and SU/GE, in which SU/GE agreed to acquire 100 percent of the equity interest in CrossCountry. The transaction is valued at $2.5 billion, including the assumption of certain consolidated debt, and is anticipated to close in December 2004.

Duke. In March 2003, Citrus Trading Corporation (CTC), a direct subsidiary of Citrus, filed suit against Duke Energy LNG Sales, Inc. (Duke) titled *Citrus Trading Corp. v. Duke Energy LNG Sales, Inc.* in the District Court of Harris County, Texas seeking damages for breach of a gas supply contract.

In April 2003, Duke sent CTC notice of termination of the gas supply contract alleging failure of CTC to increase the amount of an outstanding letter of credit backstopping its purchase obligations; filed an answer to CTC's complaint stating among other reasons that CTC had triggered the early termination and breached the gas supply contract; and removed the case to federal court, based on the existence of foreign arbitration with its LNG supplier, Sonatrading Amsterdam B.V. Sonatrading was alleged to have repudiated its supply contract with Duke.

In May 2003, CTC notified Duke that it was in default under the gas supply contract, demanding cover damages for alternate supplies obtained by CTC, and filed a motion to remand the case back to state court. Subsequently, CTC gave Duke notice of early termination of the gas supply contract.

In August 2003, Duke filed a third-party petition against Sonatrading. In October 2003, CTC filed an amended complaint, alleging wrongful contract termination and specifying damages of $185 million. Also in October 2003, Duke filed various petitions claiming that Sonatrading's breach of contract resulted in its being responsible for any damages the court may ultimately find Duke owes to Citrus. In October 2003, the case was once again removed to federal court. In November 2003, pursuant to a judicial order, CTC filed an amended complaint against Duke.

In March 2004, CTC sent a demand letter to PanEnergy Corp., the holding company of Duke, insisting on a financial guarantee from Duke for the $185 million. In April 2004, CTC filed an amended complaint and counter-claim, joining PanEnergy to the proceeding. Duke filed an answer and an amended counter-claim joining Citrus. Following a hearing held on June 4, 2004, Duke's third-party complaint against Sonatrading was dismissed. In July 2004, CTC filed a Motion for Partial Summary Judgment, requesting that the court find that it had not breached its obligations to post adequate security under its gas supply contract with Duke. In August 2004, Duke filed a Cross Motion for Partial Summary Judgment, requesting that the court find that it had the right to terminate its gas sales contract with CTC. CTC filed an Answer on September 3, 2004. On September 16, 2004, Duke filed a reply brief in support of its motion. An adverse outcome on these matters could impact our investment in Citrus. We do not expect the ultimate resolution of this matter to have a material adverse effect on us.

CFTC Investigation. In April 2004, ANR Storage Company and Blue Lake Gas Storage Company, our affiliates, elected to voluntarily cooperate with the Commodity Futures Trading Commission (CFTC) in connection with the CFTC's industry-wide investigation of activities affecting the price of natural gas in the fall of 2003. Specifically, the CFTC requested that the companies provide information, on behalf of themselves and their affiliates, relating to storage reports provided to the Energy Information Administration for the period of October 2003 through December 2003. We cooperated with the CFTC's investigation and provided requested information for the relevant time period regarding our storage operations at Bear Creek and Muldon Field. In August 2004, the CFTC announced that it had concluded its investigation and found no evidence of wrongdoing.

While the outcome of these matters cannot be predicted with certainty, based on current information, 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.

6. Retirement Benefits

The components of our postretirement benefit costs for the periods ended September 30 are as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In millions)			
Interest costs	$ 2	$ 1	$ 5	$ 4
Expected return on plan assets	(1)	—	(2)	(2)
Amortization of actuarial loss	—	—	1	—
Net postretirement benefit cost	$ 1	$ 1	$ 4	$ 2

7. Investments in Unconsolidated Affiliates and Transactions with Affiliates

Investments in Unconsolidated Affiliates

Our investments in unconsolidated affiliates consist of our equity ownership interests in Citrus and Bear Creek. Summarized income statement information of our proportionate share of our unconsolidated affiliates for the periods ended September 30 are as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In millions)			
Operating results data:				
Operating revenues	$68	$63	$191	$183
Operating expenses	24	30	75	78
Income from continuing operations	18	17	50	38
Net income[1]	18	17	52	38

[1] The difference between our proportionate share of our equity investments' net income and our earnings from unconsolidated affiliates reflected in our income statement is due primarily to timing differences between the estimated and actual equity earnings from our investments.

Summarized income statement information of our proportionate share of Citrus for the periods ended September 30 are as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In millions)			
Operating results data:				
Operating revenues	$64	$59	$178	$170
Operating expenses	21	28	69	73
Income from continuing operations	18	14	44	29
Net income[1]	18	14	46	29

[1] The difference between our proportionate share of our equity investments' net income and our earnings from unconsolidated affiliates reflected in our income statement is due primarily to timing differences between the estimated and actual equity earnings from our investments.

Transactions with Affiliates

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. As of September 30, 2004 and December 31, 2003, we had advanced to El Paso $132 million and $153 million. The interest rate at September 30, 2004 was 2.7% and at December 31, 2003 was 2.8%. These receivables are due upon demand; however, as of September 30, 2004 and December 31, 2003, we have classified these advances as non-current notes receivable from affiliates because we do not anticipate settlement within the next twelve months. See Note 2 for a discussion regarding our participation in and the collectibility of these receivables.

At September 30, 2004, we had other accounts receivable from affiliates of $1 million. Also, at September 30, 2004 and December 31, 2003, we had accounts payable to affiliates of $11 million and $8 million. These balances arose in the normal course of business. We also received $2 million and $10 million in deposits related to our transportation contracts with El Paso Marketing L.P. (formerly El Paso Merchant Energy L.P.) which are included in our balance sheet as current liabilities as of September 30, 2004 and December 31, 2003.

In the third quarter of 2004, we acquired assets from our affiliate with a net book value of $4 million.

The following table shows revenues and charges from our affiliates for the periods ended September 30:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
	(In millions)			
Revenues from affiliates	$ 2	$ 6	$ 8	$28
Operations and maintenance expenses from affiliates	13	12	34	36

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 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.

Results of Operations

Our management, as well as El Paso's management, uses 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 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 management can evaluate our operating results without regard to our financing methods. We believe the discussion of our results of operations based on EBIT is useful 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 EBIT to net income.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In millions, except volume amounts)			
Operating revenues	$ 121	$ 111	$ 367	$ 342
Operating expenses	(73)	(66)	(204)	(189)
Operating income	48	45	163	153
Earnings from unconsolidated affiliates	21	14	55	42
Other income, net	2	3	7	9
Other	23	17	62	51
EBIT	71	62	225	204
Interest and debt expense	(23)	(24)	(70)	(63)
Affiliated interest income, net	1	1	3	3
Income taxes	(16)	(11)	(50)	(46)
Net income	33	$ 28	$ 108	$ 98
Throughput volumes (BBtu/d)[1]	3,103	2,961	3,225	3,098

[1] Throughput volumes include volumes associated with our proportionate share of our 50 percent equity interest in Citrus and billable transportation throughput volumes for storage injection.

Operating Results (EBIT)

Third Quarter 2004 Compared to Third Quarter 2003

The following factors contributed to our overall EBIT increase of $9 million for the quarter ended September 30, 2004 as compared to the same period in 2003:

	Revenue Impact	Expense Impact	Other Impact	EBIT Impact
	Favorable/(Unfavorable) (In millions)			
Mainline expansions	$ 8	$(2)	$(1)	$ 5
Gas sales activities	2	(2)	—	—
Higher overhead allocation	—	(6)	—	(6)
Earnings from our equity investment in Citrus	—	—	6	6
Other items	—	3	1	4
Total	$10	$(7)	$ 6	$ 9

Nine Months Ended 2004 Compared to Nine Months Ended 2003

The following factors contributed to our overall EBIT increase of $21 million for the nine months ended September 30, 2004 as compared to the same period in 2003:

	Revenue Impact	Expense Impact	Other Impact	EBIT Impact
	Favorable/(Unfavorable) (In millions)			
Mainline expansions	$27	$ (5)	$(4)	$18
Interruptible revenue	(2)	—	—	(2)
Gas sale activities	(1)	1	—	—
Higher overhead allocation	—	(9)	—	(9)
Earnings from our equity investment in Citrus	—	—	12	12
Other items	1	(2)	3	2
Total	$25	$(15)	$11	$21

Our mainline expansions consist of three major projects that were phased into service from June 2002 through August 2004. In addition, our EBIT increased due to earnings from our equity investment in Citrus. During the second quarter of 2004, Citrus sold one of its major trading contracts as a result of its exiting the trading business. The impact of this sale on our year to date EBIT is offset by gas sales activities of its trading business in 2003 versus 2004.

In November 2004, the FERC issued an industry-wide Proposed Accounting Release that, if enacted as written, will disallow the capitalization of certain costs that are part of our pipeline integrity program. The accounting release is proposed to be effective January 2005 following a period of public comment on the release. We are currently reviewing the release and have not determined what impact this release will have on our consolidated financial statements.

Interest and Debt Expense

Interest and debt expense for the nine months ended September 30, 2004, was $7 million higher than the same periods in 2003 primarily due to the issuance in March 2003 of $400 million senior unsecured notes with an annual interest rate of 8.875%.

Income Taxes

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In millions, except for rates)			
Income taxes	$16	$11	$50	$46
Effective tax rate	33%	28%	32%	32%

Our effective tax rates were different than the statutory rate of 35 percent in all periods, primarily due to the effect of state income taxes, offset by the tax effect of earnings from unconsolidated affiliates where we anticipate receiving dividends.

Expansion Projects

During the third quarter of 2004, Phase II of our South System II expansion project was placed in service. The South System II expansion has a design capacity of 330 MMcf/d and will increase our firm transportation capacity along our south mainline to Alabama, Georgia and South Carolina. Current cost estimates are approximately $253 million, and current expenditures as of September 30, 2004 are approximately $251 million.

In April 2003, the FERC approved the expansion of our Elba Island LNG facility to increase the design sendout rate of the facility from 446 MMcf/d to 806 MMcf/d. Current cost estimates for the expansion are approximately $159 million, and current expenditures as of September 30, 2004 are approximately $67 million. Construction commenced in July 2003 with an in-service date expected to be in February 2006.

Other

In September 2004, we incurred significant damage to sections of our offshore pipeline facilities due to Hurricane Ivan. Cost estimates are currently in the $40 to $45 million range with damage assessment still in progress. We expect insurance reimbursement for the cost of the damage with the exception of our share of a $2 million deductible applied on a corporate-wide basis.

Liquidity and Capital Resources

Liquidity

Our liquidity needs have historically been provided through cash flows from operating activities and the use of El Paso's cash management program. Under El Paso's cash management program, depending on whether we have short-term cash surpluses or requirements, we either provide cash to El Paso or El Paso provides cash to us. We have historically provided cash advances to El Paso, and as of September 30, 2004, we had a cash advance receivable from El Paso of $132 million classified as a non-current asset in our balance sheet. We believe that our cash flows from operating activities will be adequate to meet our short term capital and debt service requirements for our existing operations, therefore we do not believe we will need to seek repayment of these advances within the next twelve months.

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 amounts owed to us. In that event, we could be required to write-off some or all of these advances, which could have a material impact on our stockholder's equity and we would still be required to repay affiliated company payables if demanded. Although increases in our debt to EBITDA (as defined in our agreements) ratio that cause the ratio to exceed 6 to 1 could prohibit us from incurring additional debt, the equity reduction that would result if we wrote off these receivables would not result in an event of default under our existing debt agreements.

During 2004, El Paso restated its historical financial statements to reflect the accounting impact of revisions to its natural gas and oil reserve estimates and for changes in the manner in which it accounted for certain derivative contracts, primarily those related to the hedging of its natural gas production. El Paso believes that the restatement of its historical financial statements would have constituted events of default under its revolving credit facility and various other financings; specifically under the provisions of those agreements related to representations and warranties on the accuracy of its historical financial statements and on El Paso's debt to total capitalization ratio. During 2004, El Paso received a series of waivers on its revolving credit facility and these other financing transactions to address these issues. These waivers continue to be in effect. El Paso also received an extension of time from various lenders until November 30, 2004 to file its second quarter 2004 Form 10-Q which it expects to meet. If El Paso is unable to file its second quarter 2004 Form 10-Q by that date and is not able to negotiate an additional extension of the filing deadline, its revolving credit facility and various other financings could be accelerated. As part of obtaining the waivers, El Paso amended various provisions of the revolving credit facility, including provisions related to events of default and limitations on the ability of El Paso, as well as its subsidiaries, to prepay debt that matures after June 30, 2005. See Item 1, Financial Statements, Note 4, for a further discussion of the revolving credit facility and the potential refinancing of this facility.

Based upon a review of the covenants contained in our long-term debt agreements, we believe that a default on El Paso's revolving credit facility would not result in an event of default under our debt agreements.

Our equity investment in Bear Creek serves as collateral under El Paso's revolving credit facility and other of El Paso's financing transactions. If El Paso's lenders under these facilities were to exercise their rights to this collateral, our investment could be liquidated. However, this liquidation would not constitute an event of default under our existing debt agreements.

If, as a result of the events described above, 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.

Our cash flows for the nine months ended September 30 were as follows:

	2004	2003
	(In millions)	
Cash flows from operating activities	$ 111	$ 128
Cash flows from investing activities	(111)	(179)
Cash flows from financing activities	—	94[(1)]

(1) Represents net proceeds from the issuance of $400 million of long-term debt in March 2003, net of a dividend paid to our parent.

Cash Flows from Operating Activities

Net cash provided by operating activities was $111 million for the first nine months of 2004 versus $128 million in the same period of 2003. This decrease was primarily due to a $7 million cash outflow for the replacement of stored gas and $10 million of customer deposits returned in 2004.

Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2004 consisted of $132 million in capital expenditures, primarily for our pipeline and LNG terminal expansions, offset by a $21 million of net advances to our affiliate.

Capital Expenditures

Our capital expenditures for the nine months ended September 30, 2004 were approximately $132 million. We expect to spend $66 million for the remainder of 2004 for capital expenditures, consisting of $25 million to expand the capacity of our system and $41 million for maintenance capital. We expect to fund our maintenance and expansion capital expenditures through a combination of internally generated funds and/or by recovering amounts advanced to El Paso under its cash management program.

Commitments and Contingencies

See Item 1, Financial Statements, Note 5, which is incorporated herein by reference.

CAUTIONARY STATEMENTS 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.

With this in mind, you should consider the risks discussed elsewhere in this report and other documents we file with the Securities and Exchange Commission from time to time.

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, 2003, 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, 2003.

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 risk 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 theses processes, 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. While we have identified areas where our processes and internal controls can be improved, we have not identified any deficiencies we believe, individually or in the aggregate, would constitute a material weakness in our controls over financial reporting. As we continue our SOX 404 compliance efforts, we may identify matters which may need to be reported or which may constitute material weaknesses in our internal controls over financial reporting.

We did not make any changes to our internal controls over financial reporting during the quarter ended September 30, 2004, that have had a material adverse affect or are reasonably likely to have a material adverse effect on our internal controls over financial reporting. However, we have made changes to improve our internal controls during the quarter ended September 30, 2004.

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 reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on our evaluation, we have concluded that our disclosure controls and procedures were effective at September 30, 2004.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Item 1, Financial Statements, Note 5, 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

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 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.

SOUTHERN NATURAL GAS COMPANY

Date: November 12, 2004

/s/ JOHN W. SOMERHALDER II

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

Date: November 12, 2004

/s/ GREG G. GRUBER

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