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El Paso Corp. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from the line of Michael Sedoy from Diamondback Capital. Your line is open.

Michael Sedoy

Doug, good morning can you please update us what's your source regarding potential separation of the pipeline business from E&P?

Doug Foshee

I'm sorry could you repeat the question.

Michael Sedoy

Yeah could you us update on your source related to potential separation of the pipeline business from E&P business?

Doug Foshee

Okay, thank you. That is some thing that is in our company sort of always on the table as a possibility. I would say we don't have any current plans to do that, and right now don't see the value proposition for our company associated with doing that today.

Michael Sedoy

Okay, thank you.

Operator

Your next question comes from the line of Rebecca Followill from Tudor Pickering & Holt. Your line is open.

Rebecca Followill

Good morning. Can you guys talk a little bit on your allocation of capital between E&P and pipes and is it driven by the high allocation of pipes versus E&P, is that driven by the return you see in that business, or the financial obligations you have to build those pipes?

Doug Foshee

Well, I would say Rebecca, we can't ignore the current realities of the capital market, and so we have an \$8 billion portfolio of pipeline projects that are 60 or 80 year kind of investments, in terms of the duration of those assets. And we do as a matter of corporate priority protect those and put those at sort of the highest part of the pecking order, from a capital allocation standpoint. And in addition to that, of course, we have made commitments to our customers. We have made commitments to contractors. We have made commitments to pipe companies, and those kinds of things. And by the way, we are very happy with that. We happen to have the flexibility, we believe, to respond to two things, one is the significant drop in commodity prices that hasn't yet, but we believe will lead to a commensurate drop in the cost of services related to our E&P business, and we have a portfolio in E&P that lends itself to be in flexible in since that we have very high working interest we operate of properties we have interest in. So, we can flex our E&P capital spend up and down to meet those market needs, which we think is a prudent thing to do, frankly whether or not we had an \$8 billion pipeline backlog, but it is certainly prudent to do in that circumstance, and we can do it without sacrificing significant profitability because of the fact that so much of our earnings comes from a pipeline business, that doesn't have throughput or near-term throughput, or commodity price volatility.

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