

Chapter 2. HNG/InterNorth

Figures

2.6 “The present . . . error” (quoted in HNG/InterNorth, *1985 Annual Report*, p. 1)

Footnotes

- 1 \$64 million charge; “Challenges ... Corporation” (InterNorth, *1982 Annual Report*, pp. 2, 3, 40)
- 3 “Precipitous action ... longer term,” (*Natural Gas Contract*, Dienstbier); “the inherent ... contracts” (*Natural Gas Contract*, Lay, p. 461)
- 5 “a single ... system” (49 *Stat.* 804 at 820 [1935])
- 6 Mobil stock value (Jordon, “InterNorth Plans”)
- 7 1970s liquids pricing controversy (Northern Natural Gas, *1979 Annual Report*, p. 11; *1980 Annual Report*, p. 16); \$48 million settlement (Regulatory Briefs, *Natural Gas Week*, August 15, 1988, p. 7)
- 10 eminent domain usage (Szmrecsanyi, p. 58; *Natural Gas*, 1936, pp. 145–46; Bradley, *Oil, Gas, Government*, pp. 192–93)
- 11 NNGP-El Paso exchange (Northern Natural Gas, *1952 Annual Report*, p. 9; Ken Rice, email to author, July 9, 2017)
- 12 “arrang[ing] for ... natural gas” (InterNorth, *1983 Annual Report*, p. 11)
- 13 InterNorth not interested in Transwestern (LoChiano interview, p. 7); InterNorth ownership in Transwestern (Castaneda and Pratt, pp. 125–26); Transwestern purchase by Texas Eastern (Transwestern, *30 Year History*, p. 1)
- 14 Wilkis, Levine tip (“How 3 Insider”); Wilkis, Levine, Boesky convictions (Stewart, *Den of Thieves*, pp. 268–69, 281, 360); Lazard payment (HNG, *Proxy for July 16, 1985*, p. 9)
- 15 board members and changes (HNG, [Year-End] *1984 Annual Report*, p. 46; HNG/InterNorth, *1985 Annual Report*, p. 68)
- 16 Permian producers and merger (Sodamann)
- 17 “HNG/InterNorth ... balance sheet” (Skilling interview, p. 8)
- 18 46 percent debt ratio in 1984 (HNG, [Year-End] *1984 Annual Report*, p. 12; InterNorth, *1984 Annual Report*, p. 2); 70 percent debt ratio (HNG/InterNorth, *1985 Annual Report*, p. 65); 73 percent debt ratio restatement (Enron Corp., *1990 Annual Report*, p. 6)
- 19 new organization chart (“Management”)
- 20 “This is not ... position” (“Peru Takes Control”); \$600 million in aid (Zieman, Cavanagh, and Schlender)
- 22 Great Plains write-off; Lay arrival at Transco (Bradley, *Edison to Enron*, pp. 333, 335; Transco, *1985 Annual Report*, pp. 2, 46)
- 23 “It became ... alternative” (Belfer interview, pp. 3–4)
- 25 Wing consulting contract (McLean and Elkind, p. 47)
- 29 Linder (Enron Corp., *1987 Annual Report*, p. 60); Sheldon and Gramm (Enron Corp., *1993 Annual Report*, p. 68)
- 30 NGC and HNG (chapter 1, p. 76; Natural Gas Clearinghouse, p. 8)
- 31 30¢ reduction (“Broad Use”); 1985–87 natural gas prices (<http://www.eia.gov/dnav/ng/hist/n9190us3m.htm>)
- 32 power of ideas, not industry lobbying (Marston interview, p. 8; Malloy interview, p. 16)
- 33 “Given the total success ... in the 1970s” (“Abolish FERC”)
- 35 “The key role ... optimum results” (“Gas Group Joins Forces,” p. 1)

- 39 Citrus Trading (Enron Corp., *1986 Annual Report*, 19; Frevert interview, p. 8)
40 Abbott hires (author's recollection; Horvath interview, pp. 2, 7)

Source Notes

- “Irv the Liquidator” (Storch)
“In natural gas ... bought” (Norman)
A Banner Year (InterNorth, *1984 Annual Report*, cover)
1984 statistics (InterNorth, *1984 Annual Report*, pp. 2, 4–5)
asset sales (InterNorth, *1983 Annual Report*, pp. 2, 43)
Belco Petroleum purchase (InterNorth, *1983 Annual Report*, p. 2)
- ### Northern Natural Gas Company
- NNGP early history and politics (Szmrecsanyi, pp. 6–10)
initial capacity (Northern Natural Gas, untitled brochure, 1980, pp. 6–7)
pipeline dimensions; other pipelines (Tussing and Tippee: pp. 90, 101, 106)
postwar boom, 1955 capacity (Northern Natural Gas Company, *1955 Annual Report*, p. 1)
exploration and production (Northern Natural Gas Company, *1955 Annual Report*, p. 3;
InterNorth, *1981 Annual Report*, p. 14)
sale to Mobil (InterNorth, *1981 Annual Report*, p. 14)
“Hell ... seeing!” (Strauss interview, p. 10)
diversification (Szmrecsanyi, pp. 219–20, 231–33)
Bushton Plant (InterNorth, *1981 Annual Report*, p. 17)
Northern Propane Gas Company (InterNorth, *1981 Annual Report*, p. 17; Northern Natural Gas
Company, *1961 Annual Report*, p. 17)
Northern Petrochemical Company (InterNorth, *1981 Annual Report*, pp. 17–18)
1970s gas reserve reductions (Szmrecsanyi, pp. 261, 270)
austerity program (Szmrecsanyi, pp. 268–69)
Northern stock splits (Northern Natural Gas Company, *1975 Annual Report*, p. 2; *1979 Annual
Report*, p. 2)
Gulf Coast purchases (Szmrecsanyi, p. 272)
winter 1976/77 curtailments (*Proposed Changes*, Hancock, p. 288)
coal gasification (InterNorth, *1980 Annual Report*, p. 3; Szmrecsanyi, pp. 278, 282)
coal operations (Northern Natural Gas Company, *1977 Annual Report*, p. 14; Northern Natural
Gas Company, *1980 Annual Report*, p. 21)
gas conservation (Northern Natural Gas Company, *1976 Annual Report*, p. 6)
InterNorth optimism toward coal, renewables, synthetics (InterNorth, *1980 Annual Report*, pp.
2–3)
gasohol study (InterNorth, *Gasohol*)
Northern Border and ANGTS (InterNorth, *1980 Annual Report*, p. 12; *1981 Annual Report*: p.
40; InterNorth, *1982 Annual Report*, pp. 2, 10, 16)
renaming (Northern Natural Gas Company, *1979 Annual Report*, p. 3)
Strauss to Segnar (InterNorth, *1980 Annual Report*, p. 3; InterNorth, *1984 Annual Report*, p. 3;
Szmrecsanyi, pp. 301–2)
Segnar history (Szmrecsanyi, pp. 299–300)
39 countries (InterNorth, *1981 Annual Report*, p. 2)
“We work for America” (InterNorth, *1982 Annual Report*, p. 8)
“our free ... drummer” (InterNorth, *1982 Annual Report*, p. 9)

synfuel subsidy (InterNorth, *1980 Annual Report*, p. 9)

A Marketing Pipeline

“spaghetti lines” (Strauss interview, p. 4)

“Some interstate ... strategy” (Bob Raasch, quoted in Szmrecsanyi, pp. 83–84)

pipeline views on raiding markets (Burns interview, p. 4)

reclassifying gas (Gomez interview, p. 8)

K-B Line (Richardson)

T&E incentives (Burns interview, pp. 2–3)

“wasn’t purchased ... job” (Gomez interview, p. 5)

“We were ... through change” (Gomez interview, p. 24)

“We were ... organization” (Gomez interview, p. 22)

January 1983 rate case (Burns interview, p. 4)

lost gas load in Minnesota (Skilling interview, pp. 5–6)

gas surplus, off-system sales strategy (InterNorth, *1982 Annual Report*, 12)

Ron Burns (Gomez interview, pp. 9–11, 24; Burns interview, p. 17)

Burns as lobbyist, rate designer (Burns interview, pp. 2, 4)

“provide a more ... one division” (Dienstbier, memorandum)

“Northern’s unique ... located” (Northern Gas Marketing)

T&E merger with Gas Sales (Krueger and Bathe, memorandum)

other Northern Natural and NGM players (Burns interview, pp. 5–6; Gomez interview, pp. 23–25; Cordes interview, pp. 30–31)

InterNorth declines to join NGC (Burns interview, p. 6)

“Marketability” (InterNorth, *1982 Business & Financial Profile*, p. 2)

“The Natural Gas Group ... expenses (quoted in InterNorth, *1984 Annual Report*, p. 3)

“The transportation ... in 1984” (quoted in InterNorth, *1984 Annual Report*, p. 10)

\$35 million budget (InterNorth, *1984 Business & Financial Profile*, p. 11)

“pursue ... markets” (InterNorth, *1984 Business & Financial Profile*, p. 11)

“It is ... us” (Jones)

Prelude to a Merger

“At his fiercest ... quick profit” (Tatge)

Northern Liquid Fuels Company income (InterNorth, *1984 Annual Report*, pp. 4, 7)

Peoples Gas income (InterNorth, *1984 Annual Report*, pp. 4, 6)

InterNorth International (InterNorth, *1984 Annual Report*, pp. 4, 7)

NNGP replacement cost (InterNorth, *1984 Business & Financial Profile*, p. 46)

“We had ... area” (LoChiano interview, p. 2)

merger discussions by InterNorth (Potempa interview 2, p. 1)

InterNorth merger candidates (Segnar interview, p. 19)

El Paso rumor (Neal)

prior HNG and InterNorth negotiations (Potempa interview 1, pp. 2, 6)

Valero strategy, agreements (Burns interview, p. 9; Shook, “HNG, InterNorth File”)

profits, assets, equity comparison (InterNorth, *1984 Annual Report*, 1; HNG, [Year-End] *1984 Annual Report*, p. 14)

InterNorth in Texas, Houston (Potempa interview 1: pp. 3–5; InterNorth, *1983 Annual Report*, p. 16; Shook, “HNG, InterNorth Merger”; January interview, p. 2)

“We would ... buy us” (Segnar interview, p. 31)

price and management control (Wing interview, p. 34)

\$45 per share valuation (Potempa interview 1, p. 8)

\$77 per share valuation (Wing interview, pp. 9–10)

\$60 per share street valuation (Shook, “Merger Possible”)

LoChiano valuation (McLean and Elkind, p. 11; LoChiano interview, p. 4)

\$70 per share ultimatum (Potempa interview 1, p. 8; Belfer interview, p. 5)

“I think ... blonde” (McLean and Elkind, p. 11)

\$69 price from self-tender (Sloane)

sweetened projections (Jordon, “HNG, InterNorth”)

“personal assurances” (Potempa interview 1, p. 9)

“for general purposes” (Stewart, “Houston Natural”)

HNG first-quarter earnings (Rosenheim)

HNG debt reduction (HNG, [Year-End] *1984 Annual Report*, p. 12; HNG, *Proxy for July 16, 1985*, p. 71; Fletcher)

Goldman Sachs, stretch (LoChiano interview, p. 5)

49 percent in favor (Potempa interview 1, p. 10)

HNG 1984 earnings (HNG, [Year-End] *1984 Annual Report*, p. 14)

name of merged company (HNG, *Proxy for Meeting of July 16, 1985*, p. 11)

\$3 million cashout (McLean and Elkind, p. 12)

HNG/InterNorth

purchase price (InterNorth, *1985 10K*, p. 1; InterNorth, *Overview*, p. 3)

“blatant” “reasonably good details” (quoted in Rotbart)

Boesky purchase, price jump (Stewart, “Houston Natural Stock”)

HNG plane ride, surprise (Kelly interview, pp. 5–6)

“The competitive ... industry” (quoted in “InterNorth, HNG Plan” p. 8)

“a good deal ... country” (quoted in “InterNorth, HNG Plan,” p. 8)

Wing on \$65 value (Wing interview, p. 10)

merger terms (HNG, *Proxy for July 15, 1985*, pp. 9–11)

HPL option (HNG, *Proxy for July 15, 1985*, p. 76)

“crown jewel” (Cole, “Gas Pipeline Giants”)

Houston employee meeting (Walzel, e-mail to author, July 25, 2006)

“As we go ... in the past” (InterNorth, *Overview*, pp. 1–2)

“I concluded ... pipeline industry” (InterNorth, *Overview*, pp. 1–2)

“we have ... enter” (InterNorth, *Overview*, p. 2)

“This is what ... everybody” (InterNorth, *Overview*, p. 1)

“somewhere in the middle” (InterNorth, *Overview*, p. 2)

LBO or ESOP versus acquisition (InterNorth, *Overview*, p. 3)

other InterNorth suitors (Potempa interview 2, pp. 1–2)

debt and capitalization (Jordon, “InterNorth Plans”; HNG, *Proxy for July 16, 1985*, p. 15)

“Ken Lay ... person” (InterNorth, *Overview*, p. 5)
employee protection for HNG (HNG, *Proxy for July 16, 1985*, p. 12)

Buyers’ Remorse

“I don’t ... take it” (quoted in Cole, “Houston Natural Bid”)
stock price changes (Cole, “Gas Pipeline”)
“It looks ... terms” (Rosenheim)
“It makes ... whom” (quoted in Shook, “HNG, InterNorth Merger”)
Houston headquarters rumors (Shook, “HNG, InterNorth Merger”; “Paper”)
Segnar’s Houston ties (Belfer interview, p. 6; Wing interview, p. 35)
“pink palace” (Burns interview, p. 9)
HNG, InterNorth divestitures (HNG, *Proxy for July 16, 1985*, pp. 7–8; HNG, *Form 10–K for 1985*, p. 7)
“because ... tongue better” (quoted in Jo Ellen Davis, p. 65)
first newsletter (“HNG/InterNorth Forms,” July 1985)
“Strategically ... sense” (HNG/InterNorth, *America’s Premier*, p. 5)
“InterNorth’s ... opportunities” (HNG/InterNorth, *America’s Premier*, p. 5)
debt ratings decline (HNG/InterNorth, *1985 Annual Report*, p. 65)
junk bonds, Milken (Olson interview, pp. 9–12)
60 percent goal for debt reduction (HNG/InterNorth, *Year-End Report*, pp. 2, 65)
cash flow in excess of \$1 billion (HNG/InterNorth, *America’s Premier*, p. 5)
“I hope ... intent” (Segnar, “memorandum”)
“I don’t think ... Houston” (Fletcher)
900 reduction, \$55 charge (HNG/InterNorth, *1985 Annual Report*, p. 2)

A Postmerger Stumble

“Joe ... Peru” (Hillings interview, p. 3)
“Ken ... Shining Path” (Hillings, e-mail to author, July 27, 2006)
Hillings realization (Hillings, e-mail to author, July 21, 2006)
Belco history in Peru (Belfer interview, pp. 9–12)
“structural imbalance” Belfer interview, p. 3)
“too much ... country” (Belfer interview, p. 3)
earlier Peruvian nationalizations (Zieman, Cavanagh, and Schlender, p. 7)
OPIC insurance attempt (Belfer interview, p. 16)
insurance purchase (LoChiano interview, p. 11; Belfer interview, p. 17)
Peruvian politics (Belfer interview, pp. 12–14)
Belfer suggested renegotiation (“Peru Cancels”)
\$50 million repayment (Nielsen and Serwer)
Peruvian nationalization, financial loss (HNG/InterNorth, *1985 Annual Report*, pp. 44–45; *1987 Annual Report*, p. 49; HNG/Inter/North, *Year-End Report*, p. 2; “Peru Takes Control”; Zieman, Cavanagh, and Schlender)
ratings reconfirmed, debt offering postponement (“HNG Write-Off”)

Getting Together

EVP appointments (Personnel Briefs, *Natural Gas Week*, July 15, 1985, p. 9)
“an international ... company” (HNG/InterNorth, *1985 Annual Report*, inside cover)
“America’s ... Company” (HNG/InterNorth, *America’s Premier*)
“premier energy network” (“HNG/InterNorth Forms,” p. 1)
“the makings ... the country” (Lay, in HNG/InterNorth, *Year-End Report*, p. 1)

Dienstbier, Burns relocations (Burns interview, p. 7)
Houston and natural gas (Burns interview, p. 7)
Granby ranch, attendees (Gardner, "Granby ranch meeting," memorandum, July 8, 1985)
territorial divisions, (Burns, memorandum)
"#1 ... machine" (Burns, memorandum)
"service center" (Burns, memorandum)
"nerve center" (Burns, memorandum)
"total grid management" (Burns, memorandum)
70 marketers (Jennrich, "How Many Marketers")
"a phone ... table" (Jennrich, "How Many Marketers")

Muckleroy decisions with NLF, HNG Gas Liquids (Muckleroy interview, pp. 13–17)
Norchem (InterNorth, *1984 Annual Report*, p. 24)
Beasley departure (Personnel Briefs, *Natural Gas Week*, February 10, 1986, p. 6)
HNG/InterNorth Exploration Company (Industry Briefs, *Natural Gas Week*, October 21, 1985, p. 6)
Belco consolidation (HNG/InterNorth, *1985 Annual Report*, 23; Belfer interview, pp. 3–4)

InterNorth-side against Wing (Wing interview, p. 15)
Hawks history (InterNorth, *1984 Business & Financial Profile*, p. 14)
joint venture attempts, Granby negotiations (Hendricks interview)
Northern Resources cogen projects (InterNorth, *1984 Business & Financial Profile*, p. 14)
Hawks in, Wing out (Wing interview, p. 15)
"I divide ... nth degree" (Wing interview, p. 35)

Ken Lay Takes Charge

Strauss persona (Szmrecsanyi, pp. 229–31; Pagel)
Segnar persona (Duncan interview, pp. 12–13; Burns interview, pp. 8–9; Hawks interview, p. 8; McLean and Elkind, p. 11)
"both a humble ... life" (Szmrecsanyi, p. 300)
"intense" (Szmrecsanyi, p. 300)
"highly intelligent" (Szmrecsanyi, p. 300)
"not ... chances" (Szmrecsanyi, p. 300)
"Segnar ... try" (Szmrecsanyi, p. 300)
25-page booklet (Northern Natural, "*Northern*")

Houston reception (Eichenwald, p. 25)
Board committee on headquarters (Eichenwald, p. 25)
Lay reporting to LoChiano (LoChiano interview, p. 8)
A Banner Year (InterNorth, *1984 Annual Report*, cover)
Strauss advice to Segnar; "Well ... buy me out" (Strauss interview, p. 30)
Segnar firing; headquarters presentation (Eichenwald, pp. 29–30)
"A successful ... under way" (Industry Briefs, *Natural Gas Week*, November 11, 1985, p. 5)
"pull ... together" (quoted in Michael Davis)
"give ... Omaha" (quoted in Michael Davis)
"Ken Lay ... guidance" ("Segnar Resignation," p. 3)
"delighted ... chairman" ("Segnar Resignation," p. 3)

“was the last thing ... do” (Strauss interview, p. 31)
debate over auditor (Eichenwald, p. 31)

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“Damn ...” (Strauss interview, p. 32)

“Bill ... illegalities” (Strauss interview, p. 32)

“I would ... people” (Strauss interview, pp. 32–33)

“I am ... long term” (Strauss interview, pp. 32–33)

“There is ... resignation” (Strauss interview, pp. 33–34)

Strauss exit (Duncan interview, p. 21)

“My retirement ... company” (Personnel Briefs, *Natural Gas Week*, February 17, 1986, p. 8)

“I am a student ... total hero” (Duncan interview, p. 13)

“We were ... outside the box” (Belfer interview, p. 8)

new board members (“Segnar Resignation”; Enron Corp., *1993 Proxy Statement*, May 4, 1993, pp. 3, 6)

Competitive Pipelining

Ken Lay on spot gas/transportation (Late News, *Natural Gas Week*, April 1, 1985, p. 1)

HPL, HNG Oil problems (“Houston Pipe Line”)

one-third transportation gas (Bradley, “The Distortions and Dynamics,” p. 16)

power of ideas, not industry lobbying (Marston interview, p. 8; Malloy interview, p. 16)

mandatory open access as free market (Malloy interview, pp. 22, 28–29)

“‘Magna Carta’ ... industry” (quoted in Jennrich, “Supply Security”; Williams, p. 17)

650-page order (HNG/InterNorth, *1985 Annual Report*, p. 26)

“The Commission ... certificate” (Legal and Rate Departments, memorandum, p. 4)

Transwestern, FGT transportation volumes (Jennrich, “Order 436”)

off-system sales (“Gas Group Joins Forces,” p. 1)

FERC Order No. 436 support (HNG/InterNorth, *1985 Annual Report*, p. 26)

“We’re looking ... for” “There’s ... back” (quoted in Jennrich, “Order 436”)

“Behind ... down” (quoted in Saunders, p. 8)

“Open transportation ... bad (quoted in Saunders, p. 8)

regulatory history (Transwestern, *30 Year History*, pp. 13–17)

Transwestern, El Paso, SoCalGas bid program and results (Transwestern, *30 Year History*, p. 15)

PAMI, Transwestern strategy (Transwestern, *30 Year History*, pp. 15–17)

\$125 million take-or-pay (HNG/InterNorth, *1985 Annual Report*, p. 48)

SoCalGas program (*FERC*, Loch, p. 512)

FGT transportation pipeline (Bradley, *Edison to Enron*, p. 274)

“as challenging ... imagine” (Horton interview 1, p. 15)

Smith, Abbott, Harvey (author’s recollection)

Positioning for the Future

hiring freeze (author’s recollection)

late 1985 layoffs (Enron Corp., *1986 Annual Report*, p. 2)

employee count (InterNorth, *Form 10-K for December 31, 1985*, p. 1)

1985 results (HNG/InterNorth, *1985 Annual Report*, pp. 2, 40–45, 61)

“unusually challenging” “We all ... potential” (Lay, “Progress of the Merger”)

“There ... setbacks” (HNG/InterNorth, *Year-End Report*, p. 1)

“To say ... in the industry” (HNG/InterNorth, *Year-End Report*, p. 1)

\$1 billion annual cash flow (HNG/InterNorth, *America’s Premier*, p. 5)

“the making ... country” (HNG/InterNorth, *Year-End Report*, p. 1)
“substantially ... company,” (HNG/InterNorth, *1985 Annual Report*, p. 4)
“The Corporation ... greatest assets” (HNG/InterNorth, *1985 Annual Report*, p. 4)

A New Name

“crash program” “about ... candidates” “En” “ter” “on” (quoted in Moffett)
other syllable meanings (Eichenwald, p. 34)
“a pipeline ... nourishment” (Fox, p. 14)
“The merger ... time” (quoted in Moffett)
HNG versus InterNorth in old, new company names (Moffett)
Enteron trade-press reaction (McLean and Elkind, p. 11)
Lay decision (Eichenwald, p. 34)

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———. (Ken Lay, "Letter to The Honorable Philip R. Sharp"), 458–61.

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