October 19, 2005

El Paso Corporation

(EP-NYSE)

Natural Gas Pipelines

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Stock Rating: **Neutral**
Industry Rating: **Negative**

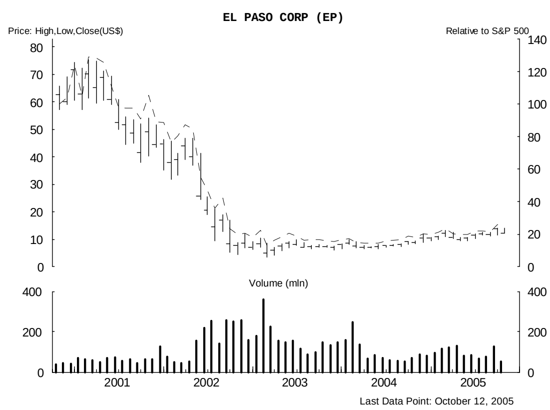
Securities Info

Price (18-Oct)	**$11.89**	**Target Price**	**$13↑**
52-Wk High/Low	$14/$8	Dividend	$0.16
Mkt Cap (mm)	$7,678	Yield	1.3%
Shs O/S (mm, BASIC)	645.7	Float O/S (mm)	629.6
Options O/S (mm)	na	Avg Daily Vol (000s)	4,430

Selected Bond Iss	**Ind Prc**	**Rat'g Mdys/S&P**	**YTW**	**Spread**
El Paso Energy 6.65%	100	Caa1 / B-	6.75%	245bp
Coastal Corp. 7.75 '1	101	Caa1 / B-	7.49%	315bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	**2003A**	**2004A**	**2005E**	**2006E**
EPS Pro Forma	-$3.23	-$1.43	$0.54↑	$0.96↑
P/E			22.0x	12.4x
First Call Cons.			*$0.69*	*$0.93*
EPS GAAP	-$3.23	-$1.43	$0.46	$0.96
FCF	-$0.13	-$0.73	-$1.42↑	$0.48↑
P/FCF			nm	24.8x
EBITDA ($mm)	$2,804	$2,824	$2,844	$3,603
EV/EBITDA			8.6x	6.8x
Rev. ($mm)	$6,668	$5,874	$4,599	$5,205
EV/Rev			5.3x	4.7x

Quarterly EPS	**1Q**	**2Q**	**3Q**	**4Q**
2004A	-$0.15	$0.03	-$0.33	-$0.97
2005E	$0.17A	$0.19A	$0.07↑	$0.12↑

Balance Sheet Data (06/30/05)

Net Debt ($mm)	$16,688	TotalDebt/EBITDA	6.4x
Total Debt ($mm)	$18,228	EBITDA/IntExp	na
Net Debt/Cap.	79.8%	Price/Book	2.5x

Upgrading to NEUTRAL from UNDERPERFORM

Event

We are upgrading El Paso to **NEUTRAL** from **UNDERPERFORM**.

Impact

El Paso is showing signs of slowing its production declines via success at the drill bit, which was the biggest concern we had with the stock when we initiated coverage in late July. EP should also benefit from higher commodity prices in 2006 and 2007, since it only has hedged approximately 39% and 2% of estimated production in those two years on a fixed price basis. EP could use that additional cash flow to reinvest in its E&P business, or better yet, to pay down its staggering debt level. However, EP derives ~60% of its operating income from its pipeline division, whose value we believe is sensitive to rising interest rates, and EP still has some remaining issues related to previous management. As such, we expect El Paso's shares to perform in line with the overall industry over the next 12 months.

Forecasts

We are reducing our 3Q05 and 4Q05 estimates to $0.07 and $0.12 from a pro-forma equivalent of $0.10 and $0.16, mainly because of lost production from Katrina & Rita. However, our 2006 and 2007 EPS estimates move higher to $0.96 and $1.05, because of higher assumed commodity prices and our revised production forecast.

Valuation

Our new $13 price target is based on our revised Net Asset Value analysis, and assumes a long-term price deck of $7.00 per MMBtu for natural gas and $45.00 per barrel for crude oil.

Recommendation

NEUTRAL

Changes	**Annual EPS**	**Annual FCF**	**Quarterly EPS**	**Target**
	2005E $0.52 to $0.54	2005E -$1.16 to -$1.42	Q3/05E $0.18 to $0.07	$10.00 to $13.00
	2006E $0.75 to $0.96	2006E $0.15 to $0.48	Q4/05E $0.55 to $0.12	**Rating**
				Und to Neutral

Please refer to pages 13 to 15 for Disclosure Statements, including the Analyst's Certification.

Summary

We are upgrading El Paso to **NEUTRAL** from **UNDERPERFORM** because of expected increased production in the company's E&P business, along with our increased long-term forecast for natural gas prices. We estimate El Paso has hedged just 39% and 2% of its expected combined oil and natural gas production for 2006 and 2007, so we expect the company will participate in higher prices to a greater extent than its peers. However, there are several issues that still linger over the company that we believe will limit the upside in its stock price going forward, including its heavy debt level, political risk in Brazil, potential headline risk from possible negative judgments against El Paso stemming from a shareholder class action suit and alleged improprieties in the Iraq Oil for Food program, and potential exposure to rising interest rates. We are raising our target price to $13 from $10 based on our revised Net Asset Value analysis.

E&P Showing Signs of Improvement

The biggest concern we had about El Paso when we initiated coverage in late July was its inability to slow the pace of its production declines by successfully drilling new wells, particularly in its Texas Gulf Coast (TGC), Offshore, and Louisiana acreage. Heading into 3Q05, the company had experienced lower sequential combined production in these two areas in 12 of the previous 14 quarters (although some of that was the result of selling off production properties). However, we now believe El Paso is showing initial signs of reversing this trend. The company changed management in its key Texas Gulf Coast production division in the second quarter, and current management has begun focusing on less risky, shallower depth plays along the Texas Coast. The result has been seven successful finds in the region that have produced a total of 45 Mmcf/d in initial production, which represents a 19% increase over the 232 Mmcfe/d El Paso produced in the region in Q105. El Paso also made two new discoveries earlier this year in the GOM at WestCam 75 and WestCam 62 that we expect will add another 26 Mmcf/d in production when those wells come on line in 1Q06.

El Paso is off to a good start in its E&P turnaround, but we believe it will be crucial for the company to continue showing success at the drill bit over the next few quarters, in order to ensure continued long-term production growth. The reason is that the company still has a significant concentration of its reserves in the TGC and Gulf of Mexico (GOM), two areas that we believe are among the highest in terms of overall production declines in the US. Its recent Medicine Bow acquisition increased its proved-reserve-to-production ratio to 8.2 years from 7.4 years, and offered a bit more supply diversity. However, even after incorporating its new reserves from its Medicine Bow and East & South Texas acquisitions this year, El Paso still holds an estimated 36% of its domestic reserves in the TGC and GOM, versus 40% at year end 2004 (Exhibits 1 & 2).

Exhibit 1: El Paso U.S. Proved Reserves Year End 2004

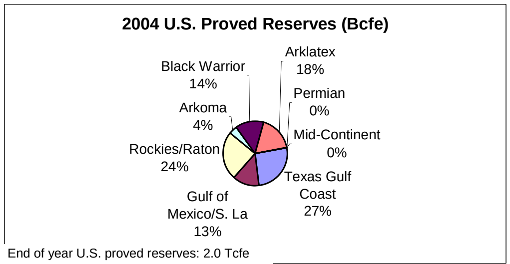
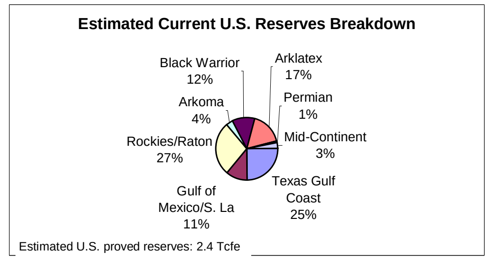


Exhibit 2: Estimated Current El Paso U.S. Proved Reserves



Source for both exhibits: Company documents, Harris Nesbitt estimates

Revising Our Production Forecast

Our new production forecast is detailed in Exhibit 3, and is a tale of short-term declines versus long-term gains.

Short -Term: Storms Curtail 2H05 Production

We are reducing our 3Q05 production forecast to 790 Mmcfe/d from 823 Mmcfe/d, because of Hurricanes Katrina and Rita related shut-ins in both the GOM and TGC. The effects of the storm should be even more pronounced in 4Q05, and we now expect total company-wide 4Q05 production to come in at 774 Mmcfe/d, versus or prior estimate of 878 Mmcfe/d. Our reduced 4Q estimate is the result of continued shut-in production, particularly in the GOM, along with the delay in the initial production from West Cam 75 and 62 from the fourth quarter to the first quarter of 2005. As we mentioned previously, we expect the two West Cam blocks to add initial production of 26 Mmcfe/d net to El Paso.

Longer-Term: New Production Takes Hold

We are increasing our 2006 and 2007 total company production forecasts to 917 Mmcfe/d and 891 Mmcfe/d, up from our previous estimates of 881 Mmcfe/d and 832 Mmcfe/d, respectively. Our new forecasts are based on the following four factors/assumptions:

1. The incremental production gains from El Paso’s drilling successes in the TGC and GOM.
2. The assumption that El Paso is able to restore its production in the GOM close to its pre-Katrina level of 205 Mmcfe/d in 1Q06.
3. We have decreased our assumed annual rate of decline for its Four Star production (acquired in the Medicine Bow transaction) from what we now believe was an overly aggressive 10% per year to 2%-3% per year.
4. Slightly more upside in its international assets, primarily from expected new production from its Camamu field in Brazil.

Exhibit 3: Revised El Paso Production Forecast (Mmcfe/d), 3Q05-2007

New Forecast	**3Q05**	**4Q05**	**2005**	**2006**	**2007**
Onshore	321	330	298	362	356
Texas Gulf Coast	227	225	225	224	216
Offshore & Louisiana	165	94	177	206	184
International	54	56	55	58	60
Four Star	69	69	35	68	66
Total El Paso	836	774	790	917	881
Old Forecast	**3Q05**	**4Q05**	**2005**	**2006**	**2007**
Onshore	324	330	299	362	356
Texas Gulf Coast	207	201	214	199	177
Offshore & Louisiana	213	226	222	213	190
International	54	56	55	57	56
Four Star	67	65	33	60	53
Total El Paso	865	878	823	891	832
% Change	**3Q05**	**4Q05**	**2005**	**2006**	**2007**
Onshore	-1%	0%	0%	0%	0%
Texas Gulf Coast	10%	12%	5%	13%	22%
Offshore & Louisiana	-23%	-58%	-20%	-3%	-3%
International	0%	0%	0%	2%	7%
Four Star	3%	6%	6%	13%	25%
Total El Paso	***-3%***	***-12%***	***-4%***	***3%***	***6%***

Source: Company documents, Harris Nesbitt estimates

Pipelines Review

Not much has changed with El Paso's pipeline business (~60% of operating income) since we initiated coverage on the stock on July 26. We still believe El Paso is on track to grow its pipeline earnings by 3%-5% per year through the end of the decade, primarily based on the expansion and new pipeline projects that appear in Exhibit 4. Short-term, the company has not yet provided any update on its re-contracting efforts for the 550 Mmcf/d of capacity on its signature El Paso Pipeline that is held by Southern California Gas to serve non-core customers. The SoCal Gas contract expires on August 31, 2006. However, we expect any potential negative financial impacts that may result from potential discounting or unsold capacity will be mitigated by a new rate case that should go into effect for El Paso Pipeline in January 2006.

Exhibit 4: Probable El Paso Pipeline Expansions/New Projects

Pipeline	Description	Capacity (MMcf/d)	Anticipated In-Service Date	Estimated Project Cost ($ mil)
ANR	EastLeg Expansion	142	Nov-05	17
ANR	North Leg Wisconsin Expansion	110	Nov-05	13
ANR	Wisconsin Expansion	168	2006	46
El Paso	Ehrenberg to Cadiz	372	Dec-05	74
Cheyenne Plains	Expansion	176	Dec-05	8
Elba Island Expansion	Expansion of LNG terminal	3.5 Bcf	1Q06	157
WIC	Piceance Lateral Expansion	333	Jan-06	120
Tennessee	ConneXion NY/NJ	41	2006	24
Cypress	New Pipeline	220	May-07	240
Florida Gas	Phase VII Expansion	100	May-07	63
Tennessee	ConneXion NE	136	2008	102

Source: Company documents, Harris Nesbitt estimates

On October 4, El Paso announced that it is currently conducting an open season for a new natural gas pipeline, called Continental Connector, that would transport anywhere from 1 Bcf/d to 2 Bcf/d of natural gas from the growing Rocky Mountain and North Texas regions to El Paso's existing ANR, Southern Natural, and Tennessee Pipelines in the Gulf Coast. The pipeline would go into service in late 2008/early 2009. While it is still way too early to handicap the ultimate success of this project, at this point we believe the odds of this pipeline ever getting built are less than even. The proposed project faces potential competition from two main forces: 1.) the proposed Kinder Morgan Energy Partners/Sempra West East pipeline that would transport gas from the Rockies into East Ohio, and possibly to the key pipeline connection hub in Leidy, PA. We believe the Kinder Morgan pipe, if built, would have a competitive advantage, since it would deliver the Rockies gas farther downstream (closer to the ultimate customers) in the Northeast region, and it could prevent shippers from having to pay multiple tariffs on more than one pipeline (a.k.a the rate stacking problem); 2.) an increase in LNG deliveries. We believe a key benefit from the proposed Rockies project would be to serve as a supply feeder into El Paso's existing Gulf Coast pipelines, in order to counter the declining natural gas production in and around the GOM. However, that Rockies gas would ultimately have to compete against what we expect will be a significant increase in LNG imports in the Gulf, beginning in the 2007-2008 time frame. Three new LNG re-gasification facilities are already under construction in Texas and Louisiana, and we believe as many as six new import terminals could be constructed in the Gulf Coast by the end of the decade, providing as much as 12.2 Bcf/d of peak send-out capacity.

Several Issues Still Remain

While we are certainly encouraged by the initial success in turning around the E&P business, there are still several legacy issues from previous management that prevent us from being even more positive on the stock at this time. El Paso has managed to whittle its net debt down from $20.3 billion exiting 2003 to $16.7 billion (including $750 million in preferred stock) in 2Q05, primarily through asset sales. However, the company has already sold $1.4 billion of the $1.2 billion to $1.6 billion of the assets it planned to dispose of in 2005, and other than a few smaller holdings, such as its remaining equity stake in Alpheus Communications (telecom), we do not believe El Paso has much left that it can sell. Even after these asset sales, El Paso still has a debt-to-total capitalization ratio of 83%, well above the median 52% for the industry. In addition, we believe El Paso faces significant political risk surrounding its Brazilian power assets, will generate EBITDA losses at its Marketing & Trading segment through 2006 as it continues to wind down this business, and faces potential headline risk from issues such as the class action shareholder lawsuit regarding its massive reserves writedown in 2004, and uncertainty surrounding Coastal's alleged involvement with Iraq in the Oil for Food program. We discussed most of these issues in greater detail in our initiation report published on July 26.

However, the main non-operating concern we have relates to potential negative reaction to rising interest rates. Shares of El Paso traditionally have been insensitive to changes in the US 10-year Treasury yield, with an R-square statistic of just 9.7% from March 1992 through June 2005. We believe the primary reason for this low correlation is that El Paso used to be diversified in so many other businesses. But now that the company has either sold off or exited most of its non-core and non-natural gas businesses, we estimate its regulated pipeline segment represents approximately 60% of its operating income, so we would expect El Paso's stock to be more sensitive to interest rate changes going forward. Our BMO Financial Group predicts the US 10-year Treasury yield will rise from its current level of 4.36% to 5.50% exiting 2006, so we would expect the potential drag this could possibly create on El Paso's stock price would at least partially counter the positive effects from its improving E&P business, all other things held equal.

Reducing 2005 Estimates, But 2006 and 2007 Look Brighter

We are lowering our 3Q05 EPS estimate to $0.07 from $0.18, and our 4Q05 EPS estimate to $0.12 from $0.55, because of the combination of the production declines we discussed previously, along with an estimated $25 million in insurance deductibles from damage it sustained to its Southern Natural and Tennessee Gas Pipelines from the two hurricanes over the last two quarters of the year. Note that our previous 3Q05 and 4Q05 earnings estimates were GAAP estimates, and incorporated after tax gains from its Korean power asset sale in the Q4 and from the sale of its Louisiana natural gas processing assets to Crosstex in Q4. Our revised 2H05 quarterly estimates are now pro-forma estimates, and do not include these asset sales. For an apples-to-apples comparison, our previous EPS estimates for Q3 and Q4 on a pro-forma basis would have been $0.10 and $0.16, respectively. Our respective 3Q05 and 4Q05 free cash flow per share estimates fall to $(0.11) and $(0.08), from $(0.03) and $0.09.

On the other hand, we are increasing our estimated 2006 EPS to $0.96 from our prior estimate of $0.75, and estimated 2007 EPS to $1.05 from $0.82 (unlike our 3Q and 4Q05 estimates, both of these prior estimates were pro-forma, not GAAP figures), to reflect both our revised production and natural gas commodity price forecasts. On October 11, Ray Deacon, our E&P analyst, increased our Henry Hub natural gas price forecast to $9.00 per Mmbtu from $7.70 in 2006, and to $8.00 per Mmbtu from $6.90 in 2007, largely from the intermediate-term effects of Hurricanes Katrina and Rita on natural gas storage and supply (Exhibit 5). We estimate that El Paso has currently hedged only 39% of its expected 2006 production, and just 2% of its expected 2007 production on a fixed-priced basis, so we expect the company will be able to participate in the majority of our anticipated higher move in natural gas prices. We now expect El Paso to achieve realized natural gas prices of $7.41 per Mmbtu and $7.29 per Mmbtu in 2006 and 2007, versus our previous estimates of $6.55 and $5.91.

Our increased EPS forecasts should also translate into increased free cash flow for the company. We are therefore increasing our 2006 free cash flow per share estimate to $0.48 from $0.15, and our 2007 estimates moves to $0.55 from our prior estimate of $0.11. Management could elect to use this additional free cash flow to further invest in or acquire more E&P properties, or even more preferable, in our view, to reduce its heavy debt load in an effort to return to investment grade status.

Exhibit 5: Revised Harris Nesbitt Commodity Price Forecast

Henry Hub Natural Gas Price ($/Mmbtu)		
Year	**Old Price**	**New Price**
2005	**$7.70**	**$9.00**
2006	**$7.60**	**$9.00**
2007	**$6.90**	**$8.00**
2008-2010	**$6.40**	**$7.00**

Source: Harris Nesbitt estimates

Valuation

We are increasing our price target to $13 from $10, based on our revised net asset value for the company. Our new NAV incorporates the following changes: 1) an increase in our long-term natural gas price assumptions. We have adopted the new long-term natural gas price deck that Ray Deacon, our E&P analyst, published on October 11 (Exhibit 5); 2) We have given El Paso more credit for its net operating losses, but less consideration for its outstanding options. Previously, we only applied its NOLs to its E&P business, so we now believe our NOL valuation is more representative of the company as a whole. On the other hand, we are now only giving El Paso credit for the options that are currently in the money (at a weighted average exercise price of $9.25), versus our previous approach, when we incorporated all outstanding options into the NAV model (at a weighted average exercise price of $49.45). The net result of these two changes adds approximately $1 to our new target price; 3) Changes in the balance sheet since 3/31/05; and 4) The reduction of $272 million in debt, and the addition of an estimated 13.6 million in shares outstanding, as a result of the conversion of equity security units in August.

Harris Nesbitt
Patrick C. Rau, CFA (212) 885-4070
El Paso Corporation
Asset Valuation
Last Updated 10/12/05

(Amounts in millions, except per share values)

	Percent Developed	Quantity	$ Per	Value	Total	Per Share
Company						
Liquids (MMBbls)	78%	41	$26.02	$1,054.0		$1.61
Gas (Bcf)	75%	1,724	2.59	4,469.1		6.82
2005 YTD Acquisitions (Bcfe)						
Lehman Acquisition (1)		15	4.28	62.5		$0.10
East & South Texas Acquistions (2)		124	1.44	178.6		$0.27
Medicine Bow Acqusition (3)		356	2.29	815.2		$1.24
Acreage (000)						
Onshore		1,308	100.00	130.8		$0.20
Texas Gulf Coast		193	125.00	24.1		$0.04
Offshore and S. Louisiana		698	150.00	104.7		$0.16
Pipeline business @ 9.5x 2005 EBITDA				$17,565.5		$26.82
Power business @ 6x 2006 EBITDA				$198.0		$0.30
Marketing & Trading/Other Businesses @ 1x 2005 EBITDA				(285.00)		($0.44)
Total Company					**$24,317.5**	**$37.13**

	Total	Per Share
Total Company	**$24,317.5**	**$37.13**
Total Oil and Gas Ex-Acreage	**6,579.4**	**10.04**
SEC PV-10 (4)	**3,907.0**	

Balance Sheet Data:	**Jun 30, 2005**	**Per Share**
Other PP&E (net)	$550.0	$0.84
Working Capital	($116.0)	(0.18)
Other Assets and Liabilities (net)	422.0	0.64
Net Operating Loss (NOLs) (5)	2,085.0	3.18
Long-Term Debt and Preferred Stock (6)	(18,427.0)	(28.13)
	($15,486.0)	**($23.64)**
Shares Exercisable at 12/31/04	2.15	
Average Weighted Exercise Price	$9.25	
Assumed Conversion of Stock Options	$19.9	$0.03
Total Asset Valuation	**$8,851.4**	**$13.51**
Fully Diluted Shares Outstanding (7)		655.0
Asset Value - $/Share		**$13.50**
Ex-Probables and Possibles Asset Value - $/Share		**$13.10**

NOTES:
(1) Refers to 14.6 Bcfe acquired in Lehman acquisiton for $62.5 million
(2) Refers to 124 Bcfe acquired in 2 separate deals for $179 million.
(3) Refers to 356 Bcfe of net reserves acquired from Medicine Bow for $814 million
(4) Includes $5.99 and $42.11 year end 2004 gas and oil prices.
(5) Net present value (discounted at 7% market cost of debt) of off-balance sheet NOLs
(6) Includes an approximate net present value of $1.0 billion (discounted at 7% market cost of debt) in pipeline reservation charges. from its Marketing & Trading business. Total debt also subtracts $272 million in equity security units that converted to 13.6 million in common shares in August 2005.
(7) Weighted average (not adjusted) diluted shares outstanding at June 30, 2005, plus an additonal 13.6 million shares that resulted from the $272 million equity security units conversion in August 2005.

Risks To Our Price Target

Our $13 price target would be at risk if natural gas prices fall precipitously, if El Paso is unable to grow its production at the rate we are forecasting, or if long-term interest rates rise significantly. El Paso's stock price has traditionally showed very little correlation to the 10-year Treasury yield, but we expect this correlation to be much stronger going forward, now that El Paso has sold off or exited its other non-natural gas related businesses. We estimate that its regulated pipeline group now comprises roughly 60% of operating income.

Other companies mentioned (priced as of the close on October 18, 2005):

Kinder Morgan Energy Partners (KMP, $51.58, Not Rated)
Sempra# (SRE, $42.72, NEUTRAL)

#Michael S. Worms, primary analyst

El Paso Pro forma Quarterly Income Statement (2004-2007E)
(Fiscal Year Ends December)
(Thousands, except per-share data)

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		2005E					2006E					2007E				
	2004E	Mar 1QA	Jun 2QA	Sep 3QE	Dec 4QE	2005E	Mar 1QE	Jun 2QE	Sep 3QE	Dec 4QE	2006E	Mar 1QE	Jun 2QE	Sep 3QE	Dec 4QE	2007E
Revenues	$ 5,874	$ 1,208	$ 1,224	$ 1,070	$ 1,097	$ 4,599	$ 1,289	$ 1,260	$ 1,273	$ 1,383	$ 5,205	$ 1,435	$ 1,310	$ 1,285	$ 1,380	$ 5,410
Cost of goods sold	1,363	148	60	24	22	254	21	22	22	22	86	21	21	21	20	82
Gross margin	4,511	1,060	1,164	1,045	1,075	4,345	1,268	1,239	1,251	1,361	5,119	1,414	1,289	1,265	1,360	5,328
Operation & Maintenance	1,904	389	438	364	359	1,550	368	393	422	421	1,604	406	401	421	427	1,654
Depreciation, Depletion, & Amortization	1,088	281	294	262	256	1,094	279	290	285	291	1,145	289	291	283	287	1,150
Ceiling Test Charges	-	-	-	5	5	10	5	5	5	5	20	5	5	5	5	20
Merger Related Costs	-					-										
Loss on Long Lived Assets (Impairments)	1,060	21	-	-	-	21	-	-	-	-		-	-	-	-	
Western Energy Settlement	-	59	-	-	-	59	-	-	-	-		-	-	-	-	
Taxes, other than income taxes	253	72	65	46	50	233	52	52	53	58	215	56	52	51	56	215
Operating Income	206	238	367	368	405	1,378	565	499	486	586	2,136	658	539	505	586	2,288
Int. Inc. (exp.) and other, net	(1,071)	(133)	(291)	(285)	(272)	(980)	(286)	(271)	(262)	(246)	(1,065)	(288)	(275)	(268)	(254)	(1,085)
Pretax income	(865)	105	76	83	133	397	279	228	224	340	1,071	370	264	236	332	1,203
Provision (benefit) for inc. tax	(42)	(3)	(51)	29	47	22	98	80	78	119	375	130	92	83	116	421
Net income from continuing ops	$ (823)	$ 108	$ 127	$ 54	$ 86	$ 376	$ 181	$ 148	$ 145	$ 221	$ 696	$ 241	$ 171	$ 154	$ 216	$ 782
Net income (GAAP) from continuing ops	$ (823)	108	(233)	54	86	$ 376	181	148	145	221	$ 696	241	171	154	216	$ 782
Net income (loss) from discontinued ops	$ (92)	$ (2)	$ (5)	$ 60	$ 260	$ 313	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Income (loss) before cumulative effect from acct change	(915)	106	(238)	114	346	689	181	148	145	221	696	241	171	154	216	782
Cumulative effect from acct chg/extraordinary items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	$ (915)	$ 106	$ (238)	$ 114	$ 346	$ 689	$ 181	$ 148	$ 145	$ 221	$ 696	$ 241	$ 171	$ 154	$ 216	$ 782
Preferred Stock Dividends	-	-	8	8	8	$ 24	8	8	8	8	$ 32	8	8	8	8	$ 32
Net income applicable to common shareholders	$ (915)	$ 106	$ (246)	$ 106	$ 338	$ 713	$ 173	$ 140	$ 137	$ 213	$ 728	$ 233	$ 163	$ 146	$ 208	$ 814
EPS (Diluted)	$ (1.29)	$ 0.17	$ 0.19	$ 0.07	$ 0.12	$ 0.54	$ 0.26	$ 0.20	$ 0.19	$ 0.30	$ 0.96	$ 0.33	$ 0.23	$ 0.20	$ 0.29	$ 1.05
EPS (Diluted) (GAAP)	$ (1.43)	$ 0.17	$ (0.38)	$ 0.16	$ 0.52	$ 0.46	$ 0.26	$ 0.20	$ 0.19	$ 0.30	$ 0.96	$ 0.33	$ 0.23	$ 0.20	$ 0.29	$ 1.05
Diluted shares	639	642	641	655	656	648	657	708	709	710	696	711	712	713	714	713
Dividend Per Share - Common	$ 0.160	$ 0.040	$ 0.040	$ 0.040	$ 0.040	$ 0.160	$ 0.040	$ 0.040	$ 0.040	$ 0.040	$ 0.160	$ 0.040	$ 0.040	$ 0.040	$ 0.040	$ 0.160
Margin Analysis																
Revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Gross margin	76.8%	87.7%	95.1%	97.7%	98.0%	70.7%	98.4%	98.3%	98.3%	98.4%	76.4%	98.5%	98.4%	98.4%	98.6%	77.2%
Operating & Maintenance	32.4%	32.2%	35.8%	34.0%	32.7%	33.7%	28.5%	31.2%	33.2%	30.5%	30.8%	28.3%	30.6%	32.7%	30.9%	30.6%
D,D,&A	18.5%	23.3%	24.0%	24.5%	23.4%	23.8%	21.6%	23.0%	22.4%	21.0%	22.0%	20.1%	22.2%	22.0%	20.8%	21.3%
Ceiling Test Charges	0.0%	0.0%	0.0%	0.5%	0.5%	0.2%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%	0.4%	0.4%
Merger Related Costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loss on Long Lived Assets	18.0%	1.7%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Western Energy Settlement	0.0%	4.9%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Taxes, other than income taxes	4.3%	6.0%	5.3%	4.3%	4.6%	5.1%	4.0%	4.1%	4.1%	4.2%	4.1%	3.9%	4.0%	4.0%	4.1%	4.0%
Operating margin	3.5%	19.7%	30.0%	34.4%	36.9%	30.0%	43.8%	39.6%	38.2%	42.4%	41.0%	45.9%	41.2%	39.3%	42.5%	42.3%
Pretax margin	-14.7%	8.7%	6.2%	7.8%	12.1%	8.6%	21.6%	18.1%	17.6%	24.6%	20.6%	25.8%	20.1%	18.4%	24.1%	22.2%
Tax rate	4.9%	-2.9%	-67.1%	35.0%	35.0%	5.5%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net margin	-14.0%	8.9%	10.4%	5.1%	7.9%	8.2%	14.1%	11.8%	11.4%	16.0%	13.4%	16.8%	13.1%	12.0%	15.7%	14.5%
Percentage Change - Q/Q																
Revenue	-12%	-11%	1%	-13%	3%	-22%	17%	-2%	1%	9%	13%	4%	-9%	-2%	7%	4%
Gross Profit	-7%	-13%	10%	-10%	3%	-4%	18%	-2%	1%	9%	18%	4%	-9%	-2%	8%	4%
Operating & Maintenance	-5%	-38%	13%	-17%	-1%	-19%	2%	7%	7%	0%	4%	-4%	-1%	5%	1%	3%
Depreciation, Depletion, & Amortization	-7%	0%	5%	-11%	-2%	1%	9%	4%	-2%	2%	5%	-1%	1%	-3%	1%	0%
Taxes, other than income taxes	-14%	29%	-10%	-29%	8%	-8%	4%	1%	1%	10%	-8%	-3%	-7%	-3%	10%	0%
Operating income	-49%	nmf	54%	0%	10%	569%	39%	-12%	-3%	21%	55%	12%	-18%	-6%	16%	7%
Pretax income	-19%	-114%	-28%	10%	60%	-146%	110%	-18%	-2%	52%	170%	9%	-29%	-10%	41%	12%
Net income	57%	-117%	18%	-57%	60%	-146%	110%	-18%	-2%	52%	85%	9%	-29%	-10%	41%	12%
EPS (Diluted)	47%	-117%	10%	-62%	70%	-142%	121%	-25%	-2%	55%	76%	9%	-30%	-11%	43%	10%
Percentage Change - Y/Y																
Revenue	-12%	-22%	-20%	-25%	-20%	-22%	7%	3%	19%	26%	13%	11%	4%	1%	0%	4%
Gross Profit	-7%	-9%	7%	1%	-12%	-4%	20%	6%	20%	27%	18%	12%	4%	1%	0%	4%
Operating & Maintenance	-5%	-3%	17%	-28%	-42%	-19%	-5%	-10%	16%	17%	4%	10%	2%	0%	1%	3%
Depreciation, Depletion, & Amortization	-7%	2%	12%	-3%	-8%	1%	-1%	-1%	9%	13%	5%	4%	1%	-1%	-1%	0%
Taxes, other than income taxes	-14%	13%	-2%	-31%	-11%	-8%	-28%	-20%	14%	16%	-8%	8%	0%	-3%	-3%	0%
Operating income	-49%	16%	-1%	-204%	-2992%	569%	137%	36%	32%	45%	55%	17%	8%	4%	0%	7%
Pretax income	-19%	-222%	-7%	-167%	-118%	-146%	166%	200%	169%	156%	170%	33%	16%	6%	-2%	12%
Net income	57%	-357%	182%	-127%	-114%	-146%	68%	17%	169%	156%	85%	33%	16%	6%	-2%	12%
EPS (Diluted)	47%	-211%	641%	-122%	-112%	-142%	57%	7%	175%	151%	76%	24%	16%	5%	-3%	10%

N.A. - Not Applicable. N.M. - Not Meaningful.
Source: Harris Nesbitt and corporate reports.

Date Published 10/13/2005

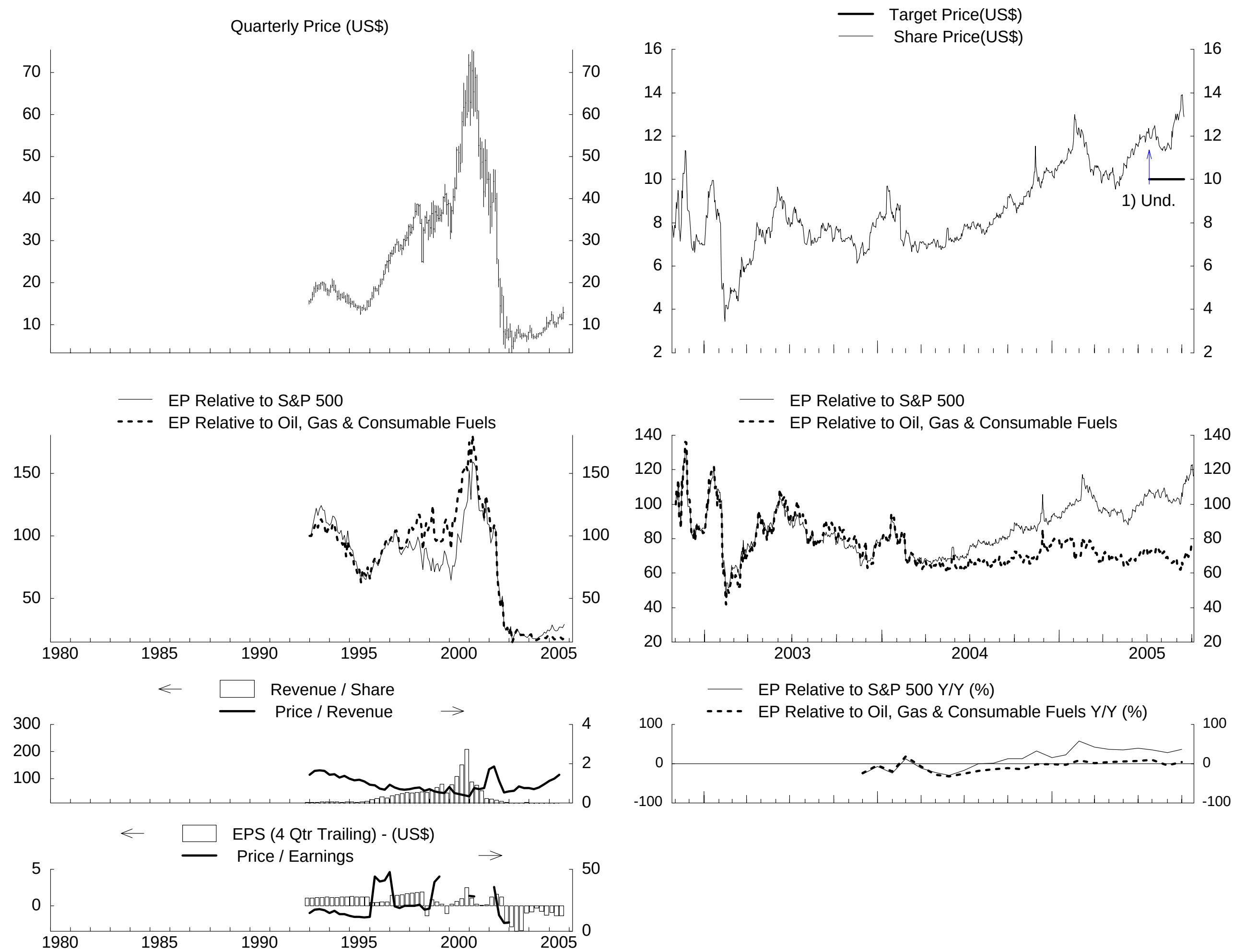
El Paso Consolidated Free Cash Flows 2002-2007E

($ Millions; fiscal year ends in Dec)

	2002	2003	2004	2005E	2006E	2007E
Net Income from continuing ops	(1,753)	(1,928)	(948)	313	664	750
Less: loss from DISCOPS, net of income taxes	365	1,314	(146)	(319)	-	-
Depreciation, Depletion, & Amortization	1,180	1,176	1,088	1,093	1,145	1,150
Changes in Working Capital	(1,410)	1,241	473	(733)	7	69
Other	2,325	421	334	400	120	25
Capital Expenditures	(3,430)	(2,328)	(1,782)	(1,656)	(1,600)	(1,600)
"Free" Cash Flow From Operations	**$ (2,994)**	**$ (79)**	**$ (466)**	**$ (920)**	**$ 335**	**$ 394**
Dividends Paid	(470)	(203)	(101)	(103)	(111)	(114)
Acquisitions, Net of Cash	45	(1,078)	(47)	(178)	-	-
Dispositions/Other	2,293	1,848	2,590	2,102	303	283
Debt Increases (Payments), Net	2,068	235	(2,070)	(1,066)	(497)	-
Stock Issuance (Repurchase), Net	1,053	120	73	-	-	-
Other, Net	(1,823)	(1,060)	932	49	-	-
Net Change in Cash	**$ 443**	**$ (242)**	**$ 688**	**$ (100)**	**$ 30**	**$ 562**
Cash at Beginning of Year	$ 1,148	$ 1,591	$ 1,429	$ 2,117	$ 2,017	$ 2,047
Cash at End of Year	**$ 1,591**	**$ 1,429**	**$ 2,117**	**$ 2,017**	**$ 2,047**	**$ 2,609**
Operating Cash Flow per share	**$ 0.78**	**$ 3.77**	**$ 2.06**	**$ 1.13**	**$ 2.78**	**$ 2.80**
"Free" Cash Flow per share	**$ (5.35)**	**$ (0.13)**	**$ (0.73)**	**$ (1.42)**	**$ 0.48**	**$ 0.55**

Source: Harris Nesbitt estimates and corporate reports.

EL PASO CORP (EP)



FYE (Dec.)	EPS US$	P/E	DPS US$	Yield %	Payout %	BV US$	P/B	ROE %
1992	1.06	15	0.00	0.0	0	9.01	1.7	12
1993	1.23	15	0.55	3.1	45	9.60	1.9	13
1994	1.23	12	0.61	4.0	49	9.98	1.5	13
1995	1.24	12	0.66	4.6	53	10.40	1.4	12
1996	0.53	48	0.70	2.8	>100	14.82	1.7	4
1997	1.64	20	0.73	2.2	45	16.37	2.0	10
1998	-1.35	nm	0.77	2.2	>100	17.53	2.0	nm
1999	-1.06	nm	0.80	2.1	>100	12.84	3.0	nm
2000	2.50	29	0.82	1.2	33	15.20	4.7	18
2001	0.14	nm	0.85	1.9	>100	17.63	2.5	1
2002	-2.38	nm	0.87	12.5	>100	13.97	0.5	nm
2003	-1.01	nm	0.16	2.0	>100	7.08	1.2	nm
2004	-1.25	nm	0.16	1.5	>100	5.35	1.9	nm
Current*	-1.33	nm	0.16	1.2	nm	4.72	nm	nm
Average:		23		3.3	77		2.0	1.0
Growth(%):								
5 Year:	nm		-27.9			-20.3		
10 Year:	nm		-13.2			-7.4		

* Current EPS is the 4 Quarter Trailing to Q2/2005.

EP - Rating as of 24-Oct-02 = NR

	Date	Rating Change	Share Price
1	25-Jul-05	NR to Und.	$12.36

Last Daily Data Point: October 5, 2005

Important Disclosures

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Harris Nesbitt has undertaken an underwriting liability with respect to this company within the past 12 months: No

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Harris Nesbitt or its affiliates received compensation for investment banking services from the company in the past twelve months: No

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Breakdown of Rating Distribution and Banking Clients

(As of September 30, 2005)	**Buy**	**Hold**	**Sell**	**Unrated**
% of total Harris Nesbitt coverage within rating category	37.0%	55.8%	7.3%	0.0%
% of stocks within rating category for which the Firm provided banking services over the past 12 months	6.6%	4.3%	0.0%	0.0%

Harris Nesbitt Rating System
Our investment ratings compare a stock's expected performance to that of an index of comparable companies over a 9-15 month horizon. Our sector ratings are based on the expected performance of sector with that of a broader market index over the same time period.

STOCK RATINGS
OUTPERFORM - We believe the stock's total return, including dividends, will exceed the group average by over 15%.
NEUTRAL - We believe the stock's total return will generally match the group average.
UNDERPERFORM - We believe the stock's total return will fall short of the group average by more than 15%.

SECTOR RATINGS
POSITIVE - We believe the sector will outperform the S&P 500 Index.
NEGATIVE - We believe the sector will underperform the S&P 500 Index.

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Buy - We believe the stock will outperform the market by at least 20% over the next 12 months and that there are compelling reasons to own it sooner than later.
Outperform - We believe the company's business model and prospects are solid, and we expect the stock will outperform the market. However, we see upside of less than 20% relative to the market or are somewhat concerned about near-term performance.
Neutral - We don't have a strong opinion about which way the stock price will move, but expect it to rise or fall less than 10% relative to the market. Our analysis suggests a value reasonably close to the current price.
Underperform - We believe the stock may be well ahead of itself or we are sufficiently concerned about results that we cannot justify the current valuation. We believe the stock may underperform the market by as much as 20%.
Sell - We expect the stock to underperform the market by at least 20% and see no reason to own the stock.

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