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**Subject:** [rmec] El Paso on its last legs?  
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El Paso Says Reserves May Have Been Falsified  
By HEATHER TIMMONS

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The El Paso Corporation, the troubled Houston energy company, said yesterday that an outside investigation had found that some employees might have deliberately overstated oil and gas reserves and that it would need to restate five years of results.

El Paso, which is struggling to shed billions of dollars in debt after a failed Enron-style expansion into energy trading, said in February that it would reduce its estimates of proven oil and natural gas reserves by 1.8 trillion cubic feet, or about 41 percent, and take a \$1 billion charge for the reduction. In late March, the company said the Securities and Exchange Commission had begun a formal investigation.  
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El Paso hired the law firm of Haynes & Boone to conduct its own investigation. It found that from 1999 to 2003, "certain employees used aggressive, and sometimes unsupportable methods" to book reserves, El Paso said in a statement yesterday. In addition, the company said, certain employees, who were not identified, "provided proved reserve estimates that they knew, or should have known were incorrect" when they were reported.

Financial statements from 1999 to 2003 will be restated for El Paso and its subsidiaries, El Paso CG and El Paso Production Holding, the company said. None of the current senior executives took part in the inaccurate booking, the investigation found.

How oil and gas companies estimate and account for their reserves has become one of the most important issues in the energy industry, after Royal Dutch/Shell, long seen as one of the industry's most conservative companies, said in January that it would cut its estimates of proven reserves by 20 percent. These reserves are the most important assets for oil and gas

companies.

An investigation at Shell found that some employees seemed to be booking reserves even when they knew they had not complied with S.E.C. standards.

El Paso's statement is sure to prompt regulators to scrutinize such companies even more thoroughly, analysts said, and the controversy could result in significant changes in how oil and gas companies account for their underground resources.

S.E.C. investigations into El Paso and Shell may also result in the prosecution of some employees, legal experts say. An El Paso spokeswoman, Kim Wallace, declined to comment about which employees were implicated in the review or whether they are still with the company.

Haynes & Boone did not present the board with a written report, and none will be released to the public, Ms. Wallace said. The company said in its statement that it would form an internal committee to review its reserves routinely, as well as improve training on S.E.C. guidelines.

Shares of El Paso fell 13 cents, to \$6.88. Moody's Investors Service and Standard & Poor's have rated El Paso's debt below investment grade, and warn that more downgradings are possible.

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