TWP93 6/28/93

APPENDIX C

ENRON FINANCIAL ASSURANCE DOCUMENTS

ENRON
Transwestern Pipeline Company

P. O. Box 1188 Houston, Texas 77251-1188 (713) 853-6161

June 28, 1993

Ms. Barbara Hoditschek
RCRA Permit Program Manager
Hazardous and Radioactive Materials Bureau
State of New Mexico Environment Department
Harold Runnels Bldg.
1190 St. Francis Drive, P.O. Box 26110
Santa Fe, N.M. 87502

Dear Ms. Hoditschek:

I am the chief financial officer of Transwestern Pipeline Company, 1400 Smith Street, Houston, Texas 77002. This letter is in support of this firm's use of the financial test to demonstrate financial assurance, as specified in subpart H of 40 CFR parts 264 and 265.

The firm identified above is the owner or operator of the following facilities for which liability coverage for both sudden and nonsudden accidental occurrences is being demonstrated through the financial test specified in subpart H of 40 CFR parts 264 and 265: Roswell Compressor Station.

The firm identified above guarantees, through the guarantee specified in subpart H of 40 CFR parts 264 and 265, liability coverage for both sudden and nonsudden accidental occurrences at the following facilities owned or operated by the following: Roswell Compressor Station.

1. The firm identified above owns or operates the following facilities for which financial assurance for closure or post-closure care or liability coverage is demonstrated through the financial test specified in subpart H of 40 CFR parts 264 and 265. The current closure and/or post-closure cost estimate covered by the test are shown for each facility: Roswell Compressor Station - @ $3,000,000.00.

2. The firm identified above guarantees, through the guarantee specified in subpart H of 40 CFR parts 264 and 265, the closure and post-closure care or liability coverage of the following facilities owned or operated by the guaranteed party. The current cost estimates for the closure or post-closure care so guaranteed are shown for each facility: NONE.

3. In States where EPA is not administering the financial requirements of subpart H of 40 CFR parts 264 and 265, this firm is demonstrating financial assurance for the closure or post-closure care of the following facilities through the use of a test equivalent or substantially equivalent to the financial test specified in subpart H of 40 CFR parts 264 and 265. The current closure or post-closure cost estimates covered by such a test are shown for each facility: NONE.

4. The firm identified above owns or operates the following hazardous waste management facilities for which financial assurance for closure or, if a disposal facility, post-closure care, is not demonstrated either to EPA or a State through the financial test or any other financial assurance mechanisms specified in subpart H of 40 CFR parts 264 and 265 or equivalent or substantially equivalent State mechanisms. The current closure and/or post-closure cost estimates not covered by such financial assurance are shown for each facility: NONE.

5. This firm is the owner or operator of the following UIC facilities for which financial assurance for plugging and abandonment is required under 40 CFR part 144. The current closure cost estimates as required by 40 CFR 144.62 are shown for each facility: NONE.

This firm is not required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

The fiscal year of this firm ends on December 31st. The figures for the following items marked with an asterisk are derived from this firm's independently audited, year-end financial statements for the latest completed fiscal year ended December 31, 1992.

ALTERNATIVE II

1. Sum of current closure and post-closure cost estimates (total of all cost estimates shown in the four paragraphs above)....................$3,000,000.00
2. Amount of annual aggregate liability coverage to be demonstrated....................$2,000,000.00
3. Sum of lines 1 and 2....................$5,000,000.00
4. Current bond rating of most recent issuance of this firm and name of rating service.................... N/A
5. Date and issuance of bond.................... N/A
6. Date of maturity of bond.................... N/A

* 7. Tangible net worth (if any portion of the closure and post-closure cost estimates is included in "total liabilities" on your firm's financial statements, you may add the amount of that portion to this line)........$561,866,000.00

* 8. Total assets in U.S. (required only if less than 90% of firm's assets are located in the U.S.)..............$944,307,000.00

	Yes	No
9. Is line 7 at least $10 million?........................	X	
10. Is line 7 at least 6 times line 3?....................	X	
*11. Are at least 90% of firm's assets located in the U.S.? If not, complete line 12............................	X	
12. Is line 8 at least 6 times line 3?....................	N/A	

I hereby certify that the wording of this letter is identical to the wording specified in 40 CFR 264.151(g) as such regulations were constituted on the date shown immediately below.

E. G. Parks
Vice President & Controller
Transwestern Pipeline Company

ARTHUR ANDERSEN & CO.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Transwestern Pipeline Company:

We have audited, in accordance with generally accepted auditing standards, the balance sheet of Transwestern Pipeline Company, a wholly-owned subsidiary of Enron Corp., as of December 31, 1992, and the related statements of income, retained earnings and additional paid-in capital and cash flows for the year then ended and have issued our report thereon dated February 19, 1993. We have not audited any financial statements or performed any auditing procedures for any period subsequent to December 31, 1992.

At your request, we have read the letter dated June 28, 1993, from your Chief Financial Officer to the RCRA Permit Program Manager of the Hazardous and Radioactive Materials Bureau for the State of New Mexico Environment Department to demonstrate financial assurance for both closure and/or post-closure and liability care as specified in the Code of Federal Regulations Subpart H of 40 CFR Parts 264 and 265 for the United States Environmental Protection Agency. As further required by Sections 264.143 (f)(3)(iii) and 264.145 (f)(3)(iii), we have compared the amounts comprising the data, except for the tangible net worth which is discussed in the paragraph below, which the letter from the Chief Financial Officer specifies have been derived from the independently audited financial statements as of and for the year ended December 31, 1992, referred to above, with the corresponding amounts appearing in such financial statements and found them to be in agreement.

We compared the dollar amount representing tangible net worth appearing in the letter from the Chief Financial Officer to the corresponding amount appearing on an analysis schedule prepared by Transwestern Pipeline Company, and found such amount to be in agreement. Such analysis schedule shows the components of tangible net worth. We compared the amount appearing on such analysis schedule representing total stockholder's equity to the financial statements referred to above, and found such amount to be in agreement. We compared the amount appearing on such analysis schedule representing intangible assets to Transwestern Pipeline Company's accounting records and found such amount to be in agreement. We recomputed tangible net worth and found such amount to be arithmetically correct.

In connection with the procedures described in the preceding paragraphs, no matters came to our attention that caused us to believe that the specified data should be adjusted.

This report relates only to the data specified above and does not extend to the financial statements of Transwestern Pipeline Company taken as a whole, for the year ended December 31, 1992. It is furnished solely for the use of Transwestern Pipeline Company for its distribution to the State of New Mexico Environment Department, and should not be used for any other purpose.

Arthur Andersen & Co.

Houston, Texas
June 25, 1993

ARTHUR ANDERSEN & CO.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Transwestern Pipeline Company:

We have audited the accompanying balance sheets of Transwestern Pipeline Company (a Delaware Corporation and a wholly-owned subsidiary of Enron Corp.) as of December 31, 1992 and 1991, and the related statements of income, retained earnings and additional paid-in capital and cash flows for the years then ended. These financial statements are the responsibility of Transwestern Pipeline Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Transwestern Pipeline Company as of December 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Houston, Texas
February 19, 1993

TRANSWESTERN PIPELINE COMPANY
BALANCE SHEET

(In Thousands)

	December 31, 1992	December 31, 1991
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5	$ 3
Accounts receivable—		
Customers (net of allowance for doubtful accounts of $269 at December 31, 1992 and 1991)	615	52
Associated companies	251	157
Notes receivable from associated company	—	21,118
Materials and supplies, at average cost	6,707	6,626
Exchange gas receivable	8,306	2,104
Other	640	674
Total current assets	16,524	30,734
Property, Plant and Equipment, at cost:	1,098,711	1,044,343
Less – Accumulated depreciation and amortization	218,273	194,592
Net property, plant and equipment	880,438	849,751
Deferred Charges and Other Assets:		
Deferred contract reformation costs, net	5,975	8,075
Environmental cleanup cost, net	26,585	26,708
Other	14,785	10,626
Total deferred charges and other assets	47,345	45,409
Total assets	$ 944,307	$ 925,894

The accompanying notes are an integral part of these financial statements.

TRANSWESTERN PIPELINE COMPANY
BALANCE SHEET

(In Thousands)

	December 31,			
	1992		1991	
LIABILITIES AND STOCKHOLDER'S EQUITY				
Current Liabilities:				
Current portion of long-term debt	$	–	$	40,000
Accounts payable –				
Trade		4,933		24,327
Other		1,779		39,426
Associated companies		3,958		4,453
Notes payable to associated companies		19,743		–
Accrued interest		1,056		3,515
Regulatory reserves		–		8,891
Other		4,208		1,164
Total current liabilities		35,677		121,776
Long-Term Debt, Net of Current Maturities		150,000		50,000
Deferred Credits and Other Liabilities:				
Deferred income taxes		187,920		174,815
Other		7,829		12,789
Total deferred credits and other liabilities		195,749		187,604
Commitments and Contingencies (Notes 8 and 9)				
Stockholder's Equity				
Common stock		1		1
Additional paid-in capital		409,191		409,191
Retained earnings		153,689		157,322
Total stockholder's equity		562,881		566,514
Total liabilities and stockholder's equity	$	944,307	$	925,894

The accompanying notes are an integral part of these financial statements.

TRANSWESTERN PIPELINE COMPANY
STATEMENT OF INCOME

(In Thousands)

	Year Ended December 31, 1992	Year Ended December 31, 1991
Revenues:		
Gas Sales	$ 15,679	$ 37,288
Transport	193,295	210,292
Other	1,838	1,315
Total revenues	210,812	248,895
Operating Expenses:		
Natural gas purchased	8,432	41,015
Operations and maintenance	69,743	88,895
Amortization of deferred contract reformation costs	15,478	45,626
Depreciation and amortization	32,083	26,525
Taxes other than income taxes	6,384	6,511
Total operating expenses	132,120	208,572
Operating Income	78,692	40,323
Other Income (Expense):		
Interest income	102	6,233
Interest expense and related charges	(7,225)	(11,287)
Allowance for funds used during construction	10,857	11,907
Other, net	(77)	133
Total other income (expense)	3,657	6,986
Income Before Income Taxes	82,349	47,309
Income Tax Expense	31,607	18,027
Net Income	$ 50,742	$ 29,282

The accompanying notes are an integral part of these financial statements.

TRANSWESTERN PIPELINE COMPANY
STATEMENT OF RETAINED EARNINGS AND ADDITIONAL PAID-IN CAPITAL

(In Thousands)

	Additional Paid-In Capital	Retained Earnings
Balance, December 31, 1990	$ 409,191	$ 128,040
Net Income	–	29,282
Balance, December 31, 1991	409,191	157,322
Dividend	–	(54,375)
Net Income	–	50,742
Balance, December 31, 1992	$ 409,191	$ 153,689

The accompanying notes are an integral part of these financial statements.

F

TRANSWESTERN PIPELINE COMPANY
STATEMENT OF CASH FLOWS

(In Thousands)

		Year Ended December 31,		
		1992		1991
sh Flows From Operating Activities:				
t Income	$	50,742	$	29,282
conciliation of net income to net sh provided by operating activities:				
epreciation and amortization		32,083		26,525
mortization of deferred contract reformation costs		15,478		45,626
eferred income taxes		13,105		(12,668)
lowance for funds used during construction		(10,857)		(11,907)
hanges in components of working capital:				
ccounts receivable		(657)		8,206
laterials and supplies		(81)		(2,367)
Other current assets		(6,168)		4,975
ccounts payable		(57,536)		48,636
Notes payable – Enron Corp.		32,738		122,473
ccrued interest		(2,459)		(88)
Other current liabilities		(5,847)		(1,683)
eferred contract reformation costs:				
Cash payments		(5,422)		(13,071)
Recoupments via direct bill		1,635		4,699
Other, net		(10,194)		24,288
et Cash Provided by Operating Activities		46,560		272,926
ash Flows Used in Investing Activities:				
Additions to property, plant and equipment		(41,802)		(243,952)
Other capital expenditures		(10,381)		(19,232)
et Cash Used in Investing Activities		(52,183)		(263,184)
ash Flows Provided by Financing Activities:				
Issuance of long–term debt		100,000		–
Decrease in long–term debt		(40,000)		(10,000)
Dividend Paid		(54,375)		–
et Cash Provided by (Used in) Financing Activities		5,625		(10,000)
crease (Decrease) in Cash		2		(258)
ash and Cash Equivalents, Beginning of Period		3		261
ash and Cash Equivalents, End of Period	$	5	$	3

dditional cash flow information:

terest payments and income tax payments were as follows:

		1992		1991
Interest (net of amounts capitalized)	$	470	$	1,975
Income taxes		18,502		30,695

The accompanying notes are an integral part of these financial statements.

TRANSWESTERN PIPELINE COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Control and Financial Statement Presentation

Transwestern Pipeline Company (the Company) is a wholly-owned subsidiary of Enron Pipeline Company (EPC), which is a wholly-owned subsidiary of Enron Corp. (Enron). EPC and its subsidiaries are members of an operating group which engages in transactions characteristic of group administration and operations with other members of the group.

The Company's financial statements reflect the effect of the allocation of the purchase prices for prior acquisitions. As required under purchase accounting, the purchase price was allocated to the assets and liabilities acquired based upon their estimated value as of the acquisition dates.

Cash Equivalents

The Company records as cash equivalents all highly liquid short-term investments with original maturities of three months or less.

Property, Plant and Equipment

Property, plant and equipment is depreciated on the straight-line basis at rates ranging from 1.3% to 10%. Depreciation rates are based on the estimated useful lives of the individual properties and are subject to approval by the Federal Energy Regulatory Commission (FERC), except as discussed below.

Included in gross property, plant and equipment is an aggregate plant acquisition adjustment of $438.8 million which represents the additional cost allocated to the Company's transmission plant, as a result of prior acquisitions. Currently, such amount is not considered by the FERC in determining the tariff the Company may charge to its regulated customers. The plant acquisition adjustment is being amortized over 40 years. At December 31, 1992, $85.7 million is included in accumulated depreciation and amortization.

The Company charges to operations and maintenance expense the costs of repairs. Costs of replacements and renewals of units of property are capitalized. The original cost of property retired is charged to accumulated depreciation and amortization, net of salvage and removal costs.

Allowance for Funds Used During Construction (AFUDC)

The accrual of AFUDC is a utility accounting practice calculated under guidelines prescribed by the FERC and capitalized as part of the cost of utility plant representing the cost of servicing the capital invested in construction work in progress. Such AFUDC has been segregated into two component parts - borrowed and equity funds. The allowance for borrowed funds used during construction was $1.4 million and $1.8 million for 1992 and 1991, respectively. The allowance for equity funds was $9.4 million and $10.1 million for 1992 and 1991, respectively.

Income Taxes

The Company is included in the consolidated federal and state income tax returns filed by Enron. Under their tax sharing arrangement, each subsidiary in a taxable income position pays to Enron its income tax provision on a separate return basis. It is Enron's practice to reimburse each subsidiary in a tax loss position to the extent its deductions are utilized in the consolidated return.

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards (SFAS) No. 96 - "Accounting for Income Taxes". Deferred income taxes have been provided for all differences in the bases of assets and liabilities for tax and financial reporting purposes.

During February 1992, the Financial Accounting Standards Board issued SFAS No. 109 - "Accounting for Income Taxes". SFAS No. 109 requires an asset and liability approach for financial accounting and reporting for income taxes and supercedes SFAS No. 96. SFAS No. 109 is effective for fiscal years beginning after December 15, 1992. The Company intends to retroactively adopt SFAS No. 109 during the first quarter of 1993 and believes the adoption will not have a material impact on the Company's results of operations or financial position.

Reclassifications

Certain reclassifications ha been made in the 1991 amounts to conform with 1992 financial statement classifications.

(2) Income Taxes

The provisions for income taxes for 1992 and 1991 are as follows (in thousands):

	1992	1991
Payable currently		
Federal	$ 15,590	$ 26,579
State	2,912	4,116
Total	18,502	30,695
Payment deferred		
Federal	10,577	(11,466)
State	2,528	(1,202)
Total	13,105	(12,668)
Total income tax expense	$ 31,607	$ 18,027

Deferred tax expense results from changes in the bases of assets and liabilities for tax and financial reporting purposes as follows (in thousands):

	1992	1991
Gas Contract Settlement Charges	$ 2,869	$(7,746)
Depreciation and Amortization	3,289	(977)
Purchase and Exchange Gas	2,446	418
Reserve for Deferred Regulatory Costs and Contingencies	3,427	(6,860)
Other	1,074	2,497
Total	$ 13,105	$(12,668)

The differences between taxes computed at the U.S. federal statutory rate and the Company's income taxes for financial reporting purposes are as follows (in thousands):

	1992	1991
Statutory federal income tax provision	$ 27,999	$ 16,085
Provision for state income taxes, net of federal benefit	3,590	1,923
Other	18	19
Income tax provision	$ 31,607	$ 18,027

(3) Long-Term Debt

Long-term debt net of current maturities is summarized as follows (in thousands):

	December 31,	
	1992	1991
9.10% Notes due 2000	$ 23,000	$ 23,000
7.55% Notes due 2000	100,000	-
9.20% Notes due 1998 to 2004	27,000	27,000
	$150,000	$ 50,000

Long-term debt outstanding will begin maturing with approximately $3.9 million due in 1998 with the balance maturing through 2004.

A provision of the note agreements restricts the availability of retained earnings for the payment of dividends on common stock. Under such provision, at December 31, 1992, the Company's retained earnings was unrestricted.

At December 31, 1992, the estimated fair value of the Company's long-term debt was $154.6 million. The fair value of long-term debt is based upon market quotations of similar debt at interest rates currently available.

(4) Accounts Receivable Sales

The Company, through Enron, has entered into agreements which provide for the sale of trade accounts receivable with limited recourse provisions. At December 31, 1992 and 1991, the Company had sold receivables approximating $18.6 million and $31.7 million, respectively.

The fees incurred on the sales of these receivables and on the sales of rights to certain recoverable take-or-pay buy-out and contract reformation costs are included in "Interest expense and related charges" in the Statement of Income and totaled approximately $.9 million and $1.2 million for 1992 and 1991, respectively.

The Company has a concentration of customers in the electric and gas utility industries. These concentrations of customers may impact the Company's overall exposure to credit risk, either positively or negatively, in that the customers may be similarly affected by changes in economic or other conditions. Credit losses incurred on receivables in these industries compare favorably to losses experienced in the Company's receivable portfolio as a whole. The Company also has a concentration of customers located in the western United States, primarily within the state of California. Receivables are generally not collateralized. However, the Company's management believes that the portfolio of receivables, which includes local distribution companies and municipalities, is well diversified and that such diversification minimizes any potential credit risk.

(5) Revenue Transactions with Major Customer

The Company's revenues include billings for transportation to a major customer of approximately $126 million and $136 million for the years 1992 and 1991, respectively. The Company currently has a contract extending until October 1996 for approximately 750 mcf/day, and until October 2005 for approximately 300 mcf/day with this major customer to transport gas to California.

(6) Retirement Benefits

The Company participates in the Enron Retirement Plan (the Enron Plan), a noncontributory defined benefit plan which covers substantially all employees. Participants in the Enron Plan with five or more years of service are entitled to retirement benefits based on a formula that uses a percentage of final average pay and years of service.

As of September 30, 1992, the most recent valuation date, the actuarial present value of projected plan benefit obligations under the Enron Plan were less than plan net assets by approximately $15.1 million. The assumed discount rate used in determining the actuarial present value of projected plan benefits in both 1992 and 1991 was 9.0%. The expected long-term rate of return on assets was 10.5% and the assumed rate of increase in wages was 5.0% for both 1992 and 1991. The costs of pension expense for the Company were included in operating expense and were not significant.

Assets of the Enron Plan are comprised primarily of equity securities, fixed income securities and temporary cash investments. It is Enron's policy to fund all pension costs accrued to the minimum amount required by federal tax regulations.

In addition to providing pension benefits, the Company also provides certain health care benefits to substantially all of its retired employees and life insurance benefits to certain retirees. The costs of these postretirement benefits are recognized as expense when paid, and were not significant in 1992 and 1991.

During December 1990, the Financial Accounting Standards Board issued SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 is effective for fiscal years beginning after December 15, 1992 and requires that employers providing health, life insurance or other postretirement benefits (other than pension benefits) accrue the cost of those benefits over the service lives of the employees expected to be eligible to receive such benefits. Such costs are currently accounted for on an accrual basis and are not significant. The liability for such benefits existing as of the date of adoption of SFAS No. 106 (the transition obligation) may be immediately charged to earnings or may be amortized over a period not to exceed 20 years.

The Company will adopt the provisions of SFAS No. 106 during 1993 and will amortize the transition obligation (estimated to be $2.0 million) over a period of approximately 19 years. In accordance with the FERC policy statement issued December 17, 1992, the Company intends to seek recovery of the transition obligation from its customers in future general rate case filings.

(7) Related Party Transactions

The Company purchased natural gas from subsidiaries of Enron at market prices totaling approximately $1.1 million and $.5 million during 1992 and 1991, respectively. The Company recorded no sales revenue in 1992 and $3.7 million in 1991 and transportation revenue totaling approximately $6.7 million and $25.8 million during 1992 and 1991, respectively, from subsidiaries of Enron.

The Company receives interest income and pays interest expense on its note with associated companies at rates equal to certain prevailing market rates. Interest income amounted to approximately $1.4 million and $16.9 million for 1992 and 1991, respectively. Interest expense was approximately $4.1 million and $10.8 million for 1992 and 1991, respectively.

The Company incurred corporate administrative expenses including employee benefit costs from Enron, primarily based upon usage and other factors, of approximately $12.3 million and $10.3 million for the years 1992 and 1991, respectively. The residual amounts are distributed based on components of gross property, plant and equipment, gross margin and annualized payroll.

(8) Litigation and Other Contingencies

The Company is party to various claims and litigation, the significant items of which are discussed below. Although no assurances can be given, the Company believes, based on its experience to date and additional recoveries from customers, that the ultimate resolution of such items, individually or in the aggregate, will not have a material adverse impact on its financial position or results of operations.

Take-or-Pay Provisions in Gas Purchase Contracts

The Company has substantially completed its Gas Purchase Contract Reformation/Termination efforts, though three cases are currently pending before arbitration panels. As of December 31, 1992, the Company had pending against it take-or-pay claims and litigation aggregating approximately $13.0 million. However, based upon settlements reached to date, the Company believes that it is probable that those claims will be resolved at significantly less cost than the amounts claimed. Furthermore, up to seventy-five percent of prudently paid settlement costs are eligible for recovery from transportation customers under FERC Orders 500/528.

Mewbourne Oil Company (Mewbourne) has asserted claims against the Company for approximately $250 million pursuant to pricing provisions of various gas purchase contracts between Mewbourne and the Company and as a result of alleged acts of the Company with respect to such contracts. Included are allegations of breach of contract, contract repudiation, fraud and violations of the federal Racketeering Influenced and Corrupt Organizations Act. This dispute has been submitted to arbitration. No discovery has been undertaken in this proceeding, and no date has been set for the arbitration hearing; accordingly, it is not possible to predict the outcome of this matter. However, although no assurances can be given, the Company believes that a significant portion of the claims for damages are either duplicative or without merit, and that the ultimate resolution of this matter will not have a materially adverse effect on its financial position or results of operations.

The Company continually evaluates its position relative to gas purchase contract matters, including the likelihood of loss from asserted or unasserted take-or-pay claims or above market prices. Based upon this evaluation and its experience to date, management believes that it has not incurred losses for which reserves should be provided at December 31, 1992.

Environmental Protection Agency

The Company has completed the cleanup of polychlorinated biphenyl (PCB) contaminated soils in Arizona pursuant to an agreement with the Environmental Protection Agency, Region 9, and has received final approval from Region 6, relative to the cleanup and disposal of PCB-contaminated liquids and soils in New Mexico that were found in or adjacent to its facilities. Approximately $52.8 million has been incurred for cleanup as of December 31, 1992. The total cost amortized or written off as of December 31, 1992 was $42.0 million with the remaining amount to be amortized through 1994.

As of year end, the Company has also paid $11.9 million for litigation and damages incurred through December 31, 1990 related to PCBs that migrated into one of its customer's facilities through a PCB-based lubricant. The Company paid an additional $1.8 million in January, 1993 for damages incurred through September 30, 1992. The Company is pursuing litigation against third parties for the amount paid to its customer for past damages, and for future reasonable damages.

The Company is subject to extensive federal, state and local environmental laws and regulations which require expenditures for remediation at various operating facilities and waste disposal sites, as well as expenditures in connection with the construction of new facilities. However, management does not believe that any such potential costs, including environmental cleanup mentioned above, will have a material impact on the Company's financial position or results of operations.

(9) Rate Matters and Regulatory Issues

The Company is involved in several rate matters and regulatory issues, the significant items of which are discussed below. The Company believes, based on appropriate reserves that have been established, that the ultimate outcome of such matters, individually or in the aggregate, will not have a material adverse impact in its financial position or results of operations.

The Company has filed approximately $243.1 million in transition costs with the FERC under Order No. 500 providing for recovery from customers through direct billing of approximately $58.5 million and surcharges of approximately $123.8 million. In addition, the FERC has allowed the Company to collect certain post-GIC (Gas Inventory Charge) transition costs through the Order No. 500 recovery mechanism. This matter is currently pending before the D.C. Court of Appeals.

In 1992, the Company resolved its general section 4 rate case (Docket No. RP89-48-000) with its customers with the exception of one minor issue, which should be resolved in the very near term. On March 13, 1992, the Company filed an abbreviated section 4 rate case to establish rates for the newly constructed San Juan pipeline. On November 30, 1992, the Company filed a section 4 rate case with the FERC (Docket No. RP93-34-000). The filed rates, effective January 1, 1993, reflect a slight rate decrease from the rates previously on file. On December 31, the FERC issued an order placing the rates into effect, subject to refund upon hearing.

On April 8, 1992, the FERC issued Order No. 636, restructuring the pipeline industry to require the unbundling of transportation and sales services provided by pipelines. Order No. 636 requires pipelines to implement Straight Fixed Variable rate design and authorizes capacity release programs so that firm shippers can release unwanted capacity on a temporary or permanent basis to those desiring capacity. In addition, Order No. 636 allows pipelines to recover transition costs incurred as a result of implementing the Order. On February 1, 1993, the FERC issued a final order in the Company's Order No. 636 Compliance Filing, to be effective on February 1, 1993 implementing, among other things, the above mentioned requirements and a straight fixed variable rate design. Estimated future transition costs included in the filing under the provisions of the Order are not considered to be significant in relation to total costs.