

FEDERAL INCOME TAX IMPLICATIONS OF THE DISTRIBUTION AND MERGER

The Transaction

Immediately following the close of business on December 11, 1996, Tenneco Inc. ("Tenneco"), distributed all of the common stock of New Tenneco Inc. ("New Tenneco," renamed Tenneco Inc. following the distribution), and all of the common stock of Newport News Shipbuilding Inc. ("Newport News") to the common stockholders of record of Tenneco (collectively, the "Distribution"). In addition, effective as of December 12, 1996, a subsidiary of El Paso Natural Gas Company ("El Paso") was merged into Tenneco, pursuant to which all of the outstanding Tenneco common stock was converted into shares of El Paso common stock (the "Merger"). As a result of the Distribution and the Merger, each Tenneco common stockholder received:

- (i) one share of New Tenneco stock for each share of Tenneco common stock;
- (ii) one share of Newport News stock for each five shares of Tenneco common stock; and
- (iii) 0.93 shares of El Paso common stock for each ten shares of Tenneco common stock.

The enclosed summary is for general information purposes only and is not intended as a complete discussion of the tax consequences of the Distribution or Merger. Because the tax treatment of a stockholder may vary depending upon his, her or its particular situation, each stockholder should consult his, her or its own tax advisor as to the particular tax consequences of the Distribution and Merger to such stockholder.

Federal Income Tax Consequences of the Distribution

The Internal Revenue Service (the "IRS") has ruled that, except for tax resulting from the sale of fractional shares of Newport News stock, you will incur no U.S. federal income tax liability as a result of the Distribution. However, the IRS requires that taxpayers who received this tax-free distribution of New Tenneco stock and Newport News stock attach to their U.S. income tax return for the period including December 11, 1996, a statement containing the details of the transaction. For those stockholders who are calendar year taxpayers, the enclosed Statement A should be completed and attached to your U.S. federal income tax return for 1996.

Federal Income Tax Consequences of the Merger

The IRS has also ruled that, except for tax resulting from the sale of fractional shares of El Paso stock, you will incur no U.S. federal income tax liability as a result of the Merger. However, the IRS requires that taxpayers who received El Paso stock in the Merger attach to their U.S. federal income tax return for the period including December 12, 1996, a statement containing certain information relating to the Merger. For those shareholders who are calendar year taxpayers, the enclosed Statement B should be completed and attached to your U.S. federal income tax return for 1996.

Allocation of Tax Basis as a Result of the Distribution and Merger

Enclosed is a worksheet which illustrates a commonly used method of allocating the tax basis of the Tenneco common stock you owned among the New Tenneco, Newport News, and El Paso shares you hold as a result of the Distribution and Merger.

As a result of the Distribution, you must apportion the tax basis (sometimes called cost basis) of the Tenneco common stock you owned among (i) your Tenneco common stock (which was exchanged for El Paso common stock in the Merger), (ii) your New Tenneco stock received in the Distribution, and (iii) your Newport News stock received in the Distribution (including fractional shares sold on your behalf) in proportion to their fair

market values at the time of the Distribution. In addition, as a result of the Merger, your tax basis in shares of El Paso common stock received in the Merger will be equal to your tax basis in the Tenneco stock surrendered in exchange therefor. The enclosed tax basis worksheet explains these calculations and includes a sample allocation of tax basis between New Tenneco, Newport News, and El Paso shares. The percentages of tax basis to be allocated to such shares are based on the average of the high and low market prices per share for December 12, 1996.

Treatment of Fractional Shares

As a result of either the Distribution or the Merger, you may have been entitled to receive a fractional share of Newport News stock or El Paso stock, respectively. However, fractional shares were not issued in either the Distribution or the Merger. Instead, such fractional shares were issued to an agent acting on behalf of all stockholders entitled to receive fractional shares. The agent accumulated such fractional shares, sold the shares, and distributed the cash proceeds from such sale (less any brokerage commissions, transfer taxes, and other expenses of the sale) pro rata to those entitled to receive the fractional shares.

Cash which you received in lieu of a fractional share of Newport News stock or a fractional share of El Paso stock will be treated for federal income tax purposes as paid in exchange for such fractional share of stock. This means that you will realize a capital gain or loss (assuming that the Newport News stock or El Paso stock would, in your hands, be treated as a capital asset) for U.S. federal income tax purposes measured by the difference between the cash you received for your fractional share and your tax basis in that fractional share. You may use the attached worksheet to determine your tax basis in any fractional shares you were entitled to receive.

Fractional interests in Tenneco common stock held through Tenneco's dividend reinvestment plan will be converted into fractional interests, in New Tenneco, Newport News and El Paso stock held through such plan.

Holding Period

The ruling obtained from the IRS by Tenneco addressed the appropriate manner to calculate the holding period for your New Tenneco stock, Newport News stock and El Paso stock if you held your Tenneco stock as a capital asset. In general, to determine your holding period for a share of New Tenneco, Newport News or El Paso stock, the ruling provides that you add (i) the period that you held your Tenneco stock with respect to which you received the New Tenneco, Newport News or El Paso share, plus (ii) the period that you have held the New Tenneco, Newport News or El Paso share, following the Distribution or Merger. For example, if you sell New Tenneco or Newport News stock four months following the Distribution, and you held the Tenneco stock, which entitled you to the New Tenneco or Newport News stock in the Distribution, for ten months prior to the Distribution, you will be treated as having held the New Tenneco or Newport News stock for a total of fourteen months before the disposition. Because your holding period for the New Tenneco or Newport News stock exceeds one year, any gain or loss on the disposition of the New Tenneco or Newport News stock would be treated as long-term capital gain or loss if you held such stock as a capital asset.

State and Foreign Tax Consequences

Many states base their income tax in whole or in part upon taxable income under federal income tax concepts. In such states, the receipt of New Tenneco stock, Newport News stock and/or El Paso stock may be exempt from tax in the same manner as from federal income taxes. Other states, and foreign countries, may not follow the U.S. federal income tax treatment. Stockholders should consult with their tax advisors regarding the state and foreign tax consequences of the receipt of the New Tenneco stock, Newport News stock and/or El Paso stock, and any payment for fractional shares.

STATEMENT A
SHAREHOLDER STATEMENT
PURSUANT TO TREASURY REGULATION §1.355-5(b)

Statement of shareholder receiving a distribution of stock in Tenneco Inc. (a controlled corporation) and Newport News Shipbuilding Inc. (a controlled corporation), pursuant to Treasury Regulation §1.355-5(b).

1. The taxpayer, a shareholder of Tenneco Inc. (renamed after consummation of the distribution to El Paso Tennessee Pipeline Co.) ("Old Tenneco") on December 11, 1996, received a distribution of stock in a controlled corporation pursuant to Section 355 of the Internal Revenue Code.

2. The names and addresses of the corporations involved are as follows:
 - (a) El Paso Tennessee Pipeline Co. (Parent) } *Now known as:*
1010 Milam Street } *El Paso Energy Corporation*
Houston, TX 77002 } *1001 Louisiana*
 } *P.O. Box 2511*
 } *Houston, Texas 77252-2511*
 } *713/420-2131*

 - (b) Tenneco Inc. (Controlled Corporation) } *Tenneco Automotive*
1275 King Street } *500 North Field Drive*
Greenwich, CT 06831 } *Lake Forest, Illinois 60045*
 } *847/482-5000*

 - (c) Newport News Shipbuilding Inc. (Controlled Corporation)
4101 Washington Avenue
Newport News, VA 23607

3. The taxpayer surrendered no stock or securities in Old Tenneco in connection with the distribution.

4. The taxpayer received _____ whole shares of Tenneco Inc. and _____ whole shares of Newport News Shipbuilding Inc. in the distribution constituting only common shares in such corporations. In addition, the taxpayer received \$_____ in lieu of fractional shares of Newport News Shipbuilding Inc.

5. By letter dated October 30, 1996, the Internal Revenue Service ruled that the distribution by Old Tenneco of shares of Tenneco Inc. and Newport News Shipbuilding Inc. was a nontaxable Section 355 corporate separation.

COMPLETE AND ATTACH TO YOUR U.S. FEDERAL INCOME TAX RETURN
FOR THE TAX PERIOD INCLUDING DECEMBER 11, 1996

STATEMENT B
SHAREHOLDER STATEMENT
PURSUANT TO TREASURY REGULATION §1.368-3(b)

Statement, pursuant to Treasury Regulation §1.368-3(b), of shareholder whose common stock in Tenneco Inc. (renamed, upon consummation of the merger described herein, to El Paso Tennessee Pipeline Co.) (“Old Tenneco”) was converted into common stock of El Paso Natural Gas Company.

1. On December 12, 1996, the taxpayer’s Old Tenneco common stock was converted into common stock of El Paso Natural Gas Company, pursuant to a statutory merger of Old Tenneco with El Paso Merger Company, a subsidiary of El Paso Natural Gas Company.
2. By letter dated October 30, 1996, the Internal Revenue Service ruled that the statutory merger of Old Tenneco with El Paso Merger Company would be treated, for U.S. federal income tax purposes, as a stock-for-stock exchange qualifying as a tax-free reorganization under Section 368(a)(1)(B) of the Internal Revenue Code.
3. Pursuant to the merger, the taxpayer received _____ whole shares of common stock of El Paso Natural Gas Company, having a fair market value of \$45.88 per share (determined by calculating the average of the high and low market prices per share) on December 12, 1996, in exchange for _____ shares of common stock of Old Tenneco. In addition, the taxpayer received \$_____ in lieu of fractional shares of El Paso Natural Gas Company common stock. The taxpayer assumed no liabilities and received no property subject to liabilities in the merger.
4. At the time of the exchange, the taxpayer had an adjusted tax basis of _____ in the shares of Old Tenneco common stock surrendered in the exchange.
5. The names and addresses of the corporations involved are as follows:

- | | | |
|---|---|---|
| <ol style="list-style-type: none">(1) El Paso Tennessee Pipeline Co. (the Acquired Corporation)
1010 Milam Street
Houston, TX 77002(2) El Paso Natural Gas Company
(the Parent of the Acquiring Corporation)
1010 Milam Street
Houston, TX 77002 | } | <p><i>Now known as:</i>
<i>El Paso Energy Corporation</i>
<i>1001 Louisiana</i>
<i>P.O. Box 2511</i>
<i>Houston, Texas 77252-2511</i>
<i>713/420-2131</i></p> |
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**COMPLETE AND ATTACH TO YOUR FEDERAL INCOME TAX RETURN
FOR THE TAX PERIOD INCLUDING DECEMBER 12, 1996**

**EL PASO TENNESSEE PIPELINE CO.
(FORMERLY TENNECO INC.)**

**NEWPORT NEWS
SHIPBUILDING INC.**

TENNECO INC.

U.S. FEDERAL INCOME TAX BASIS WORKSHEET

		Your Case	Hypothetical Example
1.	Number of Tenneco Inc. ("Old Tenneco") common shares held on December 11, 1996.		51
2.	Number of El Paso shares you were entitled to receive for each share of Old Tenneco common stock.	0.093	0.093
3.	Line 1 multiplied by line 2. This is the number of El Paso shares you were entitled to receive in exchange for your Old Tenneco common stock.		4.743
4.	Copy line 1. This is the number of New Tenneco (renamed "Tenneco Inc.") shares you were entitled to receive.		51
5.	Divide line 1 by 5.00. This is the number of Newport News shares you were entitled to receive.		10.2
6.	Tax basis of pre-Distribution Old Tenneco common shares (based on your records).		2550.00
7.	Percentage of the tax basis allocated to your El Paso shares which were received in exchange for Old Tenneco common stock.	8.08%	8.08%
8.	Percentage of the tax basis allocated to your post-Distribution Tenneco Inc. shares.	85.77%	85.77%
9.	Percentage of the tax basis allocated to your post-Distribution Newport News shares.	6.15%	6.15%
10.	Line 6 multiplied by line 7. This is the tax basis of the El Paso shares which you were entitled to receive in exchange for your Old Tenneco common stock.		206.04
11.	Line 10 divided by line 3. This is the tax basis per share of your El Paso shares which were received in exchange for your Old Tenneco common stock.		43.44
12.	Line 3 less the number of whole shares of El Paso stock distributed to you. This is the fractional share of El Paso stock you were entitled to receive.		0.743
13.	Line 11 multiplied by line 12. This is the tax basis of the El Paso fractional share which is being sold for you.		32.28
14.	Line 10 less line 13. This is the tax basis of the El Paso shares which were distributed to you.		173.76
15.	Line 6 multiplied by line 8. This is the tax basis of the Tenneco Inc. shares which were distributed to you.		2187.14
16.	Line 15 divided by line 4. This is the tax basis per share of your Tenneco Inc. shares.		42.89
17.	Line 6 multiplied by line 9. This is the tax basis of the Newport News shares you were entitled to receive.		156.83
18.	Line 17 divided by line 5. This is the tax basis per share of your Newport News shares.		15.38
19.	Line 5 less the number of whole shares of Newport News distributed to you. This is the fractional share you were entitled to receive.		0.2
20.	Line 18 multiplied by line 19. This is the tax basis of the Newport News fractional share which is being sold for you.		3.08
21.	Line 17 less line 20. This is the tax basis of the Newport News shares which were distributed to you.		153.75