UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

| Commission File Number | Registrant; State of Incorporation; Address; and Telephone Number | IRS Employer Identification No. |
|---|---|---|
| 1-9513 | CMS ENERGY CORPORATION<br>(A Michigan Corporation)<br>Fairlane Plaza South, Suite 1100<br>330 Town Center Drive, Dearborn, Michigan 48126<br>(313)436-9200 | 38-2726431 |
| 1-5611 | CONSUMERS ENERGY COMPANY<br>(A Michigan Corporation)<br>212 West Michigan Avenue, Jackson, Michigan 49201<br>(517)788-0550 | 38-0442310 |
| 1-2921 | PANHANDLE EASTERN PIPE LINE COMPANY<br>(A Delaware Corporation)<br>5400 Westheimer Court, P.O. Box 4967, Houston, Texas 77210-4967<br>(713)627-5400 | 44-0382470 |

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No

Panhandle Eastern Pipe Line Company meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format. In accordance with Instruction H, Part I, Item 2 has been reduced and Part II, Items 2, 3 and 4 have been omitted.

Number of shares outstanding of each of the issuer's classes of common stock at April 30, 1999:

| | |
|---|---|
| CMS ENERGY CORPORATION: | |
| CMS Energy Common Stock, $.01 par value | 108,724,689 |
| CMS Energy Class G Common Stock, no par value | 8,570,285 |
| CONSUMERS ENERGY COMPANY, $10 par value, privately held by CMS Energy | 84,108,789 |
| PANHANDLE EASTERN PIPE LINE COMPANY, no par value, indirectly privately held by CMS Energy | 1,000 |

CMS ENERGY CORPORATION
AND
CONSUMERS ENERGY COMPANY
AND
PANHANDLE EASTERN PIPE LINE COMPANY

QUARTERLY REPORTS ON FORM 10-Q TO THE SECURITIES AND EXCHANGE COMMISSION
FOR THE QUARTER ENDED MARCH 31, 1999

This combined Form 10-Q is separately filed by each of CMS Energy Corporation, Consumers Energy Company and Panhandle Eastern Pipe Line Company. Information contained herein relating to each individual registrant is filed by such registrant on its own behalf. Accordingly, except for their respective subsidiaries, Consumers Energy Company and Panhandle Eastern Pipe Line Company make no representation as to information relating to any other companies affiliated with CMS Energy Corporation.

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# GLOSSARY

Certain terms used in the text and financial statements are defined below.

| | |
|---|---|
| ABATE | Association of Businesses Advocating Tariff Equity |
| ALJ | Administrative Law Judge |
| Anadarko | Anadarko Petroleum Corporation, a non-affiliated company |
| Articles | Articles of Incorporation |
| Attorney General | Michigan Attorney General |
| Aux Sable | Aux Sable Liquids Products, L.P., a non-affiliated company |
| bcf | Billion cubic feet |
| Big Rock | Big Rock Point nuclear power plant, owned by Consumers |
| Board of Directors | Board of Directors of CMS Energy |
| Btu | British thermal unit |
| Class G Common Stock | One of two classes of common stock of CMS Energy, no par value, which reflects the separate performance of the Consumers Gas Group |
| Clean Air Act | Federal Clean Air Act, as amended |
| CMS Energy | CMS Energy Corporation, the parent of Consumers and Enterprises |
| CMS Energy Common Stock | One of two classes of common stock of CMS Energy, par value $.01 per share |
| CMS Gas Transmission | CMS Gas Transmission and Storage Company, a subsidiary of Enterprises |
| CMS Generation | CMS Generation Co., a subsidiary of Enterprises |
| CMS Holdings | CMS Midland Holdings Company, a subsidiary of Consumers |
| CMS Midland | CMS Midland Inc., a subsidiary of Consumers |
| CMS MST | CMS Marketing, Services and Trading Company, a subsidiary of Enterprises |
| CMS Oil and Gas | CMS Oil and Gas Company, a subsidiary of Enterprises |
| CMS Panhandle Holding | CMS Panhandle Holding Company, a subsidiary of CMS Gas Transmission |
| Common Stock | CMS Energy Common Stock and Class G Common Stock |
| Consumers | Consumers Energy Company, a subsidiary of CMS Energy |
| Consumers Gas Group | The gas distribution, storage and transportation businesses currently conducted by Consumers and Michigan Gas Storage |
| Court of Appeals | Michigan Court of Appeals |
| Detroit Edison | The Detroit Edison Company, a non-affiliated company |
| Dow | The Dow Chemical Company, a non-affiliated company |
| Duke Energy | Duke Energy Corporation, a non-affiliated company |
| Enterprises | CMS Enterprises Company, a subsidiary of CMS Energy |
| EPA | Environmental Protection Agency |
| EPS | Earning per share |
| EITF | Emerging Issues Task Force |

| | |
|---|---|
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| FMLP | First Midland Limited Partnership, a partnership which operates a marketing center for natural gas |
| GCR | Gas cost recovery |
| GTNs | CMS Energy General Term Notes(R), $250 million Series A, $125 million Series B, $150 million Series C, $200 million Series D and $400 million Series E |
| IT | Information technology |
| Jorf Lasfar | A 1,356 MW (660 MW in operation and 696 MW under construction) coal-fueled power plant in Morocco, jointly owned by CMS Generation and ABB Energy Venture, Inc. |
| kWh | Kilowatt-hour |
| Loy Yang | A 2,000 MW brown coal fueled Loy Yang A power plant and an associated coal mine in Victoria, Australia, in which CMS Generation holds a 50 percent ownership interest |
| mcf | Thousand cubic feet |
| MCV Facility | A natural gas-fueled, combined-cycle cogeneration facility operated by the MCV Partnership |
| MCV Partnership | Midland Cogeneration Venture Limited Partnership in which Consumers has a 49 percent interest through CMS Midland |
| MD&A | Management's Discussion and Analysis |
| Mdth/d | Million dekatherms per day |
| MichCon | Michigan Consolidated Gas Company, a non-affiliated company |
| Michigan Gas Storage | Michigan Gas Storage Company, a subsidiary of Consumers |
| MMBtu | Million British thermal unit |
| MPSC | Michigan Public Service Commission |
| MW | Megawatts |
| NEIL | Nuclear Electric Insurance Limited, an industry mutual insurance company owned by member utility companies |
| NOI | Notice of inquiry |
| NOPR | Notice of proposed rulemaking |
| Northern Border | Northern Border Pipeline Company |
| NRC | Nuclear Regulatory Commission |
| Order 888 and Order 889 | FERC final rules issued on April 24, 1996 |
| Outstanding Shares | Outstanding shares of Class G Common Stock |
| Palisades | Palisades nuclear power plant, owned by Consumers |
| PanEnergy | PanEnergy Corporation, a non-affiliated company |
| Pan Gas Storage | Pan Gas Storage Company, a subsidiary of Panhandle Eastern Pipe Line Company |

| | |
|---|---|
| Panhandle | Panhandle Eastern Pipe Line Company, a subsidiary of CMS Panhandle Holding, including Panhandle Eastern Pipe Line Company subsidiaries Trunkline, Pan Gas Storage, Panhandle Storage, and Trunkline LNG |
| Panhandle Storage | Panhandle Storage Company, a subsidiary of Panhandle Eastern Pipe Line Company |
| PCBs | Poly chlorinated biphenyls |
| PECO | PECO Energy Company, a non-affiliated company |
| PPA | The Power Purchase Agreement between Consumers and the MCV Partnership with a 35-year term commencing in March 1990 |
| PSCR | Power supply cost recovery |
| SEC | Securities and Exchange Commission |
| Senior Credit Facilities | $725 million senior credit facilities consisting of a $600 million three-year revolving credit facility and a five-year $125 million term loan facility |
| SFAS | Statement of Financial Accounting Standards |
| SOP | Statement of position |
| Superfund | Comprehensive Environmental Response, Compensation and Liability Act |
| Transition Costs | Costs incurred by utilities in order to serve their customers in a regulated monopoly environment, but which may not be recoverable in a competitive environment because of customers leaving their systems and ceasing to pay for their costs. These costs could include owned and purchased generation, regulatory assets, and costs incurred in the transition to competition. |
| Trunkline | Trunkline Gas Company, a subsidiary of Panhandle Eastern Pipe Line Company |
| Trunkline LNG | Trunkline LNG Company, a subsidiary of Panhandle Eastern Pipe Line Company |
| Trust Preferred Securities | Undivided beneficial interest in the assets of statutory business trusts, these interests have a preference with respect to certain trust distributions over the interests of either CMS Energy or Consumers, as applicable, as owner of the common beneficial interests of the trusts |

CMS ENERGY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

CMS Energy is the parent holding company of Consumers and Enterprises. Consumers is a combination electric and gas utility company serving the Lower Peninsula of Michigan and is the principal subsidiary of CMS Energy. Enterprises, through subsidiaries, is engaged in several domestic and international energy-related businesses including: natural gas transmission, interstate transportation, storage and processing; independent power production; oil and gas exploration and production; energy marketing, services and trading; and international energy distribution. On March 29, 1999, CMS Energy completed the acquisition of Panhandle from Duke Energy, as further discussed in the Capital Resources and Liquidity section of this MD&A and Note 1. Panhandle is primarily engaged in the interstate transportation, storage and processing of natural gas.

The MD&A of this Form 10-Q should be read along with the MD&A and other parts of CMS Energy's 1998 Form 10-K. This MD&A also refers to, and in some sections specifically incorporates by reference, CMS Energy's Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Statements and Notes. This report contains forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995. While forward-looking statements are based on assumptions and such assumptions are believed to be reasonable and are made in good faith, CMS Energy cautions that assumed results almost always vary from actual results and differences between assumed and actual results can be material. The type of assumptions that could materially affect the actual results are discussed in the Forward-Looking Statements section in this MD&A. More specific risk factors are contained in various public filings made by CMS Energy with the SEC. This report also describes material contingencies in the Notes to Consolidated Financial Statements and the readers are encouraged to read such Notes.

RESULTS OF OPERATIONS

CMS ENERGY CONSOLIDATED EARNINGS

| | In Millions, Except Per Share Amounts | | |
|---|---|---|---|
| March 31 | 1999 | 1998(a) | Change |
| THREE MONTHS ENDED | | | |
| Consolidated Net Income | $ 98 | $ 88 | $ 10 |
| Net Income Attributable to Common Stocks: | | | |
| CMS Energy | 88 | 79 | 9 |
| Class G | 10 | 9 | 1 |
| Earnings Per Average Common Share: | | | |
| CMS Energy | | | |
| Basic | .82 | .79 | .03 |
| Diluted | .80 | .77 | .03 |
| Class G | | | |
| Basic and Diluted | 1.19 | 1.09 | .10 |
| TWELVE MONTHS ENDED | | | |
| Consolidated Net Income | $295 | $254 | $ 41 |
| Net Income Attributable to Common Stocks: | | | |

| | | | |
|---|---|---|---|
| CMS Energy | 281 | 239 | 42 |
| Class G | 14 | 15 | (1) |
| Earnings Per Average Common Share: | | | |
| CMS Energy | | | |
| Basic | 2.69 | 2.45 | .24 |
| Diluted | 2.66 | 2.44 | .22 |
| Class G | | | |
| Basic and Diluted | 1.68 | 1.76 | (.08) |

(a) Includes the cumulative effect of an accounting change for property taxes which increased net income by $43 million or $.40 per share - basic and diluted - - for CMS Energy Common Stock and $12 million or $.36 per share - basic and diluted - for Class G Common Stock.

The increase in consolidated net income for the first quarter of 1999 over the comparable period in 1998 resulted from increased earnings from the electric and gas utilities; independent power production; and marketing, services and trading businesses, and the recognition in 1998 of a $37 million loss ($24 million after-tax) for the underrecovery of power costs under the PPA. Partially offsetting these increases were lower earnings from the natural gas transmission, storage, and processing business, which had a $9 million gain from an asset sale in 1998, lower earnings from the international energy distribution business, the 1998 cumulative effect of the accounting change for property taxes, and higher interest expense.

The increase in consolidated net income for the twelve months ended March 31, 1999 over the comparable 1998 period reflects increased earnings from the electric and gas utilities; independent power production; and marketing, services and trading businesses. Partially offsetting these increases were lower earnings from the natural gas transmission, storage and processing and exploration and production businesses coupled with higher interest expense.

For further information, see the individual results of operations for each CMS Energy business segment in this MD&A.

CONSUMERS' ELECTRIC UTILITY RESULTS OF OPERATIONS

ELECTRIC PRETAX OPERATING INCOME:

| Change Compared to Prior Year | In Millions<br>Three Months Ended March 31 1999 vs 1998 | <br>Twelve Months Ended March 31 1999 vs 1998 |
|---|---|---|
| Electric Deliveries | $ 8 | $ 42 |
| Power supply costs | 5 | 24 |
| Rate increases and other non-commodity revenue | 2 | 2 |
| Operations and maintenance | 2 | (11) |
| General taxes and depreciation | (2) | (10) |
| Total change | $ 15 | $ 47 |

ELECTRIC DELIVERIES: Total electric deliveries were 10 billion kwh for the three months ended March 31, 1999, an increase of 4.0 percent resulting primarily from higher electric deliveries to ultimate customers in the residential and commercial sectors. Electric deliveries were 40.4 billion kwh for the twelve months ended March 31, 1999, an increase of 5.1 percent which also reflects an increase in electric deliveries to ultimate customers, primarily in the residential and commercial sectors.

POWER COSTS:

| March 31 | 1999 | 1998 | In Millions<br>Change |
|---|---|---|---|
| Three months ended | $ 279 | $ 270 | $ 9 |
| Twelve months ended | 1,183 | 1,128 | 55 |

Power costs increased for the three months period ended March 31, 1999 compared to the same 1998 period as a result of increased sales. Power costs also increased for the twelve months ended March 31, 1999 compared to the same period in 1998 for the same reason. Both internal generation and power purchases from outside sources increased during this period to meet the increased demand.

UNCERTAINTIES: CMS Energy's financial position may be affected by a number of trends or uncertainties that have, or CMS Energy reasonably expects could have, a material impact on net sales, revenues, or income from continuing electric operations. Such uncertainties include: 1) capital expenditures for compliance with the Clean Air Act; 2)environmental liabilities arising from compliance with various federal, state and local environmental laws and regulations, including potential liability or expenses relating to the Michigan Natural Resources and Environmental Protection Act and Superfund; 3) cost recovery relating to the MCV Facility; 4) electric industry restructuring; 5) implementation of a frozen PSCR and initiatives to be undertaken to reduce exposure to high energy prices; 6) underrecoveries associated with power purchases from the MCV Partnership; and 7) decommissioning issues and ongoing issues relating to the storage of spent fuel and the operating life of Palisades. For detailed information about these trends or uncertainties, see Note 2, Uncertainties, incorporated by reference herein.

CONSUMERS GAS GROUP RESULTS OF OPERATIONS

GAS PRETAX OPERATING INCOME:

In Millions

| Change Compared to Prior Year | Three Months Ended March 31 1999 vs 1998 | Twelve Months Ended March 31 1999 vs 1998 |
|---|---|---|
| Sales | $ 19 | $ (4) |
| Reduced gas cost per mcf | 14 | 33 |
| Gas wholesale and retail services activities | 1 | 4 |
| Operation and maintenance | -- | 7 |
| General taxes, depreciation and other | (10) | (20) |
| Total increase(decrease) in pretax operating income | $ 24 | $ 20 |

GAS DELIVERIES: System deliveries for the three month period ended March 31, 1999, including miscellaneous transportation, were 166 bcf compared to 146 bcf for the same 1998 period. This increase of 20 bcf or 14 percent was primarily due to colder temperatures during the 1999 heating season. System deliveries for the twelve month period ended March 31, 1999, including miscellaneous transportation, were 380 bcf compared to 399 bcf for the same 1998 period. This decrease of 19 bcf or 5 percent was primarily the result of warmer temperatures for the most recent twelve month period.

COST OF GAS SOLD:

In Millions

| March 31 | 1999 | 1998 | Change |
|---|---|---|---|
| Three months ended | $306 | $264 | $42 |
| Twelve months ended | 606 | 645 | (39) |

The cost increases for the three month period ended March 31, 1999 was the result of increased gas deliveries due to colder temperatures during the 1999 winter heating season. The cost decrease for the twelve month period ended March 31, 1999 was the result of decreased sales due to warmer overall temperatures.

UNCERTAINTIES: CMS Energy's financial position may be affected by a number of trends or uncertainties that have, or CMS Energy reasonably expects could have, a material impact on net sales or revenues or income from continuing gas utility operations. Such uncertainties include: 1) potential environmental costs at a number of sites, including sites formerly housing manufactured gas plant facilities, 2) a statewide experimental gas restructuring program, and 3) implementation of a frozen GCR and initiatives undertaken to protect against gas price increases. For detailed information about these uncertainties see Note 2, Uncertainties, incorporated by reference herein.

INDEPENDENT POWER PRODUCTION RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: Pretax operating income for the three months ended March 31, 1999 increased $12 million (75 percent) from the comparable period in 1998. This increase primarily reflects increased operating income from international plant earnings and fees, increased electricity sales by the MCV Facility, and a $4 million operating bonus earned in connection with Jorf Lasfar, partially offset by higher net operating expenses and a cash payment in settlement of a legal proceeding. Pretax operating income for the twelve months ended March 31, 1999 increased $54 million (53 percent) from the comparable period in 1998, primarily reflecting increased international and domestic earnings and operating fees, gains

on the sale of biomass plant assets and biomass power purchase agreements, and higher electricity sales by the MCV Facility, partially offset by higher operating expenses, the settlement of a legal proceeding obligation and a scheduled reduction of the industry expertise service fee income earned in connection with Loy Yang.

OIL AND GAS EXPLORATION AND PRODUCTION RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: Pretax operating income for the three months ended March 31, 1999 was unchanged from the comparable period in 1998 as a result of higher oil prices and lower exploration expenses, offset by lower gas prices and increased depreciation, depletion and amortization expenses. Pretax operating income for the twelve months ended March 31, 1999 decreased $22 million (79 percent) from the comparable period in 1998 as a result of lower oil and gas prices and a gain in the prior period from the sale of CMS Oil and Gas' entire interest in oil and gas properties in Yemen, partially offset by lower operating and exploration expenses.

NATURAL GAS TRANSMISSION, STORAGE AND PROCESSING RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: Pretax operating income for the three months ended March 31, 1999 decreased $10 million (77 percent) from the comparable period in 1998. The decrease reflects a gain in the prior period on the sale of Petal Gas Storage Company and lower earnings from domestic operations primarily due to depressed natural gas liquids prices, partially offset by increased earnings from international operations and earnings from Panhandle, which was acquired on March 29, 1999. Pretax operating income for the twelve months ended March 31, 1999 decreased $8 million (26 percent) from the comparable period in 1998. The decrease primarily reflects a gain in the prior period on the sale of Petal Gas Storage Company and decreased domestic and international earnings, partially offset by a gain on the sale of Australian gas reserves, earnings attributable to Panhandle and decreased operating expenses.

UNCERTAINTIES: CMS Energy's financial position may be affected by a number of trends or uncertainties that have, or CMS Energy reasonably expects could have, a material impact on net sales or revenues or income from continuing gas operations. For detailed information about Panhandle's regulatory uncertainties see Note 2, Uncertainties - Panhandle Regulatory Matters, incorporated by reference herein.

MARKETING, SERVICES AND TRADING RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: Pretax operating income for the three months ended March 31, 1999 increased $6 million from the comparable period in 1998. The increase is the result of improved commodity margins and the effect of an accounting change that recognizes currently the fair market value of trading contracts. Pretax operating income for the twelve months ended March 31, 1999 increased $17 million from the comparable period in 1998. The increase is a result of improved margins on electric and gas sales, increased electric volumes and the market value of trading contracts, partially offset by increased expenses related to growth objectives. Gas managed and marketed for end users totaled 99 bcf and 91 bcf for the three months ended March 31, 1999 and 1998, respectively.

MARKET RISK INFORMATION

CMS Energy is exposed to market risks including, but not limited to, changes in interest rates, currency exchange rates, and certain commodity and equity prices. Management employs established policies and procedures to manage its risks associated with these market fluctuations including the use of various derivative instruments such as futures, swaps, options and forward contracts. Management believes that

any losses incurred on derivative instruments used to hedge risk would be offset by an opposite movement of the value of the hedged item.

In accordance with SEC disclosure requirements, CMS Energy has performed sensitivity analyses to assess the potential loss in fair value, cash flows and earnings based upon hypothetical 10 percent increases and decreases in market exposures. Management does not believe that sensitivity analyses alone provide an accurate or reliable method for monitoring and controlling risks. Therefore, CMS Energy and its subsidiaries rely on the experience and judgment of senior management and traders to revise strategies and adjust positions as they deem necessary. Losses in excess of the amounts determined in the sensitivity analyses could occur if market rates or prices exceed the 10 percent shift used for the analyses.

COMMODITY PRICE RISK: Management uses commodity futures contracts, options and swaps (which require a net cash payment for the difference between a fixed and variable price) to manage commodity price risk. The prices of energy commodities fluctuate due to changes in the supply of and demand for those commodities. To reduce price risk caused by these market fluctuations, CMS Energy hedges certain inventory and purchases and sales contracts. A hypothetical 10 percent adverse shift in quoted commodity prices in the near term would not have a material impact on CMS Energy's consolidated financial position, results of operations or cash flows as of March 31, 1999. The analysis assumes that the maximum exposure associated with purchased options is limited to premiums paid. The analysis also does not quantify short-term exposure to hypothetically adverse price fluctuations in inventories.

INTEREST RATE RISK: Management uses a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. Interest rate swaps and rate locks may be used to adjust exposure when deemed appropriate, based upon market conditions. These strategies attempt to provide and maintain the lowest cost of capital. The carrying amount of long-term debt was $7.3 billion at March 31, 1999 with a fair value of $7.3 billion. The fair value of CMS Energy's financial derivative instruments at March 31, 1999, with a notional amount of $658 million, was $10 million, representing the amount CMS Energy would pay upon settlement. A hypothetical 10 percent adverse shift in interest rates in the near term would not have a material effect on CMS Energy's consolidated financial position, results of operations or cash flows as of March 31, 1999.

CURRENCY EXCHANGE RISK: Management uses forward exchange and option contracts to hedge certain net investments in foreign operations. A hypothetical 10 percent adverse shift in currency exchange rates would not have a material effect on CMS Energy's consolidated financial position or results of operations as of March 31, 1999, but would result in a net cash settlement of approximately $54 million. The estimated fair value of the foreign exchange and option contracts at March 31, 1999 was $10 million, representing the amount CMS Energy would receive upon settlement.

EQUITY SECURITY PRICE RISK: CMS Energy and its subsidiaries have equity investments in which they hold less than a 20 percent interest. A hypothetical 10 percent adverse shift in equity security prices would not have a material effect on CMS Energy's consolidated financial position, results of operations or cash flows as of March 31, 1999.

For a discussion of accounting policies related to derivative transactions, see Note 5.

## CAPITAL RESOURCES AND LIQUIDITY

### CASH POSITION, INVESTING AND FINANCING

CMS Energy's primary ongoing source of operating cash is dividends and distributions from subsidiaries. During the first quarter of 1999, Consumers paid $80 million in common dividends and Enterprises paid $19 million in common dividends to CMS Energy. CMS Energy's consolidated operating cash requirements are met by its operating and financing activities.

OPERATING ACTIVITIES: CMS Energy's consolidated net cash provided by operating activities is derived mainly from the processing, storage, transportation and sale of natural gas; the generation, transmission and sale of electricity; and the sale of oil. Consolidated cash from operations totaled $321 million and $243 million for the first quarter of 1999 and 1998, respectively. The $78 million increase resulted from increased earnings and higher depreciation, coupled with a $29 million net increase due to the absence of the 1998 accounting change for property taxes and an increased provision for underrecoveries under the PPA. CMS Energy uses its operating cash primarily to expand its international and domestic businesses, to maintain and expand electric and gas systems of Consumers, to pay interest on and retire portions of its long-term debt, and to pay dividends.

INVESTING ACTIVITIES: CMS Energy's consolidated net cash used in investing activities totaled $2.235 billion and $242 million for the first quarter of 1999 and 1998, respectively. The increase of $1.993 billion primarily reflects the acquisition of Panhandle in March 1999. CMS Energy's 1999 expenditures for its utility and international businesses were $95 million and $2.2 billion, respectively, compared to $81 million and $162 million, respectively, during 1998.

FINANCING ACTIVITIES: CMS Energy's net cash provided by financing activities totaled $1.917 billion and $2 million for the first quarter of 1999 and 1998, respectively. The increase of $1.915 billion in net cash provided by financing activities resulted from an increase of $2.281 billion in the issuance of new securities and a decrease in the retirement of bonds and other long-term debt ($357 million), partially offset by an increase in the repayment of bank loans ($667 million).

| | | | In Millions | | |
|---|---|---|---|---|---|
| | Month Issued | Maturity | Distribution/ Interest Rate | Principal Amount | Use of Proceeds |
| CMS ENERGY | | | | | |
| GTNs | | | | | |
| Series E | (1) | (1) | 6.9%(1) | $ 45 | General corporate purposes |
| Senior Notes | January | 2009 | 7.5% | $ 480 | Repay debt and general corporate purposes |
| Senior Notes | February | 2004 | 6.75% | $ 300 | Repay debt and general corporate purposes |
| Subtotal | | | | $ 825 | |
| PANHANDLE | | | | | |
| Senior Notes (2) | March | 2004 | 6.125% | $ 300 | To fund acquisition of Panhandle |
| Senior Notes (2) | March | 2009 | 6.5% | $ 200 | To fund acquisition of Panhandle |
| Senior Notes (2) | March | 2029 | 7.0% | $ 300 | To fund acquisition of Panhandle |
| Subtotal | | | | $ 800 | |
| Total | | | | $1,625 | |

(1) GTNs are issued from time to time with varying maturity dates. The rate shown herein is a weighted average interest rate.

(2) These notes were issued by CMS Panhandle Holding on March 29, 1999, with an irrevocable and unconditional guarantee by Panhandle. CMS Energy intends to merge CMS Panhandle Holding with Panhandle in the second quarter of 1999, at which point the notes will become senior unsecured obligations of Panhandle.

In the first quarter of 1999, CMS Energy paid $36 million in cash dividends to holders of CMS Energy Common Stock and $3 million in cash dividends to holders of Class G Common Stock. In April 1999, the Board of Directors declared a quarterly dividend of $.33 per share on CMS Energy Common Stock and $.325 per share on Class G Common Stock, payable in May 1999.

OTHER INVESTING AND FINANCING MATTERS: At March 31, 1999, the book value per share of CMS Energy Common Stock and Class G Common Stock was $20.22 and $11.27, respectively.

At March 31, 1999, CMS Energy had an aggregate $1.9 billion in securities registered for future issuance and sale. In April 1999, CMS Energy filed a shelf registration statement for the issuance of $375 million of senior and subordinated debt securities.

CMS Energy also has Senior Credit Facilities, unsecured lines of credit and letters of credit as sources of funds needed to fulfill, in whole or in part, material commitments for capital expenditures. For detailed information, see Note 3, incorporated by reference herein.

CMS Energy's Senior Credit Facilities consist of a $600 million three-year revolving credit facility and a five-year $125 million term loan facility. Additionally, CMS Energy has unsecured lines of credit and letters of credit in an aggregate amount of $361 million. These credit facilities are available to finance working capital requirements and to pay for capital expenditures between long-term financings. At March 31, 1999, the total amount utilized under the Senior Credit Facilities was $687 million, including $47 million of contingent obligations, and under the unsecured lines of credit and letters of credit was $94 million. Of the $687 million outstanding at March 31, 1999, approximately $500 million was utilized to fund the acquisition of Panhandle as discussed below.

Consumers is authorized by FERC to issue securities and guarantees. Consumers has credit facilities, lines of credit and a trade receivable sale program in place as anticipated sources of funds needed to fulfill, in whole or in part, material commitments for capital expenditures. On April 1, 1999, Consumers redeemed all of its eight million outstanding shares of the $2.08 preferred stock at $25.00 per share. For detailed information about these sources of funds, see Note 3.

On March 29, 1999, CMS Energy acquired Panhandle from Duke Energy for a cash payment of $1.9 billion and existing Panhandle debt of $300 million. The acquisition of Panhandle initially was financed in part with bridge loan and revolving credit facilities negotiated with domestic banks and in part with approximately $800 million of debt securities issued by CMS Panhandle Holding. The $600 million CMS Energy bridge loan has a weighted-average interest rate of 6.02 percent and a term of six months. CMS Energy expects to finance permanently the acquisition with existing arrangements as well as the sale of approximately $600 million of CMS Energy Common Stock and/or other CMS Energy securities.

CAPITAL EXPENDITURES

CMS Energy estimates that capital expenditures, including new lease commitments and investments in partnerships and unconsolidated subsidiaries, will total $6.4 billion over the next three years. These estimates are prepared for planning purposes and are subject to revision. This total includes approximately $2.2 billion for the acquisition of Panhandle as described above. A substantial portion of the remaining capital expenditures is expected to be satisfied by cash from operations. CMS Energy will continue to also evaluate capital markets in 1999 as a potential source of financing its subsidiaries' investing activities. CMS Energy estimates capital expenditures by business segment over the next three years as follows:

| | | | In Millions |
|---|---|---|---|
| Years Ended December 31 | 1999 | 2000 | 2001 |
| Consumers electric operations (a) (b) | $ 382 | $ 392 | $ 395 |
| Consumers gas operations (a) | 123 | 123 | 120 |
| Independent power production | 395 | 400 | 171 |
| Oil and gas exploration and production | 135 | 152 | 158 |
| Natural gas transmission and storage | 2,435(c) | 299 | 198 |
| International energy distribution | 150 | 197 | 151 |

| | | | |
|---|---|---|---|
| Marketing, services and trading | 5 | 12 | 12 |
| Other | 10 | -- | -- |
| | $3,635 | $1,575 | $1,205 |

(a) These amounts include an attributed portion of Consumers' anticipated capital expenditures for plant and equipment common to both the electric and gas utility businesses.

(b) These amounts do not include preliminary estimates for capital expenditures possibly required to comply with recently revised national air quality standards under the Clean Air Act. For further information see Note 2, Uncertainties.

(c) This amount includes approximately $2.2 billion for the acquisition of Panhandle.

CMS Energy currently plans investments from 1999 to 2001: i) in oil and gas exploration and production operations, primarily in North and South America, offshore West Africa and North Africa; ii) in independent power production operations to pursue acquisitions and development of electric generating plants in the United States, Latin America, Asia, Australia, the Pacific Rim region, North Africa and the Middle East; iii) to continue development of nonutility natural gas storage, gathering and pipeline operations of CMS Gas Transmission in North and South America, Australia and Africa; iv) to acquire, develop and expand international energy distribution businesses; and v) to provide gas, electric, oil and coal marketing, risk management and energy management services throughout the United States and eventually worldwide.

OUTLOOK

As the deregulation and privatization of the energy industry takes place in the United States and internationally, CMS Energy has positioned itself to be a leading international diversified energy company acquiring, developing and operating energy facilities and providing energy services in major world growth markets. CMS Energy provides a complete range of international energy expertise from energy production to consumption.

INTERNATIONAL OPERATIONS OUTLOOK

CMS Energy will continue to grow internationally by investing in multiple projects in several countries as well as by developing synergistic projects across its lines of business. CMS Energy believes these integrated projects will create more opportunities and greater value than individual investments. Also, CMS Energy will achieve this growth through strategic partnering where appropriate.

CMS Energy seeks to minimize operational and financial risks when operating internationally by working with local partners, utilizing multilateral financing institutions, procuring political risk insurance and hedging foreign currency exposure where appropriate.

CONSUMERS' ELECTRIC UTILITY OUTLOOK

GROWTH: Consumers expects average annual growth of 2.4 percent per year in electric system deliveries over the next five years, absent the impact of restructuring on the industry and its regulation in Michigan. Abnormal weather, changing economic conditions, or the developing competitive market for electricity may affect actual electric sales in future periods.

RESTRUCTURING: Consumers' retail electric business is affected by competition. To meet its challenges, Consumers entered into multi-year contracts with some of its largest industrial customers to serve certain facilities. The MPSC has approved these contracts as part of its phased introduction to competition. Certain customers have the option of terminating their contracts early.

FERC Orders 888 and 889, as amended, require utilities to provide direct access to the interstate transmission grid for wholesale transactions. Consumers and Detroit Edison disagree on the effect of the orders on the Michigan Electric Power Coordination Center pool. Consumers proposes to maintain the benefits of the pool through at least December 2000, while Detroit Edison contends that the pool agreement should be terminated immediately. Among Consumers' alternatives in the event of the pool being terminated would be joining an independent system operator. FERC has indicated this preference for structuring the operations of the electric transmission grid.

For material changes relating to the restructuring of the electric utility industry, see Note 1, Corporate Structure and Basis of Presentation, "Utility Regulation" and Note 2, Uncertainties," Consumers' Electric Utility Rate Matters - - Electric Restructuring", incorporated by reference herein.

RATE MATTERS: In November 1997, ABATE filed a complaint with the MPSC alleging that Consumers' earnings are in excess of its authorized rate of return and seeking an immediate reduction in Consumers' electric rates. The MPSC staff conducted an investigation and concluded in an April 1998 report that no formal rate proceeding was warranted at that time. The MPSC has now set the complaint for hearing, but the presiding ALJ has restricted the scope of the hearing so that the most favorable relief available to ABATE would be an MPSC direction for Consumers to file an electric rate case. Various procedural issues relating to this complaint, including the ALJ's ruling on its scope, are currently on appeal at the MPSC. Consumers is unable to predict the outcome of this matter.

CONSUMERS GAS GROUP OUTLOOK

GROWTH: Consumers currently anticipates gas deliveries, including gas customer choice deliveries, excluding transportation to the MCV Facility and off-system deliveries, to grow at an average annual rate of between one and two percent over the next five years based primarily on a steadily growing customer base. Actual gas deliveries in future periods may be affected by abnormal weather, alternative energy prices, changes in competitive conditions, particularly as a result of industry restructuring, and the level of natural gas consumption. Consumers also offers a variety of energy-related services to its customers focused upon appliance maintenance, home safety, commodity choice and assistance to customers purchasing heating, ventilation and air conditioning equipment.

RESTRUCTURING: In December 1997, the MPSC approved Consumers' application to implement a statewide three-year experimental gas transportation program, eventually allowing 300,000 residential, commercial and industrial retail gas sales customers to choose their gas supplier. For further information, regarding restructuring of the Gas Business, see Note 2, Uncertainties, "Consumers Gas Group Matters-Gas Restructuring," incorporated by reference herein.

PANHANDLE OUTLOOK

GROWTH: The market for transmission of natural gas to the Midwest is increasingly competitive and may become more so in light of projects in progress to increase Midwest transmission capacity for gas originating in Canada and the Rocky Mountain region. As a result, there continues to be pressure on prices charged by Panhandle and an increasing necessity to discount the prices charged from the legal maximum. Panhandle continues to be selective in offering discounts to maximize revenues from existing capacity and

to advance projects that provide expanded services to meet the specific needs of customers. Management is evaluating the continued applicability of SFAS 71, particularly in light of the acquisition and the new cost basis of Panhandle which will result from the pending merger of CMS Panhandle Holding with Panhandle.

REGULATORY MATTERS: For detailed information about Panhandle's regulatory uncertainties see Note 2, Uncertainties - Panhandle Regulatory Matters, incorporated by reference herein.

## OTHER MATTERS

### NEW ACCOUNTING RULES

In 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and Statement of Position 98-5, Reporting on the Costs of Start-Up Activities. These statements became effective in 1999. Application of these standards has not had a material effect on CMS Energy's financial position, liquidity, or results of operations. Effective January 1, 1999, CMS Energy adopted Emerging Issues Task Force Issue 98-10, Accounting for Energy Trading and Risk Management Activities, which requires mark-to-market accounting for energy contracts entered into for trading purposes. Under mark-to-market accounting, gains and losses resulting from changes in market prices on contracts entered into for trading purposes are reflected in current earnings. The after-tax mark-to-market adjustment resulting from the adoption of EITF 98-10 had an immaterial effect on CMS Energy's consolidated financial position, results of operations and cash flows as of March 31, 1999. For energy contracts that are hedges of non-trading activities, CMS Energy will continue to use accrual accounting until it adopts SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which will be effective January 1, 2000. CMS Energy is currently studying SFAS 133 and has not yet quantified the impacts of adoption on its financial statements and has not determined the timing of or method of adoption.

### YEAR 2000 COMPUTER MODIFICATIONS

CMS Energy uses software and related technologies throughout its domestic and international businesses that the year 2000 date change could affect and, if uncorrected, could cause CMS Energy to, among other things, delay issuance of bills or reports, issue inaccurate bills, report inaccurate data, incur generating plant outages, or create energy delivery uncertainties. In 1995, CMS Energy established a Year 2000 Program to ensure the continued operation of its businesses at the turn of the century. CMS Energy's efforts included dividing the programs requiring modification between critical and noncritical programs. A formal methodology was established to identify critical business functions and risk scenarios, to correct problems identified, to develop test plans and expected results, and to test the corrections made. CMS Energy's Year 2000 Program involves an aggressive, comprehensive four-phase approach, including impact analysis, remediation, compliance review, and monitoring/contingency planning.

The impact analysis phase includes the analysis, inventory, prioritization and remediation plan development for all technology essential to core business processes. The remediation phase involves testing and implementation of remediated technology. A mainframe test environment was established in 1997 and a test environment for network servers and stand-alone personal computers was established in mid-1998. All essential corporate business systems have been, or will be, tested in these test environments. The compliance review phase includes the assembling of compliance documentation for each technology component as remediation efforts are completed, and additional verification testing of essential technology where necessary. The monitoring/contingency planning phase includes compliance monitoring to ensure

that year 2000 problems are not reintroduced into remediated technology, as well as the development of contingency plans to address reasonably likely risk scenarios.

On March 29, 1999, CMS Energy acquired Panhandle. As part of CMS Energy's acquisition due diligence, CMS Energy evaluated Panhandle's year 2000 compliance program, which had been initiated in 1996. Management believes Panhandle is devoting the necessary resources to achieve year 2000 readiness in a timely manner. The status of Panhandle's Year 2000 Program by phase as of March 31, 1999, with target dates for completion and current percentage complete, are included within the data presented for natural gas transmission.

STATE OF READINESS: CMS Energy is managing traditional Information Technology (IT), which consists of essential business systems such as payroll, billing and purchasing; and infrastructure, including mainframe, wide area network, local area networks, personal computers, radios and telephone systems. CMS Energy is also managing process control computers and embedded systems contained in buildings, equipment and energy supply and delivery systems.

Essential goods and services for CMS Energy are electric fuel supply, gas fuel supply, independent electric power supplies, facilities, electronic commerce, telecommunications network carriers, financial institutions, purchasing vendors, and software and hardware technology vendors. CMS Energy is addressing the preparedness of these businesses and their risk through readiness assessment questionnaires.

The status of CMS Energy's Year 2000 Program by phase, with target dates for completion and current percentage complete based upon software and hardware inventory counts as of March 31, 1999, is as follows:

| | Impact Analysis | | Remediation | | Compliance Review | | Monitoring/ Contingency Planning | |
|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (a) | (b) | (a) | (b) | (a) | (b) |
| Electric utility | 3/98 | 100% | 6/99 | 93% | 6/99 | 91% | 6/99 | 75% |
| Gas utility | 3/98 | 100% | 6/99 | 91% | 6/99 | 91% | 6/99 | 75% |
| Independent power production | 6/99 | 86% | 9/99 | 78% | 9/99 | 74% | 9/99 | 10% |
| Oil and gas | 6/99 | 97% | 9/99 | 94% | 9/99 | 84% | 9/99 | 10% |
| Natural gas transmission | 6/99 | 99% | 9/99 | 98% | 9/99 | 98% | 9/99 | 10% |
| Marketing, services and trading | 6/99 | 62% | 9/99 | 61% | 9/99 | 17% | 9/99 | 10% |
| Essential goods and services | 6/99 | 56% | | N/A | | N/A | | (c) |

(a) Target date for completion.
(b) Current percentage complete.
(c) Contingency planning for essential goods and services is incorporated into contingency planning for each segment presented.

COST OF REMEDIATION: CMS Energy expenses spending for software modifications as incurred, and capitalizes and amortizes the cost for new software and equipment over its useful life. The total estimated cost of the Year 2000 Program is approximately $30 million. Costs incurred through March 31, 1999 were approximately $20 million. CMS Energy's annual Year 2000 Program costs have represented

approximately 2 percent to 10 percent of CMS Energy's annual IT budget through 1998 and are expected to represent approximately 25 percent of CMS Energy's annual IT budget in 1999. Year 2000 compliance work is being funded primarily from operations. To date, the commitment of CMS Energy resources to the year 2000 issue has not deferred any material IT projects which could have a material adverse affect on CMS Energy's financial position, liquidity or results of operations.

RISK ASSESSMENT: CMS Energy considers the most reasonably likely worst-case scenarios to be: i) a lack of communications to dispatch crews to electric or gas emergencies; ii) a lack of communications to generating units to balance electrical load; iii) power shortages due to the lack of stability of the electric grid; and iv) a failure of fuel suppliers to deliver fuel to generating facilities. These scenarios could result in CMS Energy not being able to generate or distribute enough energy to meet customer demand for a period of time, which could result in lost sales and profits, as well as legal liability. Year 2000 remediation and testing efforts are concentrating on these risk areas and will continue through the end of 1999. Contingency plans will be revised and executed to further mitigate the risks associated with these scenarios.

CONTINGENCY PLANS: Contingency planning efforts are currently underway for all business systems and providers of essential goods and services. Extensive contingency plans are already in place in many locations and are currently being revised for reasonably likely worst-case scenarios related to year 2000 issues. In many cases, Consumers already has arrangements with multiple vendors of similar goods and services so that in the event that one cannot meet its commitments, others may be able to. Current contingency plans provide for manual dispatching of crews and manual coordination of electrical load balancing and are being revised to provide for radio or satellite communications. Coordinated contingency planning efforts are in progress with third parties to minimize risk to electric generation, transmission and distribution systems.

EXPECTATIONS: CMS Energy does not expect that the cost of these modifications will materially affect its financial position, liquidity, or results of operations. There can be no guarantee, however, that these costs, plans or time estimates will be achieved, and actual results could differ materially.

Because of the integrated nature of CMS Energy's business with other energy companies, utilities, jointly owned facilities operated by other entities, and business conducted with suppliers and large customers, CMS Energy may be indirectly affected by year 2000 compliance complications.

FOREIGN CURRENCY TRANSLATION

CMS Energy adjusts common stockholders' equity to reflect foreign currency translation adjustments for the operation of long-term investments in foreign countries. The adjustment is primarily due to the exchange rate fluctuations between the U.S. dollar and each of the Australian dollar, Brazilian real and Argentine peso. From January 1, 1999 through March 31, 1999, the change in the foreign currency translation adjustment totaled $5 million, net of after-tax hedging proceeds. Although management currently believes that the currency exchange rate fluctuations over the long term will not have a material adverse affect on CMS Energy's financial position, liquidity or results of operations, CMS Energy has hedged its exposure to the Australian dollar, the Brazilian real and the Argentine peso. CMS Energy uses forward exchange contracts and collared options to hedge certain receivables, payables, long-term debt and equity value relating to foreign investments. The notional amount of the outstanding foreign exchange contracts was $1.2 billion at March 31, 1999, which includes $716 million, $250 million and $220 million for Australian, Brazilian and Argentine foreign exchange contracts, respectively. The estimated fair value of the foreign exchange and option contracts at March 31, 1999 was $10 million, representing the amount CMS Energy would receive upon settlement.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. The words "anticipates," "believes," "estimates," "expects," "intends," and "plans," as well as variations of such words and similar expressions, are intended to identify forward-looking statements that involve risk and uncertainty. These statements are necessarily based upon various assumptions involving judgements with respect to the future including, among others, the ability to achieve operating synergies and revenue enhancements; international, national, regional and local economic, competitive and regulatory conditions and developments; capital and financial market conditions, including currency exchange controls and interest rates; weather conditions and other natural phenomena; adverse regulatory or legal decisions, including environmental laws and regulations; the pace of deregulation of the natural gas and electric industries; energy markets, including the timing and extent of changes in commodity prices for oil, coal, natural gas, natural gas liquids, electricity and certain related products; the timing and success of business development efforts; potential disruption, expropriation or interruption of facilities or operations due to accidents or political events; nuclear power and other technological developments; the effect of changes in accounting policies; year 2000 readiness; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of CMS Energy. Accordingly, while CMS Energy believes that the assumed results are reasonable, there can be no assurance that they will approximate actual results. CMS Energy disclaims any obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise. Certain risk factors are detailed from time to time in various public filings made by CMS Energy with the SEC.

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| MARCH 31 | THREE MONTHS ENDED 1999 | THREE MONTHS ENDED 1998* | TWELVE MONTHS ENDED 1999 | TWELVE MONTHS ENDED 1998* |
|---|---|---|---|---|
| | In Millions, Except Per Share Amounts | | | |
| OPERATING REVENUE | | | | |
| Electric utility | $ 636 | $ 612 | $2,630 | $2,507 |
| Gas utility | 506 | 429 | 1,128 | 1,135 |
| Natural gas transmission, storage and processing | 104 | 27 | 237 | 97 |
| Independent power production | 73 | 44 | 306 | 183 |
| Oil and gas exploration and production | 19 | 12 | 70 | 88 |
| Marketing, services and trading | 158 | 247 | 850 | 840 |
| Other | 42 | 3 | 84 | 10 |
| | 1,538 | 1,374 | 5,305 | 4,860 |
| OPERATING EXPENSES | | | | |
| Operation | | | | |
| Fuel for electric generation | 93 | 80 | 372 | 325 |
| Purchased power - related parties | 139 | 145 | 567 | 594 |
| Purchased and interchange power | 103 | 85 | 602 | 287 |
| Cost of gas sold | 496 | 463 | 1,245 | 1,375 |
| Other | 207 | 181 | 789 | 724 |
| | 1,038 | 954 | 3,575 | 3,305 |
| Maintenance | 39 | 37 | 178 | 170 |
| Depreciation, depletion and amortization | 150 | 128 | 506 | 468 |
| General taxes | 66 | 58 | 223 | 208 |
| | 1,293 | 1,177 | 4,482 | 4,151 |
| PRETAX OPERATING INCOME (LOSS) | | | | |
| Electric utility | 134 | 119 | 491 | 444 |
| Gas utility | 78 | 54 | 150 | 130 |
| Independent power production | 28 | 16 | 156 | 102 |
| Natural gas transmission, storage and processing | 3 | 13 | 23 | 31 |
| Oil and gas exploration and production | 2 | 2 | 6 | 28 |
| Marketing, services and trading | 5 | (1) | 10 | (7) |
| Other | (5) | (6) | (13) | (19) |
| | 245 | 197 | 823 | 709 |
| OTHER INCOME (DEDUCTIONS) | | | | |
| Accretion income | 1 | 2 | 6 | 7 |
| Accretion expense | (4) | (4) | (15) | (17) |
| Loss on MCV power purchases | -- | (37) | -- | (37) |
| Other, net | 4 | 3 | -- | 1 |
| | 1 | (36) | (9) | (46) |
| FIXED CHARGES | | | | |
| Interest on long-term debt | 96 | 76 | 338 | 289 |
| Other interest | 12 | 12 | 47 | 51 |
| Capitalized interest | (10) | (4) | (35) | (15) |
| Preferred dividends | 5 | 5 | 19 | 23 |
| Preferred securities distributions | 8 | 8 | 32 | 24 |
| | 111 | 97 | 401 | 372 |
| INCOME BEFORE INCOME TAXES | 135 | 64 | 413 | 291 |
| INCOME TAXES | 37 | 19 | 118 | 80 |
| CONSOLIDATED NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | 98 | 45 | 295 | 211 |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR PROPERTY TAXES, NET OF $23 TAX | -- | 43 | -- | 43 |
| CONSOLIDATED NET INCOME | $ 98 | $ 88 | $ 295 | $ 254 |

| MARCH 31 | | THREE MONTHS ENDED 1999 | THREE MONTHS ENDED 1998* | TWELVE MONTHS ENDED 1999 | TWELVE MONTHS ENDED 1998* |
|---|---|---|---|---|---|
| | | In Millions, Except Per Share Amounts | | | |
| NET INCOME ATTRIBUTABLE TO COMMON STOCKS | CMS ENERGY | $ 88 | $ 79 | $ 281 | $ 239 |
| | CLASS G | $ 10 | $ 9 | $ 14 | $ 15 |
| AVERAGE COMMON SHARES OUTSTANDING | CMS ENERGY | 108 | 101 | 104 | 98 |
| | CLASS G | 8 | 8 | 8 | 8 |
| BASIC EARNINGS PER AVERAGE COMMON SHARE BEFORE CHANGE IN ACCOUNTING PRINCIPLE | CMS ENERGY | $ .82 | $ .39 | $ 2.69 | $ 2.05 |
| | CLASS G | $ 1.19 | $ .73 | $ 1.68 | $ 1.40 |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX, PER AVERAGE COMMON SHARE | CMS ENERGY | $ -- | $ .40 | $ -- | $ .40 |
| | CLASS G | $ -- | $ .36 | $ -- | $ .36 |
| BASIC EARNINGS PER AVERAGE COMMON SHARE | CMS ENERGY | $ .82 | $ .79 | $ 2.69 | $ 2.45 |
| | CLASS G | $ 1.19 | $ 1.09 | $ 1.68 | $ 1.76 |
| DILUTED EARNINGS PER AVERAGE COMMON SHARE | CMS ENERGY | $ .80 | $ .77 | $ 2.66 | $ 2.44 |
| | CLASS G | $ 1.19 | $ 1.09 | $ 1.68 | $ 1.76 |
| DIVIDENDS DECLARED PER COMMON SHARE | CMS ENERGY | $ .33 | $ .30 | $ 1.29 | $ 1.17 |
| | CLASS G | $ .325 | $ .31 | $ 1.285 | $1.225 |

* RESTATED FOR CHANGE IN METHOD OF ACCOUNTING FOR OIL AND GAS OPERATIONS FROM FULL COST METHOD TO SUCCESSFUL EFFORTS METHOD. THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| MARCH 31 | THREE MONTHS ENDED 1999 | 1998* | TWELVE MONTHS ENDED 1999 | 1998* |
|---|---|---|---|---|
| | | | | In Millions |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Consolidated net income | $ 98 | $ 88 | $ 295 | $ 254 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation, depletion and amortization (includes nuclear decommissioning of $13, $13, $52 and $50, respectively) | 150 | 128 | 506 | 468 |
| Loss on MCV power purchases | -- | 37 | -- | 37 |
| Capital lease and debt discount amortization | 9 | 11 | 49 | 47 |
| Accretion expense | 4 | 4 | 15 | 17 |
| Accretion income - abandoned Midland project | (1) | (2) | (6) | (7) |
| Cumulative effect of accounting change | -- | (66) | -- | (66) |
| MCV power purchases | (14) | (17) | (61) | (65) |
| Undistributed earnings of related parties | (16) | (17) | (94) | (62) |
| Deferred income taxes and investment tax credit | (2) | (8) | 60 | 16 |
| Other | (1) | (8) | 13 | (16) |
| Changes in other assets and liabilities | 94 | 93 | (183) | (123) |
| Net cash provided by operating activities | 321 | 243 | 594 | 500 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Aquisition of companies net of cash acquired | (1,899) | -- | (1,899) | -- |
| Capital expenditures (excludes assets placed under capital lease) | (157) | (124) | (1,328) | (683) |
| Investments in partnerships and unconsolidated subsidiaries | (202) | (112) | (435) | (930) |
| Cost to retire property, net | (21) | (17) | (88) | (41) |
| Other | 44 | (7) | 94 | (59) |
| Proceeds from sale of property | -- | 28 | 29 | 64 |
| Net cash used in investing activities | (2,235) | (242) | (3,627) | (1,649) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from bank loans, notes and bonds | 3,131 | 850 | 4,629 | 1,994 |
| Issuance of common stock | 27 | 20 | 276 | 227 |
| Retirement of bonds and other long-term debt | (12) | (369) | (304) | (890) |
| Repayment of bank loans | (989) | (322) | (1,241) | (324) |
| Increase (decrease) in notes payable, net | (189) | (137) | (105) | 157 |
| Payment of common stock dividends | (38) | (33) | (145) | (124) |
| Payment of capital lease obligations | (11) | (7) | (40) | (43) |
| Retirement of preferred stock | (2) | -- | (2) | (120) |
| Retirement of common stock | -- | -- | (3) | (2) |
| Proceeds from preferred securities | -- | -- | -- | 286 |
| Net cash provided by financing activities | 1,917 | 2 | 3,065 | 1,161 |
| NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS | 3 | 3 | 32 | 12 |
| CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD | 101 | 69 | 72 | 60 |
| CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD | $ 104 | $ 72 | $ 104 | $ 72 |

OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES WERE:

| | | | | |
|---|---|---|---|---|
| CASH TRANSACTIONS | | | | |
| Interest paid (net of amounts capitalized) | $ 82 | $ 75 | $ 320 | $305 |
| Income taxes paid (net of refunds) | 2 | 19 | 47 | 86 |
| NON-CASH TRANSACTIONS | | | | |
| Nuclear fuel placed under capital lease | $ -- | $ 5 | $ 42 | $ 6 |
| Other assets placed under capital leases | 2 | 2 | 14 | 7 |
| Common stock issued to acquire companies | -- | -- | 61 | -- |
| Assumption of debt | 318 | -- | 406 | -- |

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

* RESTATED FOR CHANGE IN METHOD OF ACCOUNTING FOR OIL AND GAS OPERATIONS FROM FULL COST METHOD TO SUCCESSFUL EFFORTS METHOD.

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CMS ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

| ASSETS | MARCH 31 1999 (UNAUDITED) | DECEMBER 31 1998 | MARCH 31 1998* (UNAUDITED) |
|---|---|---|---|
| | | | In Millions |
| PLANT AND PROPERTY (AT COST) | | | |
| Electric utility | $ 6,772 | $ 6,720 | $ 6,547 |
| Gas utility | 2,374 | 2,360 | 2,346 |
| Natural gas transmission, storage and processing | 1,825 | 341 | 186 |
| Oil and gas properties (successful efforts method) | 679 | 670 | 571 |
| Independent power production | 520 | 518 | 124 |
| Other | 392 | 373 | 47 |
| | 12,562 | 10,982 | 9,821 |
| Less accumulated depreciation, depletion and amortization | 5,803 | 5,213 | 4,979 |
| | 6,759 | 5,769 | 4,842 |
| Construction work-in-progress | 330 | 271 | 272 |
| | 7,089 | 6,040 | 5,114 |
| INVESTMENTS | | | |
| Independent power production | 991 | 888 | 884 |
| Natural gas transmission, storage and processing | 563 | 494 | 264 |
| International energy distribution | 146 | 209 | 266 |
| First Midland Limited Partnership | 236 | 240 | 244 |
| Midland Cogeneration Venture Limited Partnership | 220 | 209 | 179 |
| Other | 33 | 33 | 42 |
| | 2,189 | 2,073 | 1,879 |
| CURRENT ASSETS | | | |
| Cash and temporary cash investments at cost, which approximates market | 104 | 101 | 72 |
| Accounts receivable, notes receivable and accrued revenue, less allowances of $17, $13 and $7, respectively | 859 | 720 | 467 |
| Inventories at average cost | | | |
| Gas in underground storage | 82 | 219 | 79 |
| Materials and supplies | 140 | 99 | 90 |
| Generating plant fuel stock | 33 | 43 | 39 |
| Deferred income taxes | -- | -- | 28 |
| Prepayments and other | 188 | 225 | 248 |
| | 1,406 | 1,407 | 1,023 |
| NON-CURRENT ASSETS | | | |
| Nuclear decommissioning trust funds | 565 | 557 | 518 |
| Nuclear plant - related assets | 535 | -- | -- |
| Postretirement benefits | 366 | 373 | 396 |
| Abandoned Midland project | 66 | 71 | 88 |
| Other | 1,551 | 789 | 487 |
| | 3,083 | 1,790 | 1,489 |
| TOTAL ASSETS | $13,767 | $11,310 | $ 9,505 |

| STOCKHOLDERS' INVESTMENT AND LIABILITIES | MARCH 31 1999 (UNAUDITED) | DECEMBER 31 1998 | MARCH 31 1998* (UNAUDITED) |
|---|---|---|---|
| | | | In Millions |
| CAPITALIZATION | | | |
| Common stockholders' equity | $ 2,292 | $ 2,216 | $ 1,867 |
| Preferred stock of subsidiary | 244 | 238 | 238 |
| Company-obligated mandatorily redeemable Trust Preferred Securities of: | | | |
| Consumers Power Company Financing I (a) | 100 | 100 | 100 |
| Consumers Energy Company Financing II (a) | 120 | 120 | 120 |
| Company-obligated convertible Trust Preferred Securities of CMS Energy Trust I (b) | 173 | 173 | 173 |
| Long-term debt | 7,258 | 4,726 | 3,755 |
| Non-current portion of capital leases | 99 | 105 | 74 |
| | 10,286 | 7,678 | 6,327 |
| CURRENT LIABILITIES | | | |
| Current portion of long-term debt and capital leases | 300 | 293 | 318 |
| Notes payable | 139 | 328 | 245 |
| Accounts payable | 419 | 501 | 330 |
| Accrued taxes | 278 | 272 | 235 |
| Accounts payable - related parties | 79 | 79 | 82 |
| Accrued interest | 78 | 65 | 56 |
| Power purchases | 47 | 47 | 47 |
| Accrued refunds | 13 | 11 | 11 |
| Other | 287 | 214 | 182 |
| | 1,640 | 1,810 | 1,506 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income taxes | 630 | 649 | 626 |
| Postretirement benefits | 480 | 489 | 510 |
| Power purchases | 111 | 121 | 157 |
| Deferred investment tax credit | 133 | 135 | 148 |
| Regulatory liabilities for income taxes, net | 108 | 87 | 61 |
| Other | 379 | 341 | 170 |
| | 1,841 | 1,822 | 1,672 |
| COMMITMENTS AND CONTINGENCIES (Notes 1 and 2) | | | |
| TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES | $13,767 | $11,310 | $ 9,505 |

(a) The primary asset of Consumers Power Company Financing I is $103 million principal amount of 8.36 percent subordinated deferrable interest notes due 2015 from Consumers. The primary asset of Consumers Energy Company Financing II is $124 million principal amount of 8.20 percent subordinated deferrable interest notes due 2027 from Consumers. For further discussion, see Note 3 to the Consolidated Financial Statements.

(b) As described in Note 3, the primary asset of CMS Energy Trust I is $178 million principal amount of 7.75 percent convertible subordinated debentures due 2027 from CMS Energy.

* RESTATED FOR CHANGE IN METHOD OF ACCOUNTING FOR OIL AND GAS OPERATIONS FROM FULL COST METHOD TO SUCCESSFUL EFFORTS METHOD. THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(UNAUDITED)

| MARCH 31 | THREE MONTHS ENDED 1999 | 1998* | TWELVE MONTHS ENDED 1999 | 1998* |
|---|---|---|---|---|
| | | | | In Millions |
| COMMON STOCK | | | | |
| At beginning and end of period | $ 1 | $ 1 | $ 1 | $ 1 |
| OTHER PAID-IN CAPITAL | | | | |
| At beginning of period | 2,594 | 2,267 | 2,287 | 2,062 |
| Redemption of affiliate's preferred stock | (2) | -- | (2) | -- |
| Common stock reacquired | -- | -- | (3) | (2) |
| Common stock issued: | | | | |
| CMS Energy | 26 | 18 | 332 | 219 |
| Class G | 1 | 2 | 5 | 8 |
| At end of period | 2,619 | 2,287 | 2,619 | 2,287 |
| REVALUATION CAPITAL | | | | |
| At beginning of period | (9) | (6) | (3) | (6) |
| Change in unrealized investment-gain (loss) (a) | (4) | 3 | (10) | 3 |
| At end of period | (13) | (3) | (13) | (3) |
| FOREIGN CURRENCY TRANSLATION | | | | |
| At beginning of period | (136) | (96) | (94) | -- |
| Change in foreign currency translation (a) | (5) | 2 | (47) | (94) |
| At end of period | (141) | (94) | (141) | (94) |
| RETAINED EARNINGS (DEFICIT) | | | | |
| At beginning of period | (234) | (379) | (324) | (454) |
| Consolidated net income (a) | 98 | 88 | 295 | 254 |
| Common stock dividends declared: | | | | |
| CMS Energy | (35) | (30) | (134) | (113) |
| Class G | (3) | (3) | (11) | (11) |
| At end of period | (174) | (324) | (174) | (324) |
| TOTAL COMMON STOCKHOLDERS' EQUITY | $2,292 | $1,867 | $2,292 | $1,867 |
| (a) DISCLOSURE OF COMPREHENSIVE INCOME: | | | | |
| Revaluation capital | | | | |
| Unrealized investment-gain (loss), net of tax of $2, $(1), $5 and $(2), respectively | $ (4) | $ 3 | $ (10) | $ 3 |
| Foreign currency translation | (5) | 2 | (47) | (94) |
| Consolidated net income | 98 | 88 | 295 | 254 |
| Total Consolidated Comprehensive Income | $ 89 | $ 93 | $ 238 | $ 163 |

* RESTATED FOR CHANGE IN METHOD OF ACCOUNTING FOR OIL AND GAS OPERATIONS FROM FULL COST METHOD TO SUCCESSFUL EFFORTS METHOD. THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CMS ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These Condensed Notes and their related Consolidated Financial Statements should be read along with the Consolidated Financial Statements and Notes contained in the 1998 Form 10-K of CMS Energy, which include the Reports of Independent Public Accountants. Certain prior year amounts have been reclassified to conform with the presentation in the current year. In the opinion of management, the unaudited information herein reflects all adjustments necessary to assure the fair presentation of financial position, results of operations and cash flows for the periods presented.

## 1: CORPORATE STRUCTURE AND BASIS OF PRESENTATION

### CORPORATE STRUCTURE AND BASIS OF PRESENTATION

CMS Energy Corporation is the parent holding company of Consumers and Enterprises. Consumers, a combination electric and gas utility company serving the Lower Peninsula of Michigan, is the principal subsidiary of CMS Energy. Enterprises, through subsidiaries, is engaged in several domestic and international energy-related businesses including: natural gas transmission, interstate transportation, storage and processing; independent power production; oil and gas exploration and production; energy marketing, services and trading; and international energy distribution. On March 29, 1999, CMS Energy completed the acquisition of Panhandle from Duke Energy, as discussed further below. Panhandle is primarily engaged in the interstate transportation, storage and processing of natural gas.

The consolidated financial statements include CMS Energy, Consumers and Enterprises and their majority owned subsidiaries. The financial statements are prepared in conformity with generally accepted accounting principles and use management's estimates where appropriate. Affiliated companies (where CMS Energy has more than 20 percent but less than a majority ownership interest) are accounted for by the equity method. For the three and twelve-month periods ended March 31, 1999, undistributed equity earnings were $16 million and $94 million, respectively, compared to $17 million and $62 million for the three and twelve-month periods ended March 31, 1998.

Foreign currency translation adjustments relating to the operation of CMS Energy's long-term investments in foreign countries are included in common stockholders' equity. From January 1, 1999 through March 31, 1999, the change in the foreign currency translation adjustment totaled $5 million, net of after-tax hedging proceeds.

### NEW ACCOUNTING RULES

In 1999, CMS Energy implemented SOP 98-1, Accounting for the Costs of Computer Software Developed for Internal Use, and SOP 98-5, Reporting on the Costs of Start-Up Activities. Application of these standards has not had a material effect on CMS Energy's financial position, liquidity, or results of operations. Effective January 1, 1999, CMS Energy adopted EITF Issue 98-10, Accounting for Energy Trading and Risk Management Activities, which requires mark-to-market accounting for energy contracts

entered into for trading purposes. Under mark-to-market accounting, gains and losses resulting from changes in market prices on contracts entered into for trading purposes are reflected in current earnings. The after-tax mark-to-market adjustment resulting from the adoption of EITF 98-10 had an immaterial effect on CMS Energy's consolidated financial position, results of operations and cash flows as of March 31, 1999. For energy contracts that are hedges of non-trading activities, CMS Energy will continue to use accrual accounting until it adopts SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which will be effective January 1, 2000.

OIL AND GAS PROPERTIES

CMS Oil and Gas follows the successful efforts method of accounting for its investments in oil and gas properties. CMS Oil and Gas capitalizes the costs of property acquisitions, successful exploratory wells, all development costs, and support equipment and facilities when incurred. It expenses unsuccessful exploratory wells when they are determined to be non-productive. CMS Oil and Gas also charges to expense production costs, overhead, and all exploration costs other than exploratory drilling as incurred. Depreciation, depletion and amortization of proved oil and gas properties is determined on a field-by-field basis using the units-of-production method over the life of the remaining proved reserves.

UTILITY REGULATION

Consumers accounts for the effects of regulation based on a regulated utility accounting standard (SFAS 71). As a result, the actions of regulators affect when revenues, expenses, assets and liabilities are recognized.

In March 1999, Consumers received MPSC electric restructuring orders which, among other things, identified the terms and timing for implementing electric restructuring in Michigan. Based upon these orders, Consumers expects to implement retail open access for its electric customers in September 1999, and therefore, Consumers discontinued application of SFAS 71 for the energy supply portion of its business in the first quarter of 1999. Discontinuation of SFAS 71 for the energy supply portion of Consumers' business resulted in Consumers reducing the carrying value of its Palisades plant-related assets by approximately $535 million and established a regulatory asset for a corresponding amount. The regulatory asset is collectible as part of the Transition Costs which are recoverable through the regulated transmission and distribution portion of Consumers' business as approved by an MPSC order in 1998. This order also allowed Consumers to recover any energy supply related regulatory assets, plus a return on any unamortized balance of those assets, from its transmission and distribution customers. According to current accounting standards, Consumers can continue to carry its energy supply related regulatory assets or liabilities for the part of the business subject to regulatory change if legislation or an MPSC rate order allows the collection of cash flows, to recover specific costs or to settle obligations, from its regulated transmission and distribution customers. At March 31, 1999, Consumers had a net investment in energy supply facilities of $839 million included in electric plant and property.

ACQUISITION

In March 1999, CMS Energy completed the acquisition of Panhandle from Duke Energy for a cash payment of $1.9 billion and existing Panhandle debt of $300 million. The acquisition has been accounted for using the purchase method of accounting. Accordingly, the purchase price has been preliminarily allocated to the assets purchased and the liabilities assumed based upon the fair values at the date of

acquisition, with the tentative excess purchase price of approximately $700 million classified as goodwill to be amortized on a straight-line basis over a period of forty years.

Unaudited pro forma amounts for operating revenue, consolidated net income, basic earnings per share and total assets, as if the acquisition had occurred on January 1, 1998, are as follows:

In Millions, except per share amounts

| | Three Months Ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 1999 | 1998 | 1998 |
| Operating revenue | $ 1,650 | $ 1,494 | $ 5,566 |
| Consolidated net income | 109 | 105 | 320 |
| Basic earnings per share | .90 | .92 | 2.66 |
| Diluted earnings per share | .88 | .90 | 2.63 |

| | March 31, | | December 31, |
|---|---|---|---|
| | 1999 | 1998 | 1998 |
| Total assets | $13,767 | $11,974 | $13,784 |

2: UNCERTAINTIES

CONSUMERS' ELECTRIC UTILITY CONTINGENCIES

ELECTRIC ENVIRONMENTAL MATTERS: The Clean Air Act limits emissions of sulfur dioxide and nitrogen oxides and requires emissions and air quality monitoring. Consumers currently operates within these limits and meets current emission requirements. The Clean Air Act requires the EPA to periodically review the effectiveness of the national air quality standards in preventing adverse health effects, and in 1997 the EPA revised these standards. It is probable that the 1997 standards will result in further limitations on small particulate- related emissions.

In September 1998, based upon the 1997 standards, the EPA Administrator signed final regulations requiring the State of Michigan to further limit nitrogen oxide emissions. Fossil-fueled emitters, such as Consumers' generating units, can anticipate a reduction in nitrogen oxide emissions by 2003 to only 32 percent of levels allowed for the year 2000. The State of Michigan has one year to submit an implementation plan. The State of Michigan has filed a lawsuit objecting to the extent of the required emission reductions. It is unlikely that the State of Michigan will establish Consumers' nitrogen oxide emissions reduction target until mid-to-late 1999. Until this target is established, the estimated cost of compliance discussed below is subject to revision. If a court were to order the EPA to adopt the State of Michigan's position, compliance costs could be less than the preliminary estimated amounts.

The preliminary estimate of capital expenditures to reduce nitrogen oxide-related emissions for Consumers' fossil-fueled generating units is approximately $290 million, plus $10 million per year for operation and maintenance costs. Consumers anticipates that these capital expenditures will be incurred between 1999

and 2003. Consumers may need an equivalent amount of capital expenditures and operation and maintenance costs to comply with the new small particulate standards.

Consumers' coal-fueled electric generating units burn low-sulfur coal and are currently operating at or near the sulfur dioxide emission limits that will be effective in the year 2000. During the past few years, in order to comply with the Clean Air Act, Consumers incurred capital expenditures totaling $55 million to install equipment at certain generating units. Consumers estimates an additional $16 million of capital expenditures for ongoing and proposed modifications at the remaining coal-fueled units to meet year 2000 requirements. Management believes that these expenditures will not materially affect Consumers' annual operating costs.

Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. Nevertheless, it believes that these costs are properly recoverable in rates under current ratemaking policies.

Consumers is a so-called potentially responsible party at several contaminated sites administered under Superfund. Superfund liability is joint and several; along with Consumers, many other creditworthy, potentially responsible parties with substantial assets cooperate with respect to the individual sites. Based upon past negotiations, Consumers estimates that its share of the total liability for the known Superfund sites will be between $2 million and $9 million. At March 31, 1999, Consumers has accrued the minimum amount of the range for its estimated Superfund liability.

While decommissioning Big Rock, Consumers found that some areas of the plant have coatings that contain both metals and PCBs. The cost of removal and disposal of these materials is currently unknown. There may be some radioactive portion of these materials which no facility in the United States will currently accept. The cost of removal and disposal will constitute part of the cost to decommission the plant, and will be paid from the decommissioning fund. Consumers is studying the extent of the contamination and reviewing options.

ANTITRUST: In October 1997, two independent power producers sued Consumers in a federal court. The suit alleged antitrust violations relating to contracts which Consumers entered into with some of its customers and claims relating to power facilities. On March 31, 1999, the court issued an opinion and order granting Consumers' motion for summary judgement, resulting in the dismissal of the case. The plaintiffs are appealing this decision.

CONSUMERS' ELECTRIC UTILITY RATE MATTERS

ELECTRIC PROCEEDINGS: In 1996, the MPSC issued a final order that authorized Consumers to recover costs associated with the purchase of the additional 325 MW of MCV Facility capacity (see "Power Purchases from the MCV Partnership" in this Note) and to recover its nuclear plant investment by increasing prospective annual nuclear plant depreciation expense by $18 million, with a corresponding decrease in fossil-fueled generating plant depreciation expense. It also established an experimental direct-access program. Customers having a maximum demand of 2 MW or greater are eligible to purchase generation services directly from any eligible third-party power supplier and Consumers will transmit the power for a fee. The direct-access program is limited to 134 MW of load. In accordance with the MPSC order, Consumers held a lottery in April 1997 to select the customers to participate in the direct-access program.

Subsequently, direct access for a portion of this 134 MW began in late 1997. The program was substantially filled by the end of March 1999.

In January 1998, the Court of Appeals affirmed an MPSC conclusion that the MPSC has statutory authority to authorize an experimental electric retail wheeling program. No retail wheeling has yet occurred pursuant to that program. In October 1998, the Michigan Supreme Court issued an order granting Consumers' application for leave to appeal. A decision by the Michigan Supreme Court in this matter may be issued in mid-1999.

ELECTRIC RESTRUCTURING: As part of ongoing proceedings relating to the restructuring of the electric utility industry in Michigan, the MPSC in June 1997 issued an order proposing that beginning January 1, 1998 Consumers transmit and distribute energy on behalf of competing power suppliers to retail customers. Further restructuring orders issued in late 1997 and early 1998 provide for: 1) recovery of estimated Transition Costs of $1.755 billion through a charge to all customers purchasing their power from other sources until the end of the transition period in 2007, subject to an adjustment through a true-up mechanism; 2) commencement of the phase-in of retail open access in 1998; 3) suspension of the PSCR clause as discussed below; and 4) all customers to choose their power suppliers on January 1, 2002. The recovery of costs of implementing a retail open access program, preliminarily estimated at an additional $200 million, would be reviewed for prudence and recovered via a charge approved by the MPSC. Nuclear decommissioning costs will also continue to be collected through a separate surcharge to all customers.

In June 1998, Consumers submitted its plan for implementing retail open access to the MPSC. The primary issues addressed in the plan are: 1) the implementation schedule; 2) the retail open access service options available to customers and suppliers; 3) the process and requirements for customers and others to obtain retail open access service; and 4) the roles and responsibilities for Consumers, customers and suppliers. In the plan, Consumers proposed to phase in 750 MW of retail customer load to customers purchasing their power from other sources over the 1998-2001 period. In March 1999, Consumers received MPSC electric restructuring orders which generally supported Consumers' implementation plan. Accordingly, Consumers is in the process of implementing electric customer retail open access.

There are numerous appeals pending at the Court of Appeals relating to the MPSC's restructuring orders, including appeals by Consumers. Consumers believes that the MPSC lacks statutory authority to mandate industry restructuring, and its appeal generally is limited to this jurisdictional issue. CMS Energy cannot predict the outcome of electric restructuring on CMS Energy's financial position, liquidity, or results of operations.

As a result of a 1998 MPSC order in connection with the electric restructuring program, the PSCR process was suspended. Under this program, customers buying electricity from Consumers as traditional customers will not have their rates adjusted to reflect the actual costs of fuel and purchased and interchanged power during the 1998-2001 period. In prior years, any change in power supply costs was passed through to such customers. In order to reduce the risk of high energy prices during peak demand periods, Consumers is purchasing electricity options and contracting to buy electricity during the months of June through September 1999. Consumers is planning to have sufficient generation and purchased capacity for a 16 percent reserve margin in order to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages. Under certain circumstances, the cost of purchasing capacity and energy on the spot market could be substantial.

OTHER CONSUMERS' ELECTRIC UTILITY UNCERTAINTIES

THE MIDLAND COGENERATION VENTURE: The MCV Partnership, which leases and operates the MCV Facility, contracted to sell electricity to Consumers for a 35-year period beginning in 1990 and to supply electricity and steam to Dow. Consumers, through two wholly owned subsidiaries, holds the following assets related to the MCV Partnership and MCV Facility: 1) CMS Midland owns a 49 percent general partnership interest in the MCV Partnership; and 2) CMS Holdings holds, through FMLP, a 35 percent lessor interest in the MCV Facility.

Summarized Statements of Income for CMS Midland and CMS Holdings-

| | | | In Millions | |
|---|---|---|---|---|
| | Three Months Ended | | Twelve Months Ended | |
| March 31 | 1999 | 1998 | 1999 | 1998 |
| Pretax operating income | $14 | $10 | $53 | $47 |
| Income taxes and other | 4 | 3 | 16 | 14 |
| Net income | $10 | $ 7 | $37 | $33 |

Power Purchases from the MCV Partnership- Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the PPA in 2025. The PPA provides that Consumers is to pay, based on the MCV Facility's availability, a levelized average capacity charge of 3.77 cents per kWh and a fixed energy charge and a variable energy charge, based primarily on Consumers' average cost of coal consumed for all kWh delivered. Since January 1, 1993, Consumers has been permitted by the MPSC to recover capacity charges averaging 3.62 cents per kWh for 915 MW, plus a substantial portion of the fixed and variable energy charges. Since January 1, 1996, Consumers also has been permitted to recover capacity charges for the remaining 325 MW of contract capacity with an initial average charge of 2.86 cents per kWh increasing periodically to an eventual 3.62 cents per kWh by 2004 and thereafter. Because the MPSC has already approved recovery of this capacity, Consumers expects to recover these increases through an adjustment to the currently frozen PSCR level which is currently under consideration by the MPSC. After September 2007, under the terms of the PPA, Consumers will only be required to pay the MCV Partnership capacity and energy charges that the MPSC has authorized for recovery from electric customers.

In March 1999, Consumers signed a long-term power sales agreement to supply PECO with electric generating capacity under the PPA until September 2007. After a three-year transition period during which 100 to 150 MW will be sold to PECO, beginning in 2002 Consumers will sell all 1,240 MW of PPA capacity and associated energy to PECO. In March 1999, Consumers also filed an application with the MPSC for accounting and rate-making approvals related to the transaction. In an order issued on April 30, 1999, the MPSC conditionally approved the requests for accounting and rate-making treatment to the extent that customer rates are not increased from their level absent the agreement and as modified by the order. Consumers is currently studying the conditions attached to the approval to determine whether there is any need for clarification of how the conditions would operate under various future scenarios and whether the conditional approval is acceptable to Consumers.

Consumers recognized a loss in 1992 for the present value of the estimated future underrecoveries of power costs under the PPA based on MPSC recovery orders. At March 31, 1999 and March 31, 1998, the remaining after-tax present value of the estimated future PPA liability associated with the 1992 loss totaled $103 million and $133 million, respectively. At March 31, 1999, the undiscounted after-tax amount associated with this liability totaled $159 million. These after-tax cash underrecoveries are based on the assumption that the MCV Facility would be available to generate electricity 91.5 percent of the time over its expected life. Historically the MCV Facility has operated above the 91.5 percent level. Accordingly, in 1998, Consumers increased its PPA liability by $37 million. Because the MCV Facility operated above the 91.5 percent level in 1998 and thus far in 1999, Consumers has an accumulated unrecovered after-tax shortfall of $13 million as of March 31, 1999. If the MCV Facility generates electricity at the 91.5 percent level during the next five years, Consumers' after-tax cash underrecoveries associated with the PPA would be as follows.

| | | | | | In Millions |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| Estimated cash underrecoveries, net of tax | $26 | $21 | $20 | $19 | $18 |

If the MCV Facility operates at availability levels above management's 91.5 percent estimate made in 1992 for the remainder of the PPA, Consumers will need to recognize additional losses for future underrecoveries. In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999 that will cap availability payments to the MCV Partnership at 98.5 percent. For further discussion on the impact of the frozen PSCR, see "Electric Restructuring" in this Note. Management is evaluating the adequacy of the contract loss liability considering actual MCV Facility operations and any other relevant circumstances.

In February 1998, the MCV Partnership filed a claim of appeal from the January 1998 and February 1998 MPSC orders in the electric utility industry restructuring. At the same time, the MCV Partnership filed suit in the U.S. District Court seeking a declaration that the MPSC's failure to provide Consumers and the MCV Partnership a certain source of recovery of capacity payments after 2007 deprived the MCV Partnership of its rights under the Public Utilities Regulatory Policies Act of 1978. The MCV Partnership is seeking to prohibit the MPSC from implementing portions of the orders.

NUCLEAR MATTERS: In January 1997, the NRC issued its Systematic Assessment of Licensee Performance report for Palisades. The report rated all areas as good. The NRC suspended this same assessment process for all licensees in 1998. Until such time as the NRC completes its review of processes for assessing performance at nuclear power plants, the Plant Performance Review is being used to provide an assessment of licensee performance. Palisades received its performance review dated March 26, 1999 in which the NRC stated that the overall performance at Palisades was acceptable.

Palisades' temporary on-site storage pool for spent nuclear fuel is at capacity. Consequently, Consumers is using NRC-approved steel and concrete vaults, commonly known as "dry casks", for temporary on-site storage. As of March 31, 1999 Consumers had loaded 13 dry storage casks with spent nuclear fuel at Palisades and plans to load five additional casks in 1999 pending approval by the NRC. In June 1997, the NRC approved Consumers' process for unloading spent fuel from a cask previously discovered to have minor weld flaws. Consumers intends to transfer the spent fuel to a new transportable cask when one is available.

Consumers maintains insurance coverage against property damage, debris removal, personal injury liability and other risks that are present at its nuclear generating facilities. Consumers also maintains coverage for replacement power costs during prolonged accidental outages at Palisades. Insurance would not cover such costs during the first 17 weeks of any outage, but would cover most of such costs during the next 58 weeks of the outage, followed by reduced coverage to 80 percent for two additional years. If certain covered losses occur at its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of $15 million in any one year to NEIL under the nuclear liability secondary protection program; $88 million per occurrence, limited to $10 million per occurrence in any year; and $6 million if nuclear workers claim bodily injury from radiation exposure. Consumers considers the possibility of these assessments to be remote.

The NRC requires Consumers to make certain calculations and report on the continuing ability of the Palisades reactor vessel to withstand postulated pressurized thermal shock events during its remaining license life, considering the embrittlement of reactor materials. In December 1996, Consumers received an interim Safety Evaluation Report from the NRC indicating that the reactor vessel can be safely operated through 2003 before reaching the NRC's screening criteria for reactor embrittlement. Consumers believes that with fuel management designed to minimize embrittlement, it can operate Palisades to the end of its license life in the year 2007 without annealing the reactor vessel. Nevertheless, Consumers will continue to monitor the matter.

NUCLEAR PLANT DECOMMISSIONING: Consumers collected $51 million in 1998 from its electric customers for decommissioning of its two nuclear plants. Amounts collected from electric retail customers and deposited in trusts (including trust earnings) are credited to accumulated depreciation. On March 22, 1999, Consumers received a decommissioning order from the MPSC that estimated decommissioning costs for Big Rock and Palisades to be $304 million and $541 million (in 1998 dollars), respectively. Consumers' site-specific decommissioning cost estimates for Big Rock and Palisades assume that each plant site will eventually be restored to conform with the adjacent landscape, and all contaminated equipment will be disassembled and disposed of in a licensed burial facility. The MPSC order also reduced annual decommissioning surcharges by $4 million a year and required Consumers to file revised decommissioning surcharges for Palisades that incorporate a gradual reduction in the decommission trust's equity investments following the plant's retirement. On April 21, 1999, Consumers filed with the MPSC a revised decommissioning surcharge for Palisades and anticipates a revised MPSC order in late 1999 or early 2000. If approved, the annual decommissioning surcharges for Palisades would be reduced by an additional $3 million a year. After retirement of Palisades, Consumers plans to maintain the facility in protective storage if radioactive waste disposal facilities are not available. Consumers will incur most of the Palisades decommissioning costs after the plant's NRC operating license expires. When the Palisades' NRC license expires in 2007, the trust funds are currently estimated to have accumulated $677 million. Consumers estimates that at the time Palisades is fully decommissioned in the year 2046, the trust funds will have provided $1.9 billion, including trust earnings, over this decommissioning period. At March 31, 1999, Consumers had an investment in nuclear decommissioning trust funds of $386 million for Palisades and $179 million for Big Rock.

Big Rock was closed permanently in 1997 because management determined that it would be uneconomical to operate in an increasingly competitive environment. The plant was originally scheduled to close on May 31, 2000, at the end of the plant's operating license. The MPSC has allowed Consumers to continue collecting decommissioning surcharges through December 31, 2000. Plant decommissioning began in 1997 and may take five to ten years to return the site to its original condition. For the first three months of 1999, Consumers spent $14 million for the decommissioning and withdrew $12 million from the Big Rock nuclear

decommissioning trust fund. In total, Consumers has spent $88 million for the decommissioning and withdrew $81 million from the Big Rock nuclear decommissioning trust fund. These activities had no impact on net income.

CONSUMERS GAS GROUP CONTINGENCIES

GAS ENVIRONMENTAL MATTERS: Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites, including some 23 sites that formerly housed manufactured gas plant facilities, even those in which it has a partial or no current ownership interest. By late 1999, Consumers expects to have completed sufficient investigation of the 23 sites to make a more accurate estimate of remediation methods and costs. On sites where Consumers has received site-wide study plan approvals, it will continue to implement these plans. It will also work toward closure of environmental issues at sites as studies are completed. Consumers estimates its costs related to investigation and remedial action for all 23 sites between $48 million and $98 million, of which Consumers accrued a liability for $48 million. These estimates are based on undiscounted 1998 costs. As of March 31, 1999, Consumers has an accrued liability of $48 million and a regulatory asset for approximately the same amount. Any significant change in assumptions, such as remediation techniques, nature and extent of contamination, and legal and regulatory requirements, could affect the estimate of remedial action costs for the sites. Consumers defers and amortizes over a period of ten years, environmental clean-up costs above the amount currently being recovered in rates. Rate recognition of amortization expense will not begin until after a prudence review in a general rate case. Consumers is allowed current recovery of $1 million annually. Consumers has initiated lawsuits against certain insurance companies regarding coverage for some or all of the costs that it may incur for these sites.

CONSUMERS GAS GROUP MATTERS

GAS RESTRUCTURING: In December 1997, the MPSC approved Consumers' application to implement an experimental gas transportation program, which will extend over a three-year period, eventually allowing 300,000 residential, commercial and industrial retail gas sales customers to choose their gas commodity supplier. The program is voluntary and participating natural gas customers are selected on a first-come, first-served basis, up to a limit of 100,000 per year. As of April 19,1999, more than 142,000 customers chose alternative gas suppliers, representing approximately 34 bcf of gas load. Under traditional regulation, Consumers had not been allowed to benefit from reducing its cost of the commodity supplied to its customers, so the loss of commodity sales to these customers will not have any impact on net income. Customers choosing to remain as sales customers of Consumers will not see a rate change in their natural gas rates. This three-year program: 1) suspends Consumers' GCR clause, effective April 1, 1998, establishing a gas commodity cost at a fixed rate of $2.84 per mcf, allowing Consumers the opportunity to benefit by reducing its cost of the commodity; 2) establishes an earnings sharing mechanism with customers if Consumers' earnings exceed certain pre-determined levels; and 3) establishes a gas transportation code of conduct that addresses the relationship between Consumers and marketers, including its affiliated marketers. In January 1998, the Attorney General, ABATE and other parties filed claims of appeal regarding the program with the Court of Appeals.

Consumers uses gas purchase contracts to limit its risk associated with increases in its gas price above the $2.84 per mcf during the three-year experimental gas program. It is management's intent to take physical delivery of the commodity and failure could result in a significant penalty for nonperformance. At March 31, 1999, Consumers had an exposure to gas price increases if the ultimate cost of gas was to exceed $2.84

per mcf for the following volumes: 7 percent of its 1999 requirements; 55 percent of its 2000 requirements; and 55 percent of its first quarter 2001 requirements. Additional contract coverage is currently under review. The gas purchase contracts currently in place were consummated at prices less than $2.84 per mcf. The gas purchase contracts are being used to protect against gas price increases in a three-year experimental gas program where Consumers is recovering from its customers $2.84 per mcf for gas.

PANHANDLE REGULATORY MATTERS

Effective August 1996, Trunkline placed into effect a general rate increase, subject to refund. Hearings were completed in October of 1997 and initial decisions by a FERC ALJ were issued on certain matters in May 1998 and on the remainder of the rate proceedings in November 1998. Responses to the initial decisions were provided by Trunkline to FERC following the issuance of the initial decisions. In May 1999, FERC issued an order remanding certain matters back to the ALJ for further proceedings.

In conjunction with a FERC order issued in September 1997, certain natural gas producers were required to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines. These pipelines were ordered to refund these amounts to their customers. All payments are to be made in compliance with prescribed FERC requirements. At March 31, 1999 and December 31, 1998, accounts receivable included $51 million and $50 million, respectively, due from natural gas producers, and other current liabilities included $51 million and $50 million, respectively, for related obligations.

In June 1998, Trunkline filed a petition with the FERC to abandon 720 miles of its 26-inch diameter pipeline that extends from Longville, Louisiana to Bourbon, Illinois. Trunkline requested permission to transfer the pipeline to an affiliate, which has entered into an option agreement with Aux Sable for potential conversion of the line to allow transportation of hydrocarbon vapors. Trunkline has requested FERC to grant the abandonment authorization in time to separate the pipeline from existing facilities and allow Aux Sable to convert the pipeline to hydrocarbon vapor service by October 1, 2000, if the option is exercised. The abandonment would reduce Trunkline's certificated capacity from the current level of 1,810 Mdth/d to 1,555 Mdth/d, but will have no adverse effect on Trunkline's ability to meet all of its firm service obligations. The filing is pending FERC action.

OTHER UNCERTAINTIES

CMS GENERATION ENVIRONMENTAL MATTERS: CMS Generation does not currently expect to incur significant capital costs at its power facilities to comply with current environmental regulatory standards.

CAPITAL EXPENDITURES: CMS Energy estimates capital expenditures, including investments in unconsolidated subsidiaries and new lease commitments, of $3.635 billion for 1999, which includes approximately $2.2 billion for the acquisition of Panhandle, $1.575 billion for 2000, and $1.205 billion for 2001. For further information, see Capital Resources and Liquidity-Capital Expenditures in the MD&A.

OTHER: As of December 31, 1998, CMS Energy and Enterprises have guaranteed up to $539 million in contingent obligations of unconsolidated affiliates and related parties.

In addition to the matters disclosed in this note, Consumers and certain other subsidiaries of CMS Energy are parties to certain lawsuits and administrative proceedings before various courts and governmental agencies arising from the ordinary course of business. These lawsuits and proceedings may involve personal injury, property damage, contractual matters, environmental issues, federal and state taxes, rates, licensing and other matters.

CMS Energy has accrued estimated losses for certain contingencies discussed in this Note. Resolution of these contingencies is not expected to have a material adverse impact on CMS Energy's financial position, liquidity, or results of operations.

3: SHORT-TERM AND LONG-TERM FINANCINGS, AND CAPITALIZATION

CMS ENERGY: CMS Energy's Senior Credit Facilities consist of a $600 million three-year revolving credit facility and a five-year $125 million term loan facility. Additionally, CMS Energy has unsecured lines of credit and letters of credit in an aggregate amount of $361 million. At March 31, 1999, the total amount utilized under the Senior Credit Facilities was $687 million, including $47 million of contingent obligations, and under the unsecured lines of credit and letters of credit was $94 million. Of the $687 million outstanding at March 31, 1999, approximately $500 million was utilized to fund the acquisition of Panhandle.

At March 31, 1999, CMS Energy had utilized $600 million of a bridge loan facility to partially fund the acquisition of Panhandle. The bridge loan has a weighted-average interest rate of 5.94 percent and a term of six months.

In January 1999, CMS Energy received net proceeds of approximately $473 million from the sale of $480 million of senior notes. In February 1999, CMS Energy received net proceeds of approximately $296 million from the sale of $300 million of senior notes. Proceeds from these offerings were used to repay debt and for general corporate purposes.

At March 31, 1999, CMS Energy had $116 million of Series A GTNs, $123 million of Series B GTNs, $150 million of Series C GTNs, $200 million of Series D GTNs, and $79 million of Series E GTNs issued and outstanding with weighted average interest rates of 7.9 percent, 7.9 percent, 7.7 percent, 7.0 percent, and 6.9 percent, respectively.

In April 1999, CMS Energy filed a shelf registration statement for the issuance of $375 million of senior and subordinated debt securities.

CONSUMERS: At March 31, 1999, Consumers had FERC authorization to issue or guarantee, through June 2000, up to $900 million of short-term securities outstanding at any one time and to guarantee, through 1999, up to $25 million in loans made by others to residents of Michigan for making energy-related home improvements. Consumers also had remaining FERC authorization to issue, through June 2000, up to $475 million and $425 million of long-term securities with maturities up to 30 years for refinancing purposes and for general corporate purposes, respectively.

Consumers has an unsecured $425 million credit facility and unsecured lines of credit aggregating $130 million. These facilities are available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At March 31, 1999, a total of $221 million was outstanding at a weighted average interest rate of 5.6 percent, compared with $245 million outstanding at March 31, 1998, at a weighted average interest rate of 6.2 percent. In January 1999, Consumers renegotiated a variable-to-fixed interest rate swap totaling $175 million in order to reduce the impact of interest rate fluctuations.

Consumers also has in place a $500 million trade receivables sale program. At March 31, 1999 and 1998, receivables sold under the program totaled $344 million and $340 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

Consumers issued long-term bank debt of $15 million in February 1999, maturing in February 2002, at an initial interest rate of 5.3 percent. Proceeds from this issuance were used for general corporate purposes.

On April 1, 1999, Consumers redeemed all of its eight million outstanding shares of the $2.08 preferred stock at $25.00 per share.

Under the provisions of its Articles of Incorporation, Consumers had $308 million of unrestricted retained earnings available to pay common dividends at March 31, 1999. In January 1999, Consumers declared and paid a $97 million common dividend.

PANHANDLE: In March 1999, CMS Energy, through its subsidiary CMS Panhandle Holding, received net proceeds of approximately $789 million from the sale of $800 million of senior notes issued by CMS Panhandle Holding. Proceeds from this offering were used to fund the acquisition of Panhandle.

CMS OIL AND GAS: CMS Oil and Gas has a $225 million revolving credit facility which was originally scheduled to convert to term loans maturing from March 1999 through March 2003. However, CMS Oil and Gas and the banks are currently negotiating the maturity and other terms of the facility. CMS Oil and Gas anticipates a mutually satisfactory conclusion of the negotiations prior to the presently stipulated termination date of the extended revolving credit facility on May 31, 1999.

## 4: EARNINGS PER SHARE AND DIVIDENDS

Earnings per share attributable to Common Stock for the three and twelve months ended March 31, 1999 reflect the performance of the Consumers Gas Group. The allocation of earnings attributable to each class of Common Stock and the related amounts per share are computed by considering the weighted average number of shares outstanding.

Earnings attributable to the Outstanding Shares are equal to Consumers Gas Group net income multiplied by a fraction; the numerator is the weighted average number of Outstanding Shares during the period and the denominator is the weighted average number of Outstanding Shares and authorized but unissued shares of Class G Common Stock not held by holders of the Outstanding Shares during the period. The earnings attributable to Class G Common Stock on a per share basis for the three months ended March 31, 1999

and 1998 are based on 25.62 percent and 25.16 percent, respectively, of the income of Consumers Gas Group.

COMPUTATION OF EARNINGS PER SHARE:

In Millions, Except Per Share Amounts

| | Three Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| | 1999 | 1998 (a) | 1999 | 1998 (a) |
| NET INCOME APPLICABLE TO BASIC AND DILUTED EPS | | | | |
| Consolidated Net Income | $98 | $88 | $295 | $254 |
| Net Income Attributable to Common Stocks: | | | | |
| CMS Energy - Basic Income | $88 | $79 | $281 | $239 |
| Add conversion of 7.75% Trust Preferred Securities (net of tax) | 2 | 2 | 9 | 7 |
| CMS Energy - Diluted Income | $90 | $81 | $290 | $246 |
| Class G: | | | | |
| Basic and Diluted Income | $10 | $ 9 | $ 14 | $ 15 |
| AVERAGE COMMON SHARES OUTSTANDING APPLICABLE TO BASIC AND DILUTED EARNINGS PER SHARE | | | | |
| CMS Energy: | | | | |
| Average Shares - Basic | 108.2 | 100.9 | 104.3 | 97.6 |
| Add conversion of 7.75% Trust Preferred Securities | 4.2 | 4.2 | 4.2 | 3.3 |
| Options-Treasury Shares | .4 | .6 | .4 | .4 |
| Average Shares - Diluted | 112.8 | 105.7 | 108.9 | 101.3 |
| Class G: | | | | |
| Average Shares Basic and Diluted | 8.5 | 8.2 | 8.4 | 8.1 |
| EARNINGS PER AVERAGE COMMON SHARE | | | | |
| CMS Energy: | | | | |
| Basic | $ .82 | $ .79 | $ 2.69 | $2.45 |
| Diluted | $ .80 | $ .77 | $ 2.66 | $2.44 |
| Class G: | | | | |
| Basic and Diluted | $ 1.19 | $ 1.09 | $ 1.68 | $1.76 |

(a) Includes the cumulative effect of an accounting change in the first quarter of 1998 which increased net income attributible to CMS Energy Common Stock $43 million ($.40 per share - basic and diluted) and Class G Common Stock $12 million ($.36 per share - basic and diluted).

In February 1999, CMS Energy declared and paid dividends of $.33 per share on CMS Energy Common Stock and $.325 per share on Class G Common Stock. In April 1999, the Board of Directors declared a

quarterly dividend of $.33 per share on CMS Energy Common Stock and $.325 per share on Class G Common Stock, payable in May 1999.

5: RISK MANAGEMENT ACTIVITIES AND DERIVATIVES TRANSACTIONS

CMS Energy and its subsidiaries use a variety of derivative instruments (derivatives), including futures contracts, swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices, interest rates and foreign exchange rates. To qualify for hedge accounting, derivatives must meet the following criteria: i) the item to be hedged exposes the enterprise to price, interest or exchange rate risk; and ii) the derivative reduces that exposure and is designated as a hedge.

Derivative instruments contain credit risk if the counter parties, including financial institutions and energy marketers, fail to perform under the agreements. CMS Energy minimizes such risk by performing financial credit reviews using, among other things, publicly available credit ratings of such counter parties. Nonperformance by counter parties is not expected to have a material adverse impact on CMS Energy's financial position, liquidity, or results of operations.

COMMODITY PRICE HEDGES: CMS Energy engages in commodity price risk management activities for both energy trading and non-trading activities as defined by EITF 98-10, Accounting for Energy Trading and Risk Management Activities. CMS Energy accounts for its non-trading commodity price derivatives as hedges and, as such, defers any changes in market value and gains and losses resulting from settlements until the hedged transaction is complete. If there was a loss of correlation between the changes in i) the market value of the commodity price contracts and ii) the market price ultimately received for the hedged item, and the impact was material, the open commodity price contracts would be marked-to-market and gains and losses would be recognized in the income statement currently. Effective January 1, 1999, CMS Energy adopted mark-to-market accounting for energy trading contracts in accordance with EITF 98-10. Mark-to-market accounting requires gains and losses resulting from changes in market prices on contracts entered into for trading purposes to be reflected in earnings currently. The after-tax mark-to-market adjustment resulting from the adoption of EITF 98-10 had an immaterial effect on CMS Energy's financial position, results of operations and cash flows as of March 31, 1999.

Consumers has entered into and will enter into electric option contracts to ensure a reliable source of capacity to meet its customers' electricity requirements and to limit its risk associated with electricity price increases. It is management's intent to take physical delivery of the commodity. Consumers continuously evaluates its daily capacity needs and sells the option contracts, if marketable, when it has excess daily capacity. Consumers' maximum exposure associated with these options is limited to premiums paid.

CMS Oil and Gas has one arrangement which is used to fix the prices that CMS Oil and Gas will pay for gas supplied to the MCV Facility for the years 2001 through 2006 by purchasing the economic equivalent of 10,000 MMBtu per day at a fixed price, escalating at 8 percent per year thereafter, starting at $2.82 per MMBtu in 2001. The settlement periods are each a one-year period ending December 31, 2001 through 2006 on 3.65 million MMBtu. If the floating price, essentially the then-current Gulf Coast spot price, for a period is higher than the fixed price, the seller pays CMS Oil and Gas the difference, and vice versa.

The contract with the seller provides a calculation of exposure for the purpose of requiring an exposed party to post a standby letter of credit. Under this calculation, if a party's exposure at any time exceeds

$5 million, that party is required to obtain a letter of credit in favor of the other party for the excess over $5 million and up to $10 million. At March 31, 1999, the seller posted a letter of credit in an amount approximating $300,000. The letter of credit obligation does not necessarily bear any relation to the market value of the contract. At March 31, 1999, the fair value of this contract was $13 million.

A subsidiary of CMS Gas Transmission uses natural gas futures contracts and CMS Marketing, Services and Trading Company uses natural gas and oil futures contracts, options and swaps (which require a net cash payment for the difference between a fixed and variable price).

INTEREST RATE HEDGES: CMS Energy and some of its subsidiaries enter into interest rate swap agreements to exchange variable rate interest payment obligations to fixed rate obligations without exchanging the underlying notional amounts. These agreements convert variable rate debt to fixed rate debt to reduce the impact of interest rate fluctuations. The notional amounts parallel the underlying debt levels and are used to measure interest to be paid or received and do not represent the exposure to credit loss. The notional amount of CMS Energy's and its subsidiaries' interest rate swaps was $658 million at March 31, 1999. The difference between the amounts paid and received under the swaps is accrued and recorded as an adjustment to interest expense over the life of the hedged agreement.

FOREIGN EXCHANGE HEDGES: CMS Energy uses forward exchange contracts and collared options to hedge certain receivables, payables, long-term debt and equity value relating to foreign investments. The purpose of CMS Energy's foreign currency hedging activities is to protect the company from the risk that U.S. dollar net cash flows resulting from sales to foreign customers and purchases from foreign suppliers and the repayment of non-U.S. dollar borrowings as well as equity reported on the company's balance sheet, may be adversely affected by changes in exchange rates. These contracts do not subject CMS Energy to risk from exchange rate movements because gains and losses on such contracts offset losses and gains, respectively, on assets and liabilities being hedged. The notional amount of the outstanding foreign exchange contracts was $1.2 billion at March 31, 1999, which includes $716 million, $250 million and $220 million for Australian, Brazilian and Argentine foreign exchange contracts, respectively. The estimated fair value of the foreign exchange and option contracts at March 31, 1999 was $10 million, representing the amount CMS Energy would receive upon settlement.

## 6: REPORTABLE SEGMENTS

CMS Energy operates principally in the following six reportable segments: electric utility; gas utility; independent power production; oil and gas exploration and production; natural gas transmission, storage and processing; and energy marketing, services and trading.

The electric utility segment consists of regulated activities associated with the generation, transmission and distribution of electricity in the State of Michigan. The gas utility segment consists of regulated activities associated with the production, transportation, storage and distribution of natural gas in the State of Michigan. The other reportable segments consist of the development and management of electric, gas and other energy-related projects in the United States and internationally, including energy trading and marketing. CMS Energy's reportable segments are strategic business units organized and managed by the nature of the products and services each provides. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies. CMS Energy's management

evaluates performance based on pretax operating income. Intersegment sales and transfers are accounted for at current market prices and are eliminated in consolidated pretax operating income by segment.

The Consolidated Statements of Income show operating revenue and pretax operating income by reportable segment. Revenues from an international energy distribution business and a land development business fall below the quantitative thresholds for reporting. Neither of these segments has ever met any of the quantitative thresholds for determining reportable segments. Amounts shown for the natural gas transmission, storage and processing segment include Panhandle, which was acquired on March 29, 1999. Other financial data for reportable segments are as follows:

Reportable Segments

| | In Millions | |
|---|---|---|
| | March 31, 1999 | December 31, 1998 |
| Identifiable Assets | | |
| Electric utility (a) | $ 4,525 | $ 4,640 |
| Gas utility (a) | 1,654 | 1,726 |
| Independent power production | 2,444 | 2,252 |
| Oil and gas exploration and production | 556 | 547 |
| Natural gas transmission, storage and processing | 3,417 | 971 |
| Marketing, services and trading | 158 | 152 |
| Other | 1,013 | 1,022 |
| | $13,767 | $11,310 |

(a) Amounts include an attributed portion of Consumers' other common assets to both the electric and gas utility businesses.

ARTHUR ANDERSEN LLP

## Report of Independent Public Accountants

To CMS Energy Corporation:

We have reviewed the accompanying consolidated balance sheets of CMS ENERGY CORPORATION (a Michigan corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, common stockholders' equity and cash flows for the three-month and twelve-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet and consolidated statement of preferred stock of CMS Energy Corporation and subsidiaries as of December 31, 1998, and the related consolidated statements of income, common stockholders' equity and cash flows for the year then ended (not presented herein), and, in our report dated January 26, 1999 (except with respect to the matters disclosed in Note 3, "Consumers' Electric Utility Rate Matters", and Note 19, as to which the date is March 29, 1999), we expressed an unqualified opinion on those statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 1998, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Arthur Andersen LLP

Detroit, Michigan,
May 11, 1999.

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Consumers is a combination electric and gas utility company serving the Lower Peninsula of Michigan and is the principal subsidiary of CMS Energy, a holding company. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

The MD&A of this Form 10-Q should be read along with the MD&A and other parts of Consumers' 1998 Form 10-K. This MD&A also refers to, and in some sections specifically incorporates by reference, Consumers' Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Statements and Notes.

This report contains forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995. While forward-looking statements are based upon assumptions and such assumptions are believed to be reasonable and are made in good faith, Consumers cautions that assumed results almost always vary from actual results and the difference between assumed and actual results can be material. The type of assumptions that could materially affect the actual results are discussed in the Forward-Looking Statements section in this MD&A. More specific risk factors are contained in various public filings made by Consumers with the SEC. This report also describes material contingencies in the Notes to Consolidated Financial Statements and the readers are encouraged to read such Notes.

## RESULTS OF OPERATIONS

| March 31 | 1999 | 1998 | In Millions Change |
|---|---|---|---|
| Three months ended | $109 | $102 | $ 7 |
| Twelve months ended | 319 | 299 | 20 |

Net income available to the common stockholder was $109 million for the three months ended March 31, 1999 compared to $102 million for the same 1998 period. The increase in earnings of $7 million was due to higher electric and gas deliveries as a result of more normal winter temperatures as compared to 1998, the result of changes in regulation which allow Consumers the opportunity to benefit from lower electric power supply costs and reduced gas costs, and improved earnings from the MCV Partnership. These increases were partially offset by higher operating costs related to increased gas deliveries and the absence of an accounting change for property taxes which occurred in 1998. The accounting change resulted in a benefit of $66 million ($43 million after-tax) that was partially offset by the recognition of a $37 million dollar loss ($24 million after tax) for the underrecovery of power costs under the PPA. Net income available to the common shareholder was $319 million for the twelve months ended March 31, 1999 compared to $299 million for the same period in 1998. The increase in earnings of $20 million is primarily due to increased electric deliveries and the result of the changes in regulation which allowed Consumers the opportunity to benefit from lower electric power supply costs and reduced gas costs. Partially offsetting this increase in earnings was reduced gas deliveries, increased operating expenses, and the absence of the 1998 change in accounting for property taxes and the loss from the PPA as discussed above. For further information, see the Electric and Gas Utility Results of Operations sections and Note 2.

ELECTRIC UTILITY RESULTS OF OPERATIONS

ELECTRIC PRETAX OPERATING INCOME:

| March 31 | 1999 | 1998 | In Millions Change |
|---|---|---|---|
| Three months ended | $ 134 | $ 119 | $ 15 |
| Twelve months ended | 491 | 444 | 47 |

Electric pretax operating income was $134 million for the three months ended March 31, 1999 compared to $119 million for the same period in 1998. The increase in earnings of $15 million resulted from increased electric deliveries and changes in regulation which provides Consumers the opportunity to benefit from reduced power supply costs. In the past, reductions to power costs would have had no impact on net income because power cost savings were passed onto Consumers' electric customers. Electric pretax operating income was $491 million for the twelve months ended March 31, 1999 compared to $444 million for the same period of 1998. This increase of $47 million also resulted from increased electric deliveries and changes in regulation which provided benefits from reduced power supply costs in 1999 partially offset by increased operating expenses. The following table quantifies these impacts on Pretax Operating Income:

| Change Compared to Prior Year | Three Months Ended March 31 1999 vs 1998 | In Millions Twelve Months Ended March 31 1999 vs 1998 |
|---|---|---|
| Electric Deliveries | $ 8 | $ 42 |
| Power supply costs | 5 | 24 |
| Rate increases and other non-commodity revenue | 2 | 2 |
| Operations and maintenance | 2 | (11) |
| General taxes and depreciation | (2) | (10) |
| Total change | $ 15 | $ 47 |

ELECTRIC DELIVERIES: Total electric deliveries were 10 billion kwh for the three months ended March 31, 1999, an increase of 4.0 percent resulting primarily from higher electric deliveries to ultimate customers in the residential and commercial sectors. Electric deliveries were 40.4 billion kwh for the twelve months ended March 31, 1999, an increase of 5.1 percent which also reflects an increase in electric deliveries to ultimate customers, primarily in the residential and commercial sectors.

POWER COSTS:

| March 31 | 1999 | 1998 | In Millions Change |
|---|---|---|---|
| Three months ended | $ 279 | $ 270 | $ 9 |
| Twelve months ended | 1,183 | 1,128 | 55 |

Power costs increased for the three months period ended March 31, 1999 compared to the same 1998 period as a result of increased sales. Power costs also increased for the twelve months ended March 31, 1999 compared to the same period in 1998 for the same reason. Both internal generation and power purchases from outside sources increased during this period to meet the increased demand.

UNCERTAINTIES: Consumers' financial position may be affected by a number of trends or uncertainties that have, or Consumers reasonably expects could have, a material impact on net sales, revenues, or income from continuing electric operations. Such uncertainties include: 1) capital expenditures for compliance with the Clean Air Act; 2) environmental liabilities arising from compliance with various federal, state and local environmental laws and regulations, including potential liability or expenses relating to the Michigan Natural Resources and Environmental Protection Act and Superfund; 3) cost recovery relating to the MCV Facility; 4) electric industry restructuring; 5) implementation of a frozen PSCR and initiatives to be undertaken to reduce exposure to high energy prices; 6) underrecoveries associated with power purchases from the MCV Partnership; and 7) decommissioning issues and ongoing issues relating to the storage of spent fuel and the operating life of Palisades. For detailed information about these trends or uncertainties, see Note 2, Uncertainties, incorporated by reference herein.

GAS UTILITY RESULTS OF OPERATIONS

GAS PRETAX OPERATING INCOME:

In Millions

| March 31 | 1999 | 1998 | Change |
|---|---|---|---|
| Three months ended | $ 78 | $ 54 | $24 |
| Twelve months ended | 150 | 130 | 20 |

Gas pretax operating income was $78 million for the three months ended March 31, 1999 compared to $54 million for the same period in 1998. The increase of $24 million is the result of increased gas deliveries due to colder temperatures during the 1999 heating season and changes in gas regulation which suspended Consumers' GCR clause in mid-1998. This suspension provided Consumers the opportunity to benefit from lower gas prices. In the past reductions in gas costs would have had no impact on gas pretax operating income because any gas cost savings were passed on to Consumers' gas customers. This increase was partially offset by increased depreciation and general tax expense associated with additional plant expansion. Gas pretax operating income was $150 million for the twelve month period ended March 31, 1999 compared to $130 million for the same period in 1998. The increase of $20 million results from the suspension of Consumers' GCR clause during 1998 as discussed above and lower operation and maintenance costs due to cost controls. The following table quantifies these impacts on Pretax Operating Income:

In Millions

| Change Compared to Prior Year | Three Months Ended March 31 1999 vs 1998 | Twelve Months Ended March 31 1999 vs 1998 |
|---|---|---|
| Sales | $ 19 | $ (4) |
| Reduced gas cost per mcf | 14 | 33 |
| Gas wholesale and retail services activities | 1 | 4 |
| Operation and maintenance | - | 7 |
| General taxes, depreciation and other | (10) | (20) |
| Total increase(decrease) in pretax operating income | $ 24 | $ 20 |

GAS DELIVERIES: System deliveries for the three month period ended March 31, 1999, including miscellaneous transportation, were 166 bcf compared to 146 bcf for the same 1998 period. This increase of 20 bcf or 14 percent was primarily due to colder temperatures during the 1999 heating season. System deliveries for the twelve month period ended March 31, 1999, including miscellaneous transportation, were 380 bcf compared to 399 bcf for the same 1998 period. This decrease of 19 bcf or 5 percent was primarily the result of warmer temperatures for the most recent twelve month period.

COST OF GAS SOLD:

In Millions

| March 31 | 1999 | 1998 | Change |
|---|---|---|---|
| Three months ended | $306 | $264 | $42 |
| Twelve months ended | 606 | 645 | (39) |

The cost increases for the three month period ended March 31, 1999 was the result of increased gas deliveries due to colder temperatures during the 1999 winter heating season. The cost decrease for the twelve month period ended March 31, 1999 was the result of decreased sales due to warmer overall temperatures.

UNCERTAINTIES: Consumers' financial position may be affected by a number of trends or uncertainties that have, or Consumers reasonably expects could have, a material impact on net sales or revenues or income from continuing gas operations. Such uncertainties include: 1) potential environmental costs at a number of sites, including sites formerly housing manufactured gas plant facilities, 2) a statewide experimental gas restructuring program, and 3) implementation of a frozen GCR and initiatives undertaken to protect against gas price increases. For detailed information about these uncertainties see Note 2, Uncertainties, incorporated by reference herein.

CAPITAL RESOURCES AND LIQUIDITY

CASH POSITION, INVESTING AND FINANCING

OPERATING ACTIVITIES: Consumers derives cash from operations, from the sale and transportation of natural gas and the generation, transmission and sale of electricity. Cash from operations totaled $386 million and $275 million for the first three months of 1999 and 1998, respectively. The $111 million increase resulted

primarily from higher electric and gas sales and a $32 million decrease in gas and coal inventories. Consumers uses operating cash primarily to maintain and expand electric and gas systems, to retire portions of long-term debt, and to pay dividends.

INVESTING ACTIVITIES: Cash used in investing activities totaled $(113) million and $(88) million for the first three months of 1999 and 1998, respectively. The change of $25 million was primarily the result of a $19 million increase in capital expenditures and a $5 million increase in electric restructuring implementation plan expenditures.

FINANCING ACTIVITIES: Cash used in financing activities totaled $(271) and $(178) million for the first three months of 1999 and 1998, respectively. The change of $93 million is primarily the result of the net increase in proceeds of $74 million from the refinancing and issuance of Consumers' debt in 1998 and a $17 million increase in the payment of common stock dividends in 1999.

OTHER INVESTING AND FINANCING MATTERS: Consumers is authorized by FERC to issue securities and guarantees. Consumers has credit facilities, lines of credit and a trade receivable sale program in place as anticipated sources of funds needed to fulfill, in whole or in part, material commitments for capital expenditures. On April 1, 1999, Consumers redeemed all of its eight million outstanding shares of the $2.08 preferred stock at $25.00 per share. For detailed information about these sources of funds, see Note 3, Short-Term Financings and Capitalization.

## OUTLOOK

### CAPITAL EXPENDITURES OUTLOOK

Consumers estimates the following capital expenditures, including new lease commitments, by type and by business segment over the next three years. These estimates are prepared for planning purposes and are subject to revision.

In Millions

| Years Ended December 31 | 1999 | 2000 | 2001 |
|---|---|---|---|
| Construction | $476 | $499 | $482 |
| Nuclear fuel lease | 11 | - | 16 |
| Capital leases other than nuclear fuel | 18 | 16 | 17 |
| | $505 | $515 | $515 |
| Electric utility operations (a)(b) | $382 | $392 | $395 |
| Gas utility operations (a) | 123 | 123 | 120 |
| | $505 | $515 | $515 |

(a) These amounts include an attributed portion of Consumers' anticipated capital expenditures for plant and equipment common to both the electric and gas utility businesses.

(b) These amounts do not include preliminary estimates for capital expenditures possibly required to comply with recently revised national air quality standards under the Clean Air Act. For further information see Note 2, Uncertainties.

ELECTRIC BUSINESS OUTLOOK

GROWTH: Consumers expects average annual growth of 2.4 percent per year in electric system deliveries over the next five years, absent the impact of restructuring on the industry and its regulation in Michigan. Abnormal weather, changing economic conditions, or the developing competitive market for electricity may affect actual electric sales in future periods.

RESTRUCTURING: Consumers' retail electric business is affected by competition. To meet its challenges, Consumers entered into multi-year contracts with some of its largest industrial customers to serve certain facilities. The MPSC has approved these contracts as part of its phased introduction to competition. Certain customers have the option of terminating their contracts early.

FERC Orders 888 and 889, as amended, require utilities to provide direct access to the interstate transmission grid for wholesale transactions. Consumers and Detroit Edison disagree on the effect of the orders on the Michigan Electric Power Coordination Center pool. Consumers proposes to maintain the benefits of the pool through at least December 2000, while Detroit Edison contends that the pool agreement should be terminated immediately. Among Consumers' alternatives in the event of the pool being terminated would be joining an independent system operator. FERC has indicated this preference for structuring the operations of the electric transmission grid.

For material changes relating to the restructuring of the electric utility industry, see Note 1, Corporate Structure and Summary of Significant Accounting Policies, "Utility Regulation" and Note 2, Uncertainties,"Electric Rate Matters - - Electric Restructuring", incorporated by reference herein.

RATE MATTERS: In November 1997, ABATE filed a complaint with the MPSC alleging that Consumers' earnings are in excess of its authorized rate of return and seeking an immediate reduction in Consumers' electric rates. The MPSC staff conducted an investigation and concluded in an April 1998 report that no formal rate proceeding was warranted at that time. The MPSC has now set the complaint for hearing, but the presiding ALJ has restricted the scope of the hearing so that the most favorable relief available to ABATE would be an MPSC direction for Consumers to file an electric rate case. Various procedural issues relating to this complaint, including the ALJ's ruling on its scope, are currently on appeal at the MPSC. Consumers is unable to predict the outcome of this matter.

GAS BUSINESS OUTLOOK

GROWTH: Consumers currently anticipates gas deliveries, including gas customer choice deliveries, excluding transportation to the MCV Facility and off-system deliveries, to grow at an average annual rate of between one and two percent over the next five years based primarily on a steadily growing customer base. Actual gas deliveries in future periods may be affected by abnormal weather, alternative energy prices, changes in competitive conditions, particularly as a result of industry restructuring, and the level of natural gas consumption. Consumers also offers a variety of energy-related services to its customers focused upon appliance maintenance, home safety, commodity choice and assistance to customers purchasing heating, ventilation and air conditioning equipment.

RESTRUCTURING: In December 1997, the MPSC approved Consumers' application to implement a statewide three-year experimental gas transportation program, eventually allowing 300,000 residential, commercial and industrial retail gas sales customers to choose their gas supplier. For further information, regarding restructuring of the Gas Business, see Note 2, Uncertainties, "Gas Rate Matters-Gas Restructuring," incorporated by reference herein.

OTHER MATTERS

YEAR 2000 COMPUTER MODIFICATIONS

Consumers uses software and related technologies throughout its businesses that the year 2000 date change could affect and, if uncorrected, could cause Consumers to, among other things, delay issuance of bills or reports, issue inaccurate bills, report inaccurate data, incur generating plant outages, or create energy delivery uncertainties. In 1995, Consumers established a Year 2000 Program to ensure the continued operation of its businesses at the turn of the century. Consumers' efforts included dividing the programs requiring modification between critical and noncritical programs. A formal methodology was established to identify critical business functions and risk scenarios, to correct problems identified, to develop test plans and expected results, and to test the corrections made. Consumers' Year 2000 Program involves an aggressive, comprehensive four-phase approach, including impact analysis, remediation, compliance review, and monitoring/contingency planning.

The impact analysis phase includes the analysis, inventory, prioritization and remediation plan development for all technology essential to core business processes. The remediation phase involves testing and implementation of remediated technology. A mainframe test environment was established in 1997 and a test environment for network servers and stand-alone personal computers was established in mid-1998. All essential corporate business systems have been, or will be, tested in these test environments. The compliance review phase includes the assembling of compliance documentation for each technology component as remediation efforts are completed, and additional verification testing of essential technology where necessary. The monitoring/contingency planning phase includes compliance monitoring to ensure that year 2000 problems are not reintroduced into remediated technology, as well as the development of contingency plans to address reasonably likely risk scenarios.

STATE OF READINESS: Consumers is managing traditional information technology, which consists of essential business systems (such as payroll, billing and purchasing) and infrastructure (including mainframe, wide area network, local area networks, personal computers, radios and telephone systems). Consumers is also managing process control computers and embedded systems contained in buildings, equipment and energy supply and delivery systems.

Additionally, Consumers is managing essential goods and services, which include electric fuel supply, gas fuel supply, independent electric power supplies, buildings and other facilities, electronic commerce, telecommunications network carriers, financial institutions, purchasing vendors, and software and hardware technology vendors. Consumers is addressing the preparedness of these businesses and their risk through readiness assessment questionnaires.

The status of Consumers' Year 2000 Program by phase, with target dates for completion and current percentage complete based upon software and hardware inventory counts as of March 31, 1999, is as follows:

| | IMPACT ANALYSIS | | REMEDIATION | | COMPLIANCE REVIEW | | MONITORING/ CONTINGENCY PLANNING | |
|---|---|---|---|---|---|---|---|---|
| SYSTEMS - -------- | (a) | (b) | (a) | (b) | (a) | (b) | (a) | (b) |
| Electric | 3/98 | 100% | 6/99 | 93% | 6/99 | 91% | 6/99 | 75% |
| Gas | 3/98 | 100% | 6/99 | 91% | 6/99 | 91% | 6/99 | 75% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Corporate | 3/98 | 100% | 6/99 | 85% | 6/99 | 81% | 6/99 | 75% |
| Operating Services | 3/98 | 100% | 6/99 | 94% | 6/99 | 90% | 6/99 | 75% |
| Information Technology | 3/98 | 100% | 6/99 | 75% | 6/99 | 70% | 6/99 | 75% |
| Essential Goods & Services | 6/99 | 60% | | N/A | | N/A | | (c) |

(a) Target date for completion.
(b) Current percentage complete.
(c) Contingency planning for essential goods and services is incorporated into contingency planning for each major system presented.

COST OF REMEDIATION: Consumers expenses cost for software modifications as incurred, and capitalizes and amortizes the cost for new software and equipment over its useful life. The total estimated cost of the Year 2000 Program is $22 million. Costs incurred through March 31, 1999 were $17 million. Consumers' annual Year 2000 Program costs represent approximately 1% to 10% of a typical Consumers' annual information technology budget. Year 2000 compliance work is being funded primarily from operations. To date, the commitment of Consumers resources to the year 2000 issue has not deferred any information technology projects which could have a material adverse affect on Consumers' financial position, liquidity or results of operations.

RISK ASSESSMENT: Consumers considers the most reasonably likely worst-case scenarios to be: (1) a lack of communications to dispatch crews to electric or gas emergencies; (2) a lack of communications to generating units to balance electrical load; and (3) power shortages due to the lack of stability of the regional or national electric grid. These scenarios could result in Consumers not being able to generate or distribute enough energy to meet customer demand for a period of time, which could result in lost sales and profits, as well as legal liability. Year 2000 remediation and testing efforts are concentrating on these risk areas and will continue through the end of 1999. Contingency plans will be revised and executed to further mitigate the risks associated with these scenarios.

CONTINGENCY PLANS: Contingency planning efforts are currently underway for all systems and providers of essential goods and services. Extensive contingency plans are already in place in many locations and are currently being revised for reasonably likely worst-case scenarios related to year 2000 issues. In many cases, Consumers already has arrangements with multiple vendors of similar goods and services so that in the event that one cannot meet its commitments, others may be able to. Current contingency plans provide for manual dispatching of crews and manual coordination of electrical load balancing and are being revised to provide for radio or satellite communications. Coordinated contingency planning efforts are in progress with the North American Electric Reliability Council and its Regional Reliability Councils to minimize risk to electric generation, transmission and distribution systems.

EXPECTATIONS: Consumers does not expect that the cost of these modifications will materially affect its financial position, liquidity, or results of operations. There can be no guarantee, however, that these costs, plans or time estimates will be achieved, and actual results could differ materially.

Because of the integrated nature of Consumers' business with other energy companies, utilities, jointly owned facilities operated by other entities, and business conducted with suppliers and large customers, Consumers may be indirectly affected by year 2000 compliance complications.

DERIVATIVES AND HEDGES

MARKET RISK INFORMATION: Consumers' exposure to market risk sensitive instruments and positions include, but are not limited to, changes in interest rates, debt prices and equity prices in which Consumers holds less than a 20 percent interest. In accordance with the SEC's disclosure requirements, Consumers performed a 10 percent sensitivity analysis on its derivative and non-derivative financial instruments. The analysis measures the change in the net present values based on a hypothetical 10 percent adverse change in the market rates to determine the potential loss in fair values, cash flows and earnings. Losses in excess of the amounts determined could occur if market rates or prices exceed the 10 percent change used for the analysis. Management does not believe that a sensitivity analysis alone provides an accurate or reliable method for monitoring and controlling risk. Therefore, Consumers relies on the experience and judgment of senior management to revise strategies and adjust positions as they deem necessary.

For purposes of the analysis below, Consumers has not quantified short-term exposures to hypothetically adverse changes in the price or nominal amounts associated with inventories or trade receivables and payables. Furthermore, all derivative financial instruments are entered into for purposes other than trading. In the case of hedges, management believes that any losses incurred on derivative instruments used as a hedge would be offset by the opposite movement of the underlying hedged item.

EQUITY SECURITY PRICE RISK: Consumers has an equity investment in which it holds less than a 20 percent interest in the entity. A hypothetical 10 percent adverse change in market price would result in a $14 million change in its investment and equity since this equity instrument is currently marked-to-market through equity. Consumers believes that such an adverse change would not have a material effect on its consolidated financial position, results of operation or cash flows.

DEBT PRICE AND INTEREST RATE RISK: Management uses a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. Interest rate swaps and rate locks may be used to adjust exposure when deemed appropriate, based upon market conditions. These strategies attempt to provide and maintain the lowest cost of capital.

As of March 31, 1999, Consumers had outstanding $819 million of variable-rate debt. In order to minimize adverse interest-rate changes, Consumers entered into fixed interest-rate swaps for a notional amount of $190 million. Assuming a hypothetical 10 percent adverse change in market interest rates, Consumers' exposure to earnings is limited to $3 million. As of March 31, 1999, Consumers has outstanding fixed-rate debt including fixed-rate swaps of $2.143 billion with a fair value of $2.145 billion. Assuming a hypothetical 10 percent adverse change in market rates, Consumers would have an exposure of $122 million to its fair value. Consumers believes that any adverse change in debt price and interest rates would not have a material effect on its consolidated financial position, results of operation or cash flows.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. The words "anticipates," "believes," "estimates," "expects," "intends," and "plans," as well as variations of such words and similar expressions, are intended to identify forward-looking statements that involve risk and uncertainty. These statements are based upon various assumptions involving judgements with respect to the future including, among others, the ability to achieve revenue enhancements; national, regional, and local economic competitive and regulatory conditions and developments; capital and financial market conditions including interest rates; weather conditions and other natural phenomena; adverse

regulatory or legal decisions, including environmental laws and regulations; the pace of deregulation of the natural gas and electric industries; energy markets, including the timing and extent of changes in commodity prices for oil, coal, natural gas, natural gas liquids, electricity and certain related products; the timing and success of business development efforts; potential disruption or interruption of facilities or operations due to accidents or political events; nuclear power and other technological developments; the effect of changes in accounting policies; year 2000 readiness; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Consumers. Accordingly, while Consumers believes that the assumed results are reasonable, there can be no assurance that they will approximate actual results. Consumers disclaims any obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise. Certain risk factors are detailed from time to time in various public filings made by Consumers with the SEC.

CONSUMERS ENERGY COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| MARCH 31 | THREE MONTHS ENDED 1999 | 1998 | TWELVE MONTHS ENDED 1999 | 1998 |
|---|---|---|---|---|
| | | | | In Millions |
| OPERATING REVENUE | | | | |
| Electric | $ 636 | $ 612 | $2,630 | $2,507 |
| Gas | 506 | 429 | 1,128 | 1,135 |
| Other | 14 | 11 | 55 | 51 |
| | 1,156 | 1,052 | 3,813 | 3,693 |
| OPERATING EXPENSES | | | | |
| Operation | | | | |
| Fuel for electric generation | 77 | 71 | 322 | 300 |
| Purchased power - related parties | 139 | 145 | 567 | 594 |
| Purchased and interchange power | 63 | 54 | 294 | 234 |
| Cost of gas sold | 306 | 264 | 606 | 645 |
| Other | 127 | 133 | 540 | 544 |
| | 712 | 667 | 2,329 | 2,317 |
| Maintenance | 38 | 37 | 174 | 166 |
| Depreciation, depletion and amortization | 121 | 110 | 413 | 389 |
| General taxes | 58 | 55 | 204 | 198 |
| | 929 | 869 | 3,120 | 3,070 |
| PRETAX OPERATING INCOME | | | | |
| Electric | 134 | 119 | 491 | 444 |
| Gas | 78 | 54 | 150 | 130 |
| Other | 15 | 10 | 52 | 49 |
| | 227 | 183 | 693 | 623 |
| OTHER INCOME (DEDUCTIONS) | | | | |
| Loss on MCV power purchases | - | (37) | - | (37) |
| Dividends and interest from affiliates | 3 | 4 | 13 | 23 |
| Accretion income | 1 | 2 | 6 | 7 |
| Accretion expense | (4) | (4) | (15) | (17) |
| Other, net | 3 | 1 | (2) | 1 |
| | 3 | (34) | 2 | (23) |
| INTEREST CHARGES | | | | |
| Interest on long-term debt | 35 | 34 | 139 | 137 |
| Other interest | 8 | 10 | 36 | 38 |
| Capitalized interest | - | - | (2) | (1) |
| | 43 | 44 | 173 | 174 |
| NET INCOME BEFORE INCOME TAXES | 187 | 105 | 522 | 426 |
| INCOME TAXES | 68 | 36 | 166 | 133 |
| NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | 119 | 69 | 356 | 293 |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR PROPERTY TAXES, NET OF $23 TAX | - | 43 | - | 43 |
| NET INCOME | 119 | 112 | 356 | 336 |
| PREFERRED STOCK DIVIDENDS | 5 | 5 | 19 | 23 |
| PREFERRED SECURITIES DISTRIBUTIONS | 5 | 5 | 18 | 14 |
| NET INCOME AVAILABLE TO COMMON STOCKHOLDER | $ 109 | $ 102 | $ 319 | $ 299 |

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSUMERS ENERGY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| MARCH 31 | THREE MONTHS ENDED 1999 | 1998 | TWELVE MONTHS ENDED 1999 | 1998 |
|---|---|---|---|---|
| | | | | In Millions |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | $ 119 | $ 112 | $ 356 | $ 336 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation, depletion and amortization (includes nuclear decommissioning of $13, $13, $52 and $50, respectively) | 121 | 110 | 413 | 389 |
| Loss on MCV power purchases | - | 37 | - | 37 |
| Capital lease and other amortization | 11 | 8 | 38 | 43 |
| Accretion expense | 4 | 4 | 15 | 17 |
| Accretion income - abandoned Midland project | (1) | (2) | (6) | (7) |
| Deferred income taxes and investment tax credit | (3) | (10) | 28 | 3 |
| Undistributed earnings of related parties | (14) | (11) | (55) | (48) |
| MCV power purchases | (14) | (17) | (61) | (65) |
| Cumulative effect of accounting change | - | (66) | - | (66) |
| Changes in other assets and liabilities | 163 | 110 | (3) | 13 |
| Net cash provided by operating activities | 386 | 275 | 725 | 652 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Capital expenditures (excludes assets placed under capital lease) | (93) | (74) | (388) | (357) |
| Cost to retire property, net | (21) | (17) | (88) | (41) |
| Investments in nuclear decommissioning trust funds | (13) | (13) | (52) | (50) |
| Investment in Electric Restructuring Implementation Plan | (5) | - | (22) | (3) |
| Proceeds from nuclear decommissioning trust funds | 12 | 12 | 64 | 29 |
| Proceeds from FMLP | 7 | - | 19 | - |
| Proceeds from the sale of two partnerships | - | - | 27 | - |
| Associated company preferred stock redemption | - | - | 50 | - |
| Other | - | 4 | 2 | 54 |
| Net cash used in investing activities | (113) | (88) | (388) | (368) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Increase (decrease) in notes payable, net | (169) | (132) | (199) | 157 |
| Payment of common stock dividends | (97) | (80) | (258) | (298) |
| Payment of capital lease obligations | (9) | (7) | (37) | (43) |
| Payment of preferred stock dividends | (5) | (5) | (19) | (27) |
| Preferred securities distributions | (5) | (5) | (18) | (14) |
| Retirement of bonds and other long-term debt | (1) | (418) | (437) | (470) |
| Proceeds from bank loans | 15 | - | 15 | - |
| Proceeds from senior notes | - | 469 | 577 | 469 |
| Contribution from (return of equity to) stockholder | - | - | 50 | (50) |
| Proceeds from Trust Preferred Securities | - | - | - | 116 |
| Retirement of preferred stock | - | - | - | (120) |
| Net cash provided by (used in) financing activities | (271) | (178) | (326) | (280) |
| NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS | 2 | 9 | 11 | 14 |
| CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD | 25 | 7 | 16 | 12 |
| CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD | $ 27 | $ 16 | $ 27 | $ 16 |

| MARCH 31 | THREE MONTHS ENDED 1999 | 1998 | TWELVE MONTHS ENDED 1999 | 1998 |
|---|---|---|---|---|
| | | | | In Millions |
| OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES WERE: | | | | |
| CASH TRANSACTIONS | | | | |
| Interest paid (net of amounts capitalized) | $ 49 | $ 53 | $ 157 | $ 170 |
| Income taxes paid (net of refunds) | - | 3 | 149 | 119 |
| NON-CASH TRANSACTIONS | | | | |
| Nuclear fuel placed under capital lease | $ - | $ 5 | $ 42 | $ 6 |
| Other assets placed under capital leases | 2 | 2 | 14 | 7 |

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSUMERS ENERGY COMPANY
CONSOLIDATED BALANCE SHEETS

| ASSETS | MARCH 31 1999 (UNAUDITED) | DECEMBER 31 1998 | MARCH 31 1998 (UNAUDITED) |
|---|---|---|---|
| | | | In Millions |
| PLANT (AT ORIGINAL COST) | | | |
| Electric | $6,772 | $6,720 | $6,547 |
| Gas | 2,374 | 2,360 | 2,346 |
| Other | 26 | 25 | 24 |
| | 9,172 | 9,105 | 8,917 |
| Less accumulated depreciation, depletion and amortization | 5,430 | 4,862 | 4,722 |
| | 3,742 | 4,243 | 4,195 |
| Construction work-in-progress | 161 | 165 | 144 |
| | 3,903 | 4,408 | 4,339 |
| INVESTMENTS | | | |
| Stock of affiliates | 217 | 241 | 287 |
| First Midland Limited Partnership | 236 | 240 | 244 |
| Midland Cogeneration Venture Limited Partnership | 220 | 209 | 179 |
| Other | - | - | 7 |
| | 673 | 690 | 717 |
| CURRENT ASSETS | | | |
| Cash and temporary cash investments at cost, which approximates market | 27 | 25 | 16 |
| Accounts receivable and accrued revenue, less allowances of $5, $5 and $6, respectively | 106 | 114 | 52 |
| Accounts receivable - related parties | 65 | 63 | 71 |
| Inventories at average cost | | | |
| Gas in underground storage | 82 | 219 | 79 |
| Materials and supplies | 50 | 67 | 64 |
| Generating plant fuel stock | 33 | 43 | 39 |
| Postretirement benefits | 25 | 25 | 25 |
| Deferred income taxes | - | - | 13 |
| Prepaid property taxes and other | 116 | 162 | 182 |
| | 504 | 718 | 541 |
| NON-CURRENT ASSETS | | | |
| Nuclear decommissioning trust funds | 565 | 557 | 518 |
| Nuclear plant-related assets | 535 | - | - |
| Postretirement benefits | 364 | 372 | 395 |
| Abandoned Midland Project | 66 | 71 | 88 |
| Other | 324 | 347 | 235 |
| | 1,854 | 1,347 | 1,236 |
| TOTAL ASSETS | $6,934 | $7,163 | $6,833 |

| STOCKHOLDERS' INVESTMENT AND LIABILITIES | MARCH 31 1999 (UNAUDITED) | DECEMBER 31 1998 | MARCH 31 1998 (UNAUDITED) |
|---|---|---|---|
| | | | In Millions |
| CAPITALIZATION | | | |
| Common stockholder's equity | | | |
| Common stock | $ 841 | $ 841 | $ 841 |
| Paid-in capital | 495 | 502 | 452 |
| Revaluation capital | 54 | 68 | 65 |
| Retained earnings since December 31, 1992 | 446 | 434 | 385 |
| | 1,836 | 1,845 | 1,743 |
| Preferred stock | 244 | 238 | 238 |
| Company-obligated mandatorily redeemable preferred securities of: | | | |
| Consumers Power Company Financing I (a) | 100 | 100 | 100 |
| Consumers Energy Company Financing II (a) | 120 | 120 | 120 |
| Long-term debt | 2,023 | 2,007 | 1,722 |
| Non-current portion of capital leases | 94 | 100 | 73 |
| | 4,417 | 4,410 | 3,996 |
| CURRENT LIABILITIES | | | |
| Current portion of long-term debt and capital leases | 153 | 152 | 284 |
| Notes payable | 46 | 215 | 245 |
| Accrued taxes | 229 | 238 | 232 |
| Accounts payable | 148 | 190 | 128 |
| Accounts payable - related parties | 87 | 79 | 82 |
| Power purchases | 47 | 47 | 47 |
| Accrued interest | 27 | 36 | 20 |
| Deferred income taxes | 6 | 9 | - |
| Accrued refunds | 13 | 11 | 11 |
| Other | 144 | 138 | 132 |
| | 900 | 1,115 | 1,181 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income taxes | 638 | 666 | 668 |
| Postretirement benefits | 446 | 456 | 480 |
| Power purchases | 111 | 121 | 157 |
| Deferred investment tax credit | 131 | 134 | 147 |
| Regulatory liabilities for income taxes, net | 108 | 87 | 61 |
| Other | 183 | 174 | 143 |
| | 1,617 | 1,638 | 1,656 |
| COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 2) | | | |
| Total Stockholders' Investment and Liabilities | $6,934 | $7,163 | $6,833 |

(a) The primary asset of Consumers Power Company Financing I is $103 million principal amount of 8.36% subordinated deferrable interest notes due 2015 from Consumers. The primary asset of Consumers Energy Company Financing II is $124 million principal amount of 8.20% subordinated deferrable interest notes due 2027 from Consumers.

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE BALANCE SHEETS .

CONSUMERS ENERGY COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY
(UNAUDITED)

| MARCH 31 | THREE MONTHS ENDED 1999 | THREE MONTHS ENDED 1998 | TWELVE MONTHS ENDED 1999 | TWELVE MONTHS ENDED 1998 |
|---|---|---|---|---|
| | | | | In Millions |
| COMMON STOCK | | | | |
| At beginning and end of period | $ 841 | $ 841 | $ 841 | $ 841 |
| OTHER PAID-IN CAPITAL | | | | |
| At beginning of period | 502 | 452 | 452 | 504 |
| Preferred stock reaquired | - | - | - | (2) |
| Stockholder's contribution | - | - | 100 | - |
| Return of stockholder's contribution | - | - | (50) | (50) |
| Capital stock expense | (7) | - | (7) | - |
| At end of period | 495 | 452 | 495 | 452 |
| REVALUATION CAPITAL | | | | |
| At beginning of period | 68 | 58 | 65 | 36 |
| Change in unrealized investment-gain (loss) (a) | (14) | 7 | (11) | 29 |
| At end of period | 54 | 65 | 54 | 65 |
| RETAINED EARNINGS | | | | |
| At beginning of period | 434 | 363 | 385 | 385 |
| Net income (a) | 119 | 112 | 356 | 336 |
| Cash dividends declared- Common Stock | (97) | (80) | (258) | (299) |
| Cash dividends declared- Preferred Stock | (5) | (5) | (19) | (23) |
| Preferred securities distributions | (5) | (5) | (18) | (14) |
| At end of period | 446 | 385 | 446 | 385 |
| TOTAL COMMON STOCKHOLDER'S EQUITY | $1,836 | $1,743 | $1,836 | $1,743 |
| (a) DISCLOSURE OF COMPREHENSIVE INCOME: | | | | |
| Revaluation capital | | | | |
| Unrealized investment-gain (loss), net of tax of $(8), $4, $(6) and $16, respectively | $ (14) | $ 7 | $ (11) | $ 29 |
| Net income | 119 | 112 | 356 | 336 |
| Total Comprehensive Income | $ 105 | $ 119 | $ 345 | $ 365 |

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSUMERS ENERGY COMPANY
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These Condensed Notes and their related Consolidated Financial Statements should be read along with the Consolidated Financial Statements and Notes contained in the Consumers 1998 Form 10-K that includes the Report of Independent Public Accountants. In the opinion of management, the unaudited information herein reflects all adjustments necessary to assure the fair presentation of financial position, results of operations and cash flows for the periods presented.

1: CORPORATE STRUCTURE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CORPORATE STRUCTURE: Consumers is a combination electric and gas utility company serving the Lower Peninsula of Michigan and is the principal subsidiary of CMS Energy, a holding company. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

RISK MANAGEMENT ACTIVITIES AND DERIVATIVES TRANSACTIONS: Consumers and its subsidiaries use derivative instruments, including swaps and options, to manage exposure to fluctuations in interest rates and commodity prices, respectively. To qualify for hedge accounting, derivatives must meet the following criteria: (1) the item to be hedged exposes the enterprise to price and interest rate risk; and (2) the derivative reduces that exposure and is designated as a hedge.

Derivative instruments contain credit risk if the counter parties, including financial institutions and energy marketers, fail to perform under the agreements. Consumers minimizes such risk by performing financial credit reviews using, among other things, publicly available credit ratings of such counter parties. The risk of nonperformance by the counter parties is considered remote.

Consumers enters into interest rate swap agreements to exchange variable-rate interest payment obligations for fixed-rate obligations without exchanging the underlying notional amounts. These agreements convert variable-rate debt to fixed-rate debt in order to reduce the impact of interest rate fluctuations. The notional amounts parallel the underlying debt levels and are used to measure interest to be paid or received and do not represent the exposure to credit loss.

Consumers has entered into and will enter into electric option contracts to ensure a reliable source of capacity to meet its customers' electricity requirements and to limit its risk associated with electricity price increases. It is management's intent to take physical delivery of the commodity. Consumers continuously evaluates its daily capacity needs and sells the option contracts, if marketable, when it has excess daily capacity. Consumers' maximum exposure associated with these options is limited to premiums paid.

UTILITY REGULATION: Consumers accounts for the effects of regulation based on a regulated utility accounting standard (SFAS 71). As a result, the actions of regulators affect when revenues, expenses, assets and liabilities are recognized.

In March 1999, Consumers received MPSC electric restructuring orders which, among other things, identified the terms and timing for implementing electric restructuring in Michigan. Based upon these orders, Consumers expects to implement retail open access for its electric customers in September 1999, and therefore, Consumers discontinued application of SFAS 71 for the energy supply portion of its business

in the first quarter of 1999. Discontinuation of SFAS 71 for the energy supply portion of Consumers' business resulted in Consumers reducing the carrying value of its Palisades plant-related assets by approximately $535 million and established a regulatory asset for a corresponding amount. The regulatory asset is collectible as part of the Transition Costs which are recoverable through the regulated transmission and distribution portion of Consumers' business as approved by an MPSC order in 1998. This order also allowed Consumers to recover any energy supply related regulatory assets, plus a return on any unamortized balance of those assets, from its transmission and distribution customers. According to current accounting standards, Consumers can continue to carry its energy supply related regulatory assets or liabilities for the part of the business subject to regulatory change if legislation or an MPSC rate order allows the collection of cash flows, to recover specific costs or to settle obligations, from its regulated transmission and distribution customers. At March 31, 1999, Consumers had a net investment in energy supply facilities of $839 million included in electric plant and property.

REPORTABLE SEGMENTS: Consumers has two reportable segments: electric and gas. The electric segment consists of activities associated with the generation, transmission and distribution of electricity. The gas segment consists of activities associated with the production, transportation, storage and distribution of natural gas. Consumers' reportable segments are domestic strategic business units organized and managed by the nature of the product and service each provides. The accounting policies of the segments are the same as those described in Consumers' Form 10-K for year ending December 31, 1998. Consumers' management evaluates performance based on pretax operating income. The Consolidated Statements of Income show operating revenue and pretax operating income by reportable segment. Intersegment sales and transfers are accounted for at current market prices and are eliminated in consolidated pretax operating income by segment.

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS: In 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and Statement of Position 98-5, Reporting on the Costs of Start-Up Activities. Also in 1998, the Emerging Issues Task Force published Issue 98-10, Accounting for Energy Trading and Risk Management Activities. Each of these statements is effective for 1999. Application of these standards has not had a material affect on Consumers' financial position, liquidity or results of operations.

2: UNCERTAINTIES

ELECTRIC CONTINGENCIES

ELECTRIC ENVIRONMENTAL MATTERS: The Clean Air Act limits emissions of sulfur dioxide and nitrogen oxides and requires emissions and air quality monitoring. Consumers currently operates within these limits and meets current emission requirements. The Clean Air Act requires the EPA to periodically review the effectiveness of the national air quality standards in preventing adverse health effects, and in 1997 the EPA revised these standards. It is probable that the 1997 standards will result in further limitations on small particulate-related emissions.

In September 1998, based upon the 1997 standards, the EPA Administrator signed final regulations requiring the State of Michigan to further limit nitrogen oxide emissions. Fossil-fueled emitters, such as Consumers' generating units, can anticipate a reduction in nitrogen oxide emissions by 2003 to only 32 percent of levels allowed for the year 2000. The State of Michigan has one year to submit an implementation plan. The State of Michigan has filed a lawsuit objecting to the extent of the required emission reductions. It is unlikely that the State of Michigan will establish Consumers' nitrogen oxide

emissions reduction target until mid-to-late 1999. Until this target is established, the estimated cost of compliance discussed below is subject to revision. If a court were to order the EPA to adopt the State of Michigan's position, compliance costs could be less than the preliminary estimated amounts.

The preliminary estimate of capital expenditures to reduce nitrogen oxide-related emissions for Consumers' fossil-fueled generating units is approximately $290 million, plus $10 million per year for operation and maintenance costs. Consumers anticipates that these capital expenditures will be incurred between 1999 and 2003. Consumers may need an equivalent amount of capital expenditures and operation and maintenance costs to comply with the new small particulate standards.

Consumers' coal-fueled electric generating units burn low-sulfur coal and are currently operating at or near the sulfur dioxide emission limits that will be effective in the year 2000. During the past few years, in order to comply with the Clean Air Act, Consumers incurred capital expenditures totaling $55 million to install equipment at certain generating units. Consumers estimates an additional $16 million of capital expenditures for ongoing and proposed modifications at the remaining coal-fueled units to meet year 2000 requirements. Management believes that these expenditures will not materially affect Consumers' annual operating costs.

Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. Nevertheless, it believes that these costs are properly recoverable in rates under current ratemaking policies.

Consumers is a so-called potentially responsible party at several contaminated sites administered under Superfund. Superfund liability is joint and several; along with Consumers, many other creditworthy, potentially responsible parties with substantial assets cooperate with respect to the individual sites. Based upon past negotiations, Consumers estimates that its share of the total liability for the known Superfund sites will be between $2 million and $9 million. At March 31, 1999, Consumers has accrued the minimum amount of the range for its estimated Superfund liability.

While decommissioning Big Rock, Consumers found that some areas of the plant have coatings that contain both metals and PCBs. The cost of removal and disposal of these materials is currently unknown. There may be some radioactive portion of these materials which no facility in the United States will currently accept. The cost of removal and disposal will constitute part of the cost to decommission the plant, and will be paid from the decommissioning fund. Consumers is studying the extent of the contamination and reviewing options.

ANTITRUST: In October 1997, two independent power producers sued Consumers in a federal court. The suit alleged antitrust violations relating to contracts which Consumers entered into with some of its customers and claims relating to power facilities. On March 31, 1999, the court issued an opinion and order granting Consumers' motion for summary judgement, resulting in the dismissal of the case. The plaintiffs are appealing this decision.

ELECTRIC RATE MATTERS

ELECTRIC PROCEEDINGS: In 1996, the MPSC issued a final order that authorized Consumers to recover costs associated with the purchase of the additional 325 MW of MCV Facility capacity (see "Power Purchases from the MCV Partnership" in this Note) and to recover its nuclear plant investment by increasing prospective annual nuclear plant depreciation expense by $18 million, with a corresponding decrease in fossil-fueled generating plant depreciation expense. It also established an experimental direct-access program. Customers having a maximum demand of 2 MW or greater are eligible to purchase generation

services directly from any eligible third-party power supplier and Consumers will transmit the power for a fee. The direct-access program is limited to 134 MW of load. In accordance with the MPSC order, Consumers held a lottery in April 1997 to select the customers to participate in the direct-access program. Subsequently, direct access for a portion of this 134 MW began in late 1997. The program was substantially filled by the end of March 1999.

In January 1998, the Court of Appeals affirmed an MPSC conclusion that the MPSC has statutory authority to authorize an experimental electric retail wheeling program. No retail wheeling has yet occurred pursuant to that program. In October 1998, the Michigan Supreme Court issued an order granting Consumers' application for leave to appeal. A decision by the Michigan Supreme Court in this matter may be issued in mid-1999.

ELECTRIC RESTRUCTURING: As part of ongoing proceedings relating to the restructuring of the electric utility industry in Michigan, the MPSC in June 1997 issued an order proposing that beginning January 1, 1998 Consumers transmit and distribute energy on behalf of competing power suppliers to retail customers. Further restructuring orders issued in late 1997 and early 1998 provide for: 1) recovery of estimated Transition Costs of $1.755 billion through a charge to all customers purchasing their power from other sources until the end of the transition period in 2007, subject to an adjustment through a true-up mechanism; 2) commencement of the phase-in of retail open access in 1998; 3) suspension of the PSCR clause as discussed below; and 4) all customers to choose their power suppliers on January 1, 2002. The recovery of costs of implementing a retail open access program, preliminarily estimated at an additional $200 million, would be reviewed for prudence and recovered via a charge approved by the MPSC. Nuclear decommissioning costs will also continue to be collected through a separate surcharge to all customers.

In June 1998, Consumers submitted its plan for implementing retail open access to the MPSC. The primary issues addressed in the plan are: 1) the implementation schedule; 2) the retail open access service options available to customers and suppliers; 3) the process and requirements for customers and others to obtain retail open access service; and 4) the roles and responsibilities for Consumers, customers and suppliers. In the plan, Consumers proposed to phase in 750 MW of retail customer load to customers purchasing their power from other sources over the 1998-2001 period. In March 1999, Consumers received MPSC electric restructuring orders which generally supported Consumers' implementation plan. Accordingly, Consumers is in the process of implementing electric customer retail open access.

There are numerous appeals pending at the Court of Appeals relating to the MPSC's restructuring orders, including appeals by Consumers. Consumers believes that the MPSC lacks statutory authority to mandate industry restructuring, and its appeal generally is limited to this jurisdictional issue. Consumers cannot predict the outcome of electric restructuring on Consumers' financial position, liquidity, or results of operations.

As a result of a 1998 MPSC order in connection with the electric restructuring program, the PSCR process was suspended. Under this program, customers buying electricity from Consumers as traditional customers will not have their rates adjusted to reflect the actual costs of fuel and purchased and interchanged power during the 1998-2001 period. In prior years, any change in power supply costs was passed through to such customers. In order to reduce the risk of high energy prices during peak demand periods, Consumers is purchasing electricity options and contracting to buy electricity during the months of June through September 1999. Consumers is planning to have sufficient generation and purchased capacity for a 16 percent reserve margin in order to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages. Under certain circumstances, the cost of purchasing capacity and energy on the spot market could be substantial.

OTHER ELECTRIC UNCERTAINTIES

THE MIDLAND COGENERATION VENTURE: The MCV Partnership, which leases and operates the MCV Facility, contracted to sell electricity to Consumers for a 35-year period beginning in 1990 and to supply electricity and steam to Dow. Consumers, through two wholly owned subsidiaries, holds the following assets related to the MCV Partnership and MCV Facility: 1) CMS Midland owns a 49 percent general partnership interest in the MCV Partnership; and 2) CMS Holdings holds, through FMLP, a 35 percent lessor interest in the MCV Facility.

Summarized Statements of Income for CMS Midland and CMS Holdings-

In Millions

| | Three Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| March 31 | 1999 | 1998 | 1999 | 1998 |
| Pretax operating income | $14 | $10 | $53 | $47 |
| Income taxes and other | 4 | 3 | 16 | 14 |
| Net income | $10 | $7 | $37 | $33 |

Power Purchases from the MCV Partnership- Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the PPA in 2025. The PPA provides that Consumers is to pay, based on the MCV Facility's availability, a levelized average capacity charge of 3.77 cents per kWh and a fixed energy charge and a variable energy charge, based primarily on Consumers' average cost of coal consumed for all kWh delivered. Since January 1, 1993, Consumers has been permitted by the MPSC to recover capacity charges averaging 3.62 cents per kWh for 915 MW, plus a substantial portion of the fixed and variable energy charges. Since January 1, 1996, Consumers also has been permitted to recover capacity charges for the remaining 325 MW of contract capacity with an initial average charge of 2.86 cents per kWh increasing periodically to an eventual 3.62 cents per kWh by 2004 and thereafter. Because the MPSC has already approved recovery of this capacity, Consumers expects to recover these increases through an adjustment to the currently frozen PSCR level which is currently under consideration by the MPSC. After September 2007, under the terms of the PPA, Consumers will only be required to pay the MCV Partnership capacity and energy charges that the MPSC has authorized for recovery from electric customers.

In March 1999, Consumers signed a long-term power sales agreement to supply PECO with electric generating capacity under the PPA until September 2007. After a three-year transition period during which 100 to 150 MW will be sold to PECO, beginning in 2002 Consumers will sell all 1,240 MW of PPA capacity and associated energy to PECO. In March 1999, Consumers also filed an application with the MPSC for accounting and rate-making approvals related to the transaction. In an order issued on April 30, 1999, the MPSC conditionally approved the requests for accounting and rate-making treatment to the extent that customer rates are not increased from their level absent the agreement and as modified by the order. Consumers is currently studying the conditions attached to the approval to determine whether there is any need for clarification of how the conditions would operate under various future scenarios and whether the conditional approval is acceptable to Consumers.

Consumers recognized a loss in 1992 for the present value of the estimated future underrecoveries of power costs under the PPA based on MPSC recovery orders. At March 31, 1999 and March 31, 1998, the

remaining after-tax present value of the estimated future PPA liability associated with the 1992 loss totaled $103 million and $133 million, respectively. At March 31, 1999, the undiscounted after-tax amount associated with this liability totaled $159 million. These after-tax cash underrecoveries are based on the assumption that the MCV Facility would be available to generate electricity 91.5 percent of the time over its expected life. Historically the MCV Facility has operated above the 91.5 percent level. Accordingly, in 1998, Consumers increased its PPA liability by $37 million. Because the MCV Facility operated above the 91.5 percent level in 1998 and thus far in 1999, Consumers has an accumulated unrecovered after-tax shortfall of $13 million as of March 31, 1999. If the MCV Facility generates electricity at the 91.5 percent level during the next five years, Consumers' after-tax cash underrecoveries associated with the PPA would be as follows.

In Millions

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Estimated cash underrecoveries, net of tax | $26 | $21 | $20 | $19 | $18 |

If the MCV Facility operates at availability levels above management's 91.5 percent estimate made in 1992 for the remainder of the PPA, Consumers will need to recognize additional losses for future underrecoveries. In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999 that will cap availability payments to the MCV Partnership at 98.5 percent. For further discussion on the impact of the frozen PSCR, see "Electric Restructuring" in this Note. Management is evaluating the adequacy of the contract loss liability considering actual MCV Facility operations and any other relevant circumstances.

In February 1998, the MCV Partnership filed a claim of appeal from the January 1998 and February 1998 MPSC orders in the electric utility industry restructuring. At the same time, the MCV Partnership filed suit in the U.S. District Court seeking a declaration that the MPSC's failure to provide Consumers and the MCV Partnership a certain source of recovery of capacity payments after 2007 deprived the MCV Partnership of its rights under the Public Utilities Regulatory Policies Act of 1978. The MCV Partnership is seeking to prohibit the MPSC from implementing portions of the orders.

NUCLEAR MATTERS: In January 1997, the NRC issued its Systematic Assessment of Licensee Performance report for Palisades. The report rated all areas as good. The NRC suspended this same assessment process for all licensees in 1998. Until such time as the NRC completes its review of processes for assessing performance at nuclear power plants, the Plant Performance Review is being used to provide an assessment of licensee performance. Palisades received its performance review dated March 26, 1999 in which the NRC stated that the overall performance at Palisades was acceptable.

Palisades' temporary on-site storage pool for spent nuclear fuel is at capacity. Consequently, Consumers is using NRC-approved steel and concrete vaults, commonly known as "dry casks", for temporary on-site storage. As of March 31, 1999 Consumers had loaded 13 dry storage casks with spent nuclear fuel at Palisades and plans to load five additional casks in 1999 pending approval by the NRC. In June 1997, the NRC approved Consumers' process for unloading spent fuel from a cask previously discovered to have minor weld flaws. Consumers intends to transfer the spent fuel to a new transportable cask when one is available.

Consumers maintains insurance coverage against property damage, debris removal, personal injury liability and other risks that are present at its nuclear generating facilities. Consumers also maintains coverage for replacement power costs during prolonged accidental outages at Palisades. Insurance would not cover such costs during the first 17 weeks of any outage, but would cover most of such costs during the next 58 weeks

of the outage, followed by reduced coverage to 80 percent for two additional years. If certain covered losses occur at its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of $15 million in any one year to NEIL under the nuclear liability secondary protection program; $88 million per occurrence, limited to $10 million per occurrence in any year; and $6 million if nuclear workers claim bodily injury from radiation exposure. Consumers considers the possibility of these assessments to be remote.

The NRC requires Consumers to make certain calculations and report on the continuing ability of the Palisades reactor vessel to withstand postulated pressurized thermal shock events during its remaining license life, considering the embrittlement of reactor materials. In December 1996, Consumers received an interim Safety Evaluation Report from the NRC indicating that the reactor vessel can be safely operated through 2003 before reaching the NRC's screening criteria for reactor embrittlement. Consumers believes that with fuel management designed to minimize embrittlement, it can operate Palisades to the end of its license life in the year 2007 without annealing the reactor vessel. Nevertheless, Consumers will continue to monitor the matter.

NUCLEAR PLANT DECOMMISSIONING: Consumers collected $51 million in 1998 from its electric customers for decommissioning of its two nuclear plants. Amounts collected from electric retail customers and deposited in trusts (including trust earnings) are credited to accumulated depreciation. On March 22, 1999, Consumers received a decommissioning order from the MPSC that estimated decommissioning costs for Big Rock and Palisades to be $304 million and $541 million (in 1998 dollars), respectively. Consumers' site-specific decommissioning cost estimates for Big Rock and Palisades assume that each plant site will eventually be restored to conform with the adjacent landscape, and all contaminated equipment will be disassembled and disposed of in a licensed burial facility. The MPSC order also reduced annual decommissioning surcharges by $4 million a year and required Consumers to file revised decommissioning surcharges for Palisades that incorporate a gradual reduction in the decommission trust's equity investments following the plant's retirement. On April 21, 1999, Consumers filed with the MPSC a revised decommissioning surcharge for Palisades and anticipates a revised MPSC order in late 1999 or early 2000. If approved, the annual decommissioning surcharges for Palisades would be reduced by an additional $3 million a year. After retirement of Palisades, Consumers plans to maintain the facility in protective storage if radioactive waste disposal facilities are not available. Consumers will incur most of the Palisades decommissioning costs after the plant's NRC operating license expires. When the Palisades' NRC license expires in 2007, the trust funds are currently estimated to have accumulated $677 million. Consumers estimates that at the time Palisades is fully decommissioned in the year 2046, the trust funds will have provided $1.9 billion, including trust earnings, over this decommissioning period. At March 31, 1999, Consumers had an investment in nuclear decommissioning trust funds of $386 million for Palisades and $179 million for Big Rock.

Big Rock was closed permanently in 1997 because management determined that it would be uneconomical to operate in an increasingly competitive environment. The plant was originally scheduled to close on May 31, 2000, at the end of the plant's operating license. The MPSC has allowed Consumers to continue collecting decommissioning surcharges through December 31, 2000. Plant decommissioning began in 1997 and may take five to ten years to return the site to its original condition. For the first three months of 1999, Consumers spent $14 million for the decommissioning and withdrew $12 million from the Big Rock nuclear decommissioning trust fund. In total, Consumers has spent $88 million for the decommissioning and withdrew $81 million from the Big Rock nuclear decommissioning trust fund. These activities had no impact on net income.

CAPITAL EXPENDITURES: Consumers estimates electric capital expenditures, including new lease commitments, of $382 million for 1999, $392 million for 2000, and $395 million for 2001. For further information, see the Capital Expenditures Outlook section in the MD&A.

GAS CONTINGENCIES

GAS ENVIRONMENTAL MATTERS: Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites, including some 23 sites that formerly housed manufactured gas plant facilities, even those in which it has a partial or no current ownership interest. By late 1999, Consumers expects to have completed sufficient investigation of the 23 sites to make a more accurate estimate of remediation methods and costs. On sites where Consumers has received site-wide study plan approvals, it will continue to implement these plans. It will also work toward closure of environmental issues at sites as studies are completed. Consumers estimates its costs related to investigation and remedial action for all 23 sites between $48 million and $98 million, of which Consumers accrued a liability for $48 million. These estimates are based on undiscounted 1998 costs. As of March 31, 1999, Consumers has an accrued liability of $48 million and a regulatory asset for approximately the same amount. Any significant change in assumptions, such as remediation techniques, nature and extent of contamination, and legal and regulatory requirements, could affect the estimate of remedial action costs for the sites. Consumers defers and amortizes over a period of ten years, environmental clean-up costs above the amount currently being recovered in rates. Rate recognition of amortization expense will not begin until after a prudence review in a general rate case. Consumers is allowed current recovery of $1 million annually. Consumers has initiated lawsuits against certain insurance companies regarding coverage for some or all of the costs that it may incur for these sites.

GAS RATE MATTERS

GAS RESTRUCTURING: In December 1997, the MPSC approved Consumers' application to implement an experimental gas transportation program, which will extend over a three-year period, eventually allowing 300,000 residential, commercial and industrial retail gas sales customers to choose their gas commodity supplier. The program is voluntary and participating natural gas customers are selected on a first-come, first-served basis, up to a limit of 100,000 per year. As of April 19,1999, more than 142,000 customers chose alternative gas suppliers, representing approximately 34 bcf of gas load. Under traditional regulation, Consumers had not been allowed to benefit from reducing its cost of the commodity supplied to its customers, so the loss of commodity sales to these customers will not have any impact on net income. Customers choosing to remain as sales customers of Consumers will not see a rate change in their natural gas rates. This three-year program: 1) suspends Consumers' GCR clause, effective April 1, 1998, establishing a gas commodity cost at a fixed rate of $2.84 per mcf, allowing Consumers the opportunity to benefit by reducing its cost of the commodity; 2) establishes an earnings sharing mechanism with customers if Consumers' earnings exceed certain pre-determined levels; and 3) establishes a gas transportation code of conduct that addresses the relationship between Consumers and marketers, including its affiliated marketers. In January 1998, the Attorney General, ABATE and other parties filed claims of appeal regarding the program with the Court of Appeals.

Consumers uses gas purchase contracts to limit its risk associated with increases in its gas price above the $2.84 per mcf during the three-year experimental gas program. It is management's intent to take physical delivery of the commodity and failure could result in a significant penalty for nonperformance. At March 31, 1999, Consumers had an exposure to gas price increases if the ultimate cost of gas was to exceed $2.84 per mcf for the following volumes: 7 percent of its 1999 requirements; 55 percent of its 2000 requirements; and 55 percent of its first quarter 2001 requirements. Additional contract coverage is currently under review. The gas purchase contracts currently in place were consummated at prices less than $2.84 per mcf. The gas purchase contracts are being used to protect against gas price increases in a three-year experimental gas program where Consumers is recovering from its customers $2.84 per mcf for gas.

OTHER GAS UNCERTAINTIES

CAPITAL EXPENDITURES: Consumers estimates gas capital expenditures, including new lease commitments, of $123 million for each of 1999 and 2000, and $120 million for 2001. For further information, see the Capital Expenditures Outlook section in the MD&A.

In addition to the matters disclosed in this note, Consumers and certain of its subsidiaries are parties to certain lawsuits and administrative proceedings before various courts and governmental agencies arising from the ordinary course of business. These lawsuits and proceedings may involve personal injury, property damage, contractual matters, environmental issues, federal and state taxes, rates, licensing and other matters.

Consumers has accrued estimated losses for certain contingencies discussed in this Note. Resolution of these contingencies is not expected to have a material adverse impact on Consumers' financial position, liquidity, or results of operations.

## 3: SHORT-TERM FINANCINGS AND CAPITALIZATION

AUTHORIZATION: At March 31, 1999, Consumers had FERC authorization to issue or guarantee, through June 2000, up to $900 million of short-term securities outstanding at any one time and to guarantee, through 1999, up to $25 million in loans made by others to residents of Michigan for making energy-related home improvements. Consumers also had remaining FERC authorization to issue, through June 2000, up to $475 million and $425 million of long-term securities with maturities up to 30 years for refinancing purposes and for general corporate purposes, respectively.

SHORT-TERM FINANCINGS: Consumers has an unsecured $425 million credit facility and unsecured lines of credit aggregating $130 million. These facilities are available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At March 31, 1999, a total of $221 million was outstanding at a weighted average interest rate of 5.6 percent, compared with $245 million outstanding at March 31, 1998, at a weighted average interest rate of 6.2 percent. In January 1999, Consumers renegotiated a variable-to-fixed interest rate swap totaling $175 million in order to reduce the impact of interest rate fluctuations.

Consumers also has in place a $500 million trade receivables sale program. At March 31, 1999 and 1998, receivables sold under the program totaled $344 million and $340 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

LONG-TERM FINANCINGS: Consumers issued long-term bank debt of $15 million in February 1999, maturing in February 2002, at an initial interest rate of 5.3 percent. Proceeds from this issuance were used for general corporate purposes.

On April 1, 1999, Consumers redeemed all of its eight million outstanding shares of the $2.08 preferred stock at $25.00 per share.

Under the provisions of its Articles of Incorporation, Consumers had $308 million of unrestricted retained earnings available to pay common dividends at March 31, 1999. In January 1999, Consumers declared and paid a $97 million common dividend.

ARTHUR ANDERSEN LLP

## Report of Independent Public Accountants

To Consumers Energy Company:

We have reviewed the accompanying consolidated balance sheets of CONSUMERS ENERGY COMPANY (a Michigan corporation and wholly owned subsidiary of CMS Energy Corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, common stockholder's equity and cash flows for the three-month and twelve-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet and consolidated statements of long-term debt and preferred stock of Consumers Energy Company and subsidiaries as of December 31, 1998, and the related consolidated statements of income, common stockholder's equity and cash flows for the year then ended (not presented herein), and, in our report dated January 26, 1999 (except with respect to the matter disclosed in Note 2, "Electric Rate Matters", as to which the date is March 29, 1999), we expressed an unqualified opinion on those statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 1998, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Arthur Andersen LLP

Detroit, Michigan,
May 11, 1999.

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PANHANDLE EASTERN PIPE LINE COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Panhandle is primarily engaged in the interstate transportation and storage of natural gas. Panhandle owns an LNG regasification plant and related tanker port unloading facilities and LNG and gas storage facilities. The rates and conditions of service of interstate natural gas transmission, storage and LNG operations of Panhandle are subject to the rules and regulations of the FERC.

The MD&A of this Form 10-Q should be read along with the MD&A and other parts of Panhandle's 1998 Form 10-K. This MD&A also refers to, and in some sections specifically incorporates by reference, Panhandle's Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Statements and Notes. This report contains forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995. While forward-looking statements are based on assumptions and such assumptions are believed to be reasonable and are made in good faith, Panhandle cautions that assumed results almost always vary from actual results and differences between assumed and actual results can be material. The type of assumptions that could materially affect the actual results are discussed in the Forward-Looking Information section in this MD&A. More specific risk factors are contained in various public filings made by Panhandle with the SEC. This report also describes material contingencies in the Notes to Consolidated Financial Statements and the readers are encouraged to read such Notes.

On March 29, 1999, Panhandle Eastern Pipe Line Company and its principal consolidated subsidiaries, Trunkline and Pan Gas Storage, as well as Panhandle Eastern Pipe Line Company's affiliates, Trunkline LNG and Panhandle Storage, were acquired by CMS Panhandle Holding, which is an indirect wholly owned subsidiary of CMS Energy. Immediately following the acquisition, Trunkline LNG and Panhandle Storage became direct wholly owned subsidiaries of Panhandle Eastern Pipe Line Company.

Prior to the acquisition, Panhandle's interests in Northern Border Pipeline Company, Panhandle Field Services Company, Panhandle Gathering Company, and certain other assets, including the Houston corporate headquarters building, were transferred to other subsidiaries of Duke Energy; certain intercompany accounts and notes between Panhandle and Duke Energy subsidiaries were eliminated; and with respect to certain other liabilities, including tax, environmental and legal matters, CMS Energy was indemnified for any resulting losses. In addition, Duke Energy agreed to continue its environmental clean-up program at certain properties and to defend and indemnify Panhandle against certain future environmental litigation and claims with respect to certain agreed-upon sites or matters.

CMS Panhandle Holding issued $800 million of senior unsecured notes and received a $1.1 billion capital contribution from CMS Energy to fund the acquisition of Panhandle. The CMS Panhandle Holding senior notes are guaranteed by Panhandle Eastern Pipe Line Company. CMS Panhandle Holding intends to merge into Panhandle Eastern Pipe Line Company during the second quarter of 1999, at which time the purchase accounting impact of CMS Panhandle Holding's acquisition of Panhandle, including the additional debt, equity and related allocation of fair value to assets acquired and liabilities assumed, will be reflected in Panhandle's consolidated financial statements. As of March 31, 1999, Panhandle's financial statements reflect the assets and liabilities of Panhandle on a historical basis.

RESULTS OF OPERATIONS

NET INCOME:

In Millions

| March 31 | 1999 | 1998 | Change |
|---|---|---|---|
| Three Months Ended | $ 34 | $ 35 | $ (1) |

For the three months ended March 31, 1999, net income was $34 million, down $1 million from the comparable period in 1998. Total natural gas transportation volumes for the three months ended March 31, 1999 decreased one percent from the same period in 1998.

Revenues for the three months ended March 31, 1999 decreased $6 million from the comparable period in 1998 due primarily to decreased reservation revenues and lower transportation volumes in 1999.

Operating expenses for the three months ended March 31, 1999 decreased $5 million from the prior year comparable period, primarily as a result of lower benefit costs.

PRETAX OPERATING INCOME:

In Millions

| Change Compared to Prior Year | Three Months Ended March 31 1999 vs. 1998 |
|---|---|
| Deliveries (including special contract discounts) | $(5) |
| Other non-commodity revenue | (1) |
| Operations and maintenance | 5 |
| Total Change | $(1) |

CASH POSITION AND INVESTING

OPERATING ACTIVITIES: Panhandle's consolidated net cash provided by operating activities is derived mainly from the transportation and storage of natural gas. Consolidated cash from operations totaled $21 million and $19 million for the first three months of 1999 and 1998, respectively. Panhandle uses operating cash primarily to maintain and expand its gas systems.

INVESTING ACTIVITIES: Panhandle's consolidated net cash used in investing activities totaled $21 million and $19 million for the first three months of 1999 and 1998, respectively. The increase of $2 million primarily reflects an increase in advances to subsidiaries of Duke Energy, partially offset by decreased capital expenditures due to the 1998 expenditures related to the Terrebonne expansion project in the Gulf of Mexico.

CAPITAL EXPENDITURES

Panhandle estimates capital expenditures and investments, including allowance for funds used during construction, for the next three years to be approximately $60 million for each year. These estimates are prepared for planning purposes and are subject to revision. Capital expenditures for 1999 are expected to be satisfied by cash from operations.

OUTLOOK

The market for transmission of natural gas to the Midwest is increasingly competitive and may become more so in light of projects in progress to increase Midwest transmission capacity for gas originating in Canada and the Rocky Mountain region. As a result, there continues to be pressure on prices charged by Panhandle and an increasing necessity to discount the prices charged from the legal maximum. Panhandle continues to be selective in offering discounts to maximize revenues from existing capacity and to advance projects that provide expanded services to meet the specific needs of customers. Management is evaluating the continued applicability of SFAS 71, particularly in light of the acquisition by CMS Panhandle Holding and the new cost basis of Panhandle which will result from the pending merger of CMS Panhandle Holding with Panhandle.

OTHER MATTERS

REGULATORY MATTERS

The interstate natural gas transmission industry currently is regulated on a basis designed to recover the costs (including depreciation and return on investment) of providing services to customers. In July 1998, the FERC issued a NOPR on short-term interstate natural gas transportation services, which proposed an integrated package of revisions to its regulations governing such services. "Short term" has been defined in the NOPR as all transactions of less than one year. Under the proposed approach, cost-based regulation would be eliminated for short-term transportation and replaced by regulatory policies intended to maximize competition in the short-term transportation market, mitigate the ability of companies to exercise residual monopoly power and provide opportunities for greater flexibility providing pipeline services. The proposed changes include initiatives to revise pipeline scheduling procedures, receipt and delivery point policies and penalty policies, and require pipelines to auction short-term capacity. Other

proposed changes would improve the FERC's reporting requirements, permit pipelines to negotiate rates and terms of services, and revise certain rate and certificate policies that affect competition.

In conjunction with the NOPR, the FERC also issued a NOI on its pricing policies for the long-term markets. The NOI seeks comments on whether FERC's policies are biased toward either short-term or long-term service, provide accurate price signals and the right incentives for pipelines to provide optimal transportation services and construct facilities that meet future demand, and do not result in over-building and excess capacity.

Comments on the NOPR and NOI were filed in April 1999. Because these notices are at a very early stage and ultimate resolution is unknown, management cannot estimate the effects of these matters on future consolidated results of operations or financial position.

For detailed information about other uncertainties, see Note 2, Regulatory Matters, incorporated by reference herein.

NEW ACCOUNTING RULES

In 1998, SFAS 133, Accounting for Derivative Instruments and Hedging Activities, was issued., Panhandle is required to adopt this standard by January 1, 2000. SFAS 133 requires that all derivatives be recognized as either assets or liabilities and measured at fair value, and it defines the accounting for changes in the fair value of the derivatives depending on the intended use of the derivative. Panhandle is currently reviewing the expected impact of SFAS 133 on its financial statements and has not yet determined the timing of or method of adoption.

YEAR 2000 COMPUTER MODIFICATIONS

STATE OF READINESS: In 1996, Panhandle initiated its Year 2000 Readiness Program and began a formal review of computer-based systems and devices that are used in its business operations. These systems and devices include customer information, financial, materials management and personnel systems, as well as components of natural gas production, gathering, processing and transmission.

Panhandle is using a three-phase approach to address year 2000 issues: 1) inventory and preliminary assessment of computer systems, equipment and devices; 2) detailed assessment and remediation planning; and 3) conversion, testing and contingency planning. Panhandle is employing a combination of systems repair and planned systems replacement activities to achieve year 2000 readiness for its business and process control systems, equipment and devices. Panhandle has substantially completed the first two phases throughout its business operations, and is in various stages of the third and final phase. Panhandle's goal is to have its critical systems, equipment and devices year 2000 ready by mid-1999. Business acquisitions routinely involve an analysis of year 2000 readiness and are incorporated into Panhandle's overall program as necessary.

Panhandle is actively evaluating and tracking year 2000 readiness of external third parties with which it has a significant relationship. Such third parties include vendors, customers, governmental agencies and other business associates. While the year 2000 readiness of third parties cannot be controlled, Panhandle is attempting to assess the readiness of third parties and any potential implications to its operations. Alternative suppliers of critical products, goods and services are being identified, where necessary.

COSTS: Management believes it is devoting the resources necessary to achieve year 2000 readiness in a timely manner. Current estimates for total costs of the program, including internal labor as well as consulting and contract costs, are approximately $1 million. The costs exclude replacement systems that, in addition to being year 2000 ready, provide significantly enhanced capabilities which will benefit operations in future periods.

RISKS: Management believes it has an effective program in place to manage the risks associated with the year 2000 issue in a timely manner. Nevertheless, since it is not possible to anticipate all future outcomes, especially when third parties are involved, there could be circumstances in which Panhandle would temporarily be unable to deliver services to its customers. Management believes that the most reasonably likely worst case scenario would be minor, localized interruptions of service, which likely would be rapidly restored. In addition, there could be a temporary reduction in the service needs of customers due to their own year 2000 problems. In the event that such a scenario occurs, it is not expected to have a material adverse impact on results of operations or financial position.

CONTINGENCY PLANS: Year 2000 contingency planning is currently underway to assure continuity of business operations for all periods during which year 2000 impacts may occur. Panhandle intends to complete its year 2000 contingency plans by mid-1999. These plans address various year 2000 risk scenarios that cross departmental, business unit and industry lines as well as specific risks from various internal and external sources, including supplier readiness.

Based on assessments completed to date and compliance plans in process, management believes that year 2000 issues, including the cost of making critical systems, equipment and devices ready, will not have a material adverse effect on Panhandle's business operation, results of operations or financial position. Nevertheless, achieving year 2000 readiness is subject to risks and uncertainties, including those described above. While management believes the possibility is remote, if Panhandle's internal systems, or the internal systems of external parties with which it has a significant relationship, fail to achieve year 2000 readiness in a timely manner, Panhandle's business operation, results of operations or financial position could be adversely affected.

FORWARD-LOOKING INFORMATION

From time to time, Panhandle may make statements regarding its assumptions, projections, expectations, intentions or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Panhandle cautions that assumptions, projections, expectations, intentions or beliefs about future events may and often do vary from actual results and the differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material. Accordingly, there can be no assurance that actual results will not differ materially from those expressed or implied by the forward-looking statements. The following are some of the factors that could cause actual achievements and events to differ materially from those expressed or implied in such forward-looking statements: entry of competing pipelines into Panhandle's markets and competitive strategies of competing pipelines, including rate and other pricing practices; state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed and degree to which competition enters the natural gas industry; the weather and other natural phenomena; the timing and extent of changes in prices of commodities (primarily natural gas and competing fuels) and interest rates; changes in environmental and other laws and regulations to which Panhandle is subject to or other external factors over which Panhandle has no control; the results of financing efforts; expansion and other growth opportunities; year 2000 readiness; and the effect of Panhandle's accounting policies issued periodically by accounting standard-setting bodies.

PANHANDLE EASTERN PIPE LINE COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(IN MILLIONS)

| | Three Months Ended March 31, | |
|---|---|---|
| | 1999 | 1998 |
| OPERATING REVENUE | | |
| Transportation and storage of natural gas | $127 | $132 |
| Other | 6 | 7 |
| Total operating revenue | 133 | 139 |
| OPERATING EXPENSES | | |
| Operation and maintenance | 43 | 48 |
| Depreciation and amortization | 14 | 14 |
| General taxes | 7 | 7 |
| Total operating expenses | 64 | 69 |
| PRETAX OPERATING INCOME | 69 | 70 |
| OTHER INCOME | 5 | 6 |
| EARNINGS BEFORE INTEREST AND TAXES | 74 | 76 |
| INTEREST CHARGES | | |
| Interest on long-term debt | 6 | 6 |
| Other interest | 13 | 13 |
| | 19 | 19 |
| NET INCOME BEFORE INCOME TAXES | 55 | 57 |
| INCOME TAXES | 21 | 22 |
| CONSOLIDATED NET INCOME | $ 34 | $ 35 |

The accompanying condensed notes are an integral part of these statements.

PANHANDLE EASTERN PIPE LINE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN MILLIONS)

| | Three Months Ended March 31, | |
|---|---|---|
| | 1999 | 1998 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 34 | $ 35 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 15 | 15 |
| Deferred income taxes | -- | (1) |
| Changes in current assets and liabilites | (31) | (31) |
| Other, net | 3 | 1 |
| Net cash provided by operating activities | 21 | 19 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital and investment expenditures | (4) | (18) |
| Net decrease (increase) in advances receivable - PanEnergy | (17) | 1 |
| Retirements and other | -- | (2) |
| Net cash used in investing activities | (21) | (19) |
| Net Increase (Decrease) in Cash and Temporary Cash Investments | -- | -- |
| CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD | -- | -- |
| CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD | $ -- | $ -- |
| OTHER CASH FLOW ACTIVITIES WERE: | | |
| Interest paid (net of amounts capitalized) | $ 25 | $ 25 |
| Income taxes paid (net of refunds) | 37 | 55 |

The accompanying condensed notes are an integral part of these statements.

PANHANDLE EASTERN PIPE LINE COMPANY
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT SHARE AMOUNTS)

| | March 31, 1999 (Unaudited) | December 31, 1998 |
|---|---|---|
| ASSETS | | |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Cost | $2,478 | $2,760 |
| Less accumulated depreciation and amortization | 1,652 | 1,798 |
| Sub-total | 826 | 962 |
| Construction work-in-progress | 12 | 17 |
| Net property, plant and equipment | 838 | 979 |
| INVESTMENTS | | |
| Advances and note receivable - PanEnergy | -- | 738 |
| Investment in affiliates | 1 | 44 |
| Other | 7 | 6 |
| Total investments and other assets | 8 | 788 |
| CURRENT ASSETS | | |
| Receivables | 88 | 94 |
| Inventory and supplies | 56 | 55 |
| Deferred income tax | 8 | 2 |
| Current portion of regulatory assets | -- | 6 |
| Other | 29 | 23 |
| Total current assets | 181 | 180 |
| NON-CURRENT ASSETS | | |
| Deferred income taxes | 469 | -- |
| Debt expense | 11 | 11 |
| Other | 16 | 15 |
| Total non-current assets | 496 | 26 |
| TOTAL ASSETS | $1,523 | $1,973 |

The accompanying condensed notes are an integral part of these statements.

| | March 31, 1999 (Unaudited) | December 31, 1998 |
|---|---|---|
| STOCKHOLDER'S INVESTMENT AND LIABILITIES | | |
| CAPITALIZATION | | |
| Common stockholder's equity | | |
| Common stock, no par, 1,000 shares authorized, issued and outstanding | $ 1 | $ 1 |
| Paid-in capital | 966 | 466 |
| Retained earnings | 102 | 91 |
| Total common stockholder's equity | 1,069 | 558 |
| Long-term debt | 299 | 299 |
| Total capitalization | 1,368 | 857 |
| CURRENT LIABILITIES | | |
| Notes payable - PanEnergy | -- | 675 |
| Accounts payable | 8 | 56 |
| Accrued taxes | 1 | 58 |
| Accrued interest | 2 | 8 |
| Other | 110 | 117 |
| Total current liabilities | 121 | 914 |
| NON-CURRENT LIABILITIES | | |
| Deferred income taxes | -- | 99 |
| Other | 34 | 103 |
| Total deferred credits and other liabilities | 34 | 202 |
| COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7) | | |
| TOTAL STOCKHOLDER'S INVESTMENT AND LIABILITIES | $1,523 | $1,973 |

The accompanying condensed notes are an integral part of these statements.

PANHANDLE EASTERN PIPE LINE COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY
(UNAUDITED)
(IN MILLIONS)

| | Three Months Ended March 31, | |
|---|---|---|
| | 1999 | 1998 |
| COMMON STOCK | | |
| At beginning and end of period | $ 1 | $ 1 |
| OTHER PAID-IN CAPITAL | | |
| At beginning of period | 466 | 466 |
| Contributions from CMS Panhandle Holding | 500 | -- |
| At end of period | 966 | 466 |
| RETAINED EARNINGS | | |
| At beginning of period | 91 | 34 |
| Net Income | 34 | 35 |
| Contributions to PanEnergy | 57 | -- |
| Common stock dividends | (80) | (2) |
| At end of period | 102 | 67 |
| TOTAL COMMON STOCKHOLDER'S EQUITY | $ 1,069 | $ 534 |

The accompanying condensed notes are an integral part of these statements.

PANHANDLE EASTERN PIPE LINE COMPANY
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These Condensed Notes and their related Consolidated Financial Statements should be read along with the Consolidated Financial Statements and Notes contained in the 1998 Form 10-K of Panhandle Eastern Pipe Line Company, which include the Reports of Independent Public Accountants. Certain prior year amounts have been reclassified to conform with the presentation in the current year. In the opinion of management, the unaudited information herein reflects all adjustments necessary to assure the fair presentation of financial position, results of operations and cash flows for the periods presented.

1. CORPORATE STRUCTURE

Panhandle Eastern Pipe Line Company is a wholly owned subsidiary of CMS Panhandle Holding, which is an indirect wholly owned subsidiary of CMS Energy. Panhandle Eastern Pipe Line Company was incorporated in Delaware in 1929. Panhandle is primarily engaged in the interstate transportation and storage of natural gas. The interstate natural gas transmission and storage operations of Panhandle are subject to the rules and regulations of the FERC.

On March 29, 1999, Panhandle Eastern Pipe Line Company and its principal consolidated subsidiaries, Trunkline and Pan Gas Storage, as well as its affiliates, Trunkline LNG and Panhandle Storage, were acquired from subsidiaries of Duke Energy by CMS Panhandle Holding for $1.9 billion in cash and existing Panhandle debt of $300 million. Immediately following the acquisition, CMS Panhandle Holding contributed the stock of Trunkline LNG and Panhandle Storage to Panhandle Eastern Pipe Line Company. As a result, at March 31, 1999, Trunkline LNG and Panhandle Storage were wholly owned subsidiaries of Panhandle Eastern Pipe Line Company.

Prior to the acquisition, Panhandle's interests in Northern Border Pipeline Company, Panhandle Field Services Company, Panhandle Gathering Company, and certain other assets, including the Houston corporate headquarters building, were transferred to other subsidiaries of Duke Energy; certain intercompany accounts and notes between Panhandle and Duke Energy subsidiaries were eliminated; and with respect to certain other liabilities, including tax, environmental and legal matters, CMS Energy was indemnified for any resulting losses. In addition, Duke Energy agreed to continue its environmental clean-up program at certain properties and to defend and indemnify Panhandle against certain future environmental litigation and claims with respect to certain agreed-upon sites or matters.

CMS Panhandle Holding issued $800 million of senior unsecured notes and received a $1.1 billion capital contribution from CMS Energy to fund the acquisition of Panhandle. The CMS Panhandle Holding senior notes are guaranteed by Panhandle Eastern Pipe Line Company. CMS Panhandle Holding intends to merge into Panhandle Eastern Pipe Line Company during the second quarter of 1999, at which time the purchase accounting impact of CMS Panhandle Holding's acquisition of Panhandle, including the additional debt, equity and related allocation of fair value to assets and liabilities acquired, will be reflected in Panhandle's consolidated financial statements. As of March 31, 1999, Panhandle's financial statements reflect the assets and liabilities of Panhandle on a historical basis. If the acquisition and the merger of CMS Panhandle Holding into Panhandle Eastern Pipe Line Company had occurred on January 1, 1999, the unaudited March 31, 1999 pro forma amounts for operating revenue, net income and total assets would have been $128 million, $27 million and $2.5 billion, respectively.

2. REGULATORY MATTERS

Effective August 1996, Trunkline placed into effect a general rate increase, subject to refund. Hearings were completed in October of 1997 and initial decisions by a FERC ALJ were issued on certain matters in May 1998 and on the remainder of the rate proceedings in November 1998. Responses to the initial decisions were provided by Trunkline to FERC following the issuance of the initial decisions. In May 1999, FERC issued an order remanding certain matters back to the ALJ for further proceedings.

In conjunction with a FERC order issued in September 1997, certain natural gas producers were required to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines. These pipelines were ordered to refund these amounts to their customers. All payments are to be made in compliance with prescribed FERC requirements. At March 31, 1999 and December 31, 1998, accounts receivable included $51 million and $50 million, respectively, due from natural gas producers, and other current liabilities included $51 million and $50 million, respectively, for related obligations.

In June 1998, Trunkline filed a petition with the FERC to abandon 720 miles of its 26-inch diameter pipeline that extends from Longville, Louisiana to Bourbon, Illinois. Trunkline requested permission to transfer the pipeline to an affiliate, which has entered into an option agreement with Aux Sable for potential conversion of the line to allow transportation of hydrocarbon vapors. Trunkline has requested FERC to grant the abandonment authorization in time to separate the pipeline from existing facilities and allow Aux Sable to convert the pipeline to hydrocarbon vapor service by October 1, 2000, if the option is exercised. The abandonment would reduce Trunkline's certificated capacity from the current level of 1,810 Mdth/d to 1,555 Mdth/d, but will have no adverse effect on Trunkline's ability to meet all of its firm service obligations. The filing is pending FERC action.

3. RELATED PARTY TRANSACTIONS

A summary of certain balances due to or due from related parties included in the Consolidated Balance Sheets is as follows:

| | Millions | |
|---|---|---|
| | March 31, 1999 | December 31, 1998 |
| Receivables | $ 1 | $ 2 |
| Accounts payable | - | 46 |
| Taxes accrued | 1 | 35 |

Interest charges included $13 million and $14 million for the three months ended March 31, 1999 and 1998, respectively, for interest associated with notes payable to a subsidiary of Duke Energy.

In conjunction with the acquisition, all intercompany advance and note balances between Panhandle and subsidiaries of Duke Energy were eliminated. Transactions with prior affiliates before the acquisition are now reflected as receivables on the Consolidated Balance Sheets.

4. GAS IMBALANCES

The Consolidated Balance Sheets include in-kind balances as a result of differences in gas volumes received and delivered. At March 31, 1999 and December 31, 1998, other current assets included $24 million and $20 million, respectively, and other current liabilities included $24 million and $22 million, respectively, related to gas imbalances.

5. INVESTMENT IN AFFILIATES

NORTHERN BORDER PARTNERS, L.P. Northern Border Partners, L.P. is a master limited partnership that owns 70 percent of Northern Border Pipeline Company, a partnership operating a pipeline transporting natural gas from Canada to the Midwest area of the United States. At December 31, 1998, Panhandle held a 7.0 percent limited partnership interest in Northern Border Partners, L.P., and thus, an indirect 4.9 percent ownership interest in Northern Border Pipeline Company. In conjunction with the acquisition of Panhandle by CMS Energy, Panhandle transferred its interest in Northern Border to a subsidiary of Duke Energy in the first quarter of 1999.

WESTANA GATHERING COMPANY. Westana Gathering Company is a joint venture that provides gathering, processing and marketing services for natural gas producers in Oklahoma. In conjunction with the acquisition of Panhandle by CMS Energy, Panhandle's interest in Westana Gathering Company was transferred to a subsidiary of Duke Energy in the first quarter of 1999.

LEE 8 STORAGE. Panhandle, through its subsidiary Panhandle Storage, owns a 40 percent interest in the Lee 8 partnership, which operates a 1.4 bcf natural gas storage facility in Michigan. This interest results from the contribution of the stock of Panhandle Storage to Panhandle Eastern Pipe Line Company by CMS Panhandle Holding on March 29, 1999.

6. COMMITMENTS AND CONTINGENCIES

CONTINGENT INDEBTEDNESS: On March 29, 1999, CMS Panhandle Holding issued $800 million of senior unsecured notes which were guaranteed by Panhandle: $300 million of 6.125 percent senior notes due 2004; $200 million of 6.5 percent senior notes due 2009; and $300 million of 7.0 percent senior notes due 2029. CMS Panhandle Holding intends to merge into Panhandle during the second quarter of 1999, at which point Panhandle will become the direct obligor on these notes.

CAPITAL EXPENDITURES: Panhandle estimates capital expenditures and investments, including allowance for funds used during construction, for the next three years to be approximately $60 million for each year. These estimates are prepared for planning purposes and are subject to revision. Capital expenditures for 1999 are expected to be satisfied by cash from operations.

LITIGATION: Under the terms of the sale of Panhandle to CMS Energy discussed in Note 1 to the Consolidated Financial Statements, subsidiaries of Duke Energy indemnified CMS Energy from losses resulting from certain legal and tax liabilities of Panhandle, including the matters specifically discussed below:

In April 1997, a group of affiliated plaintiffs that own and/or operate various pipeline and marketing companies and partnerships primarily in Kansas filed suit against Panhandle in the United States District Court for the Western District of Missouri. The plaintiffs alleged that Panhandle has engaged in unlawful and anti-competitive conduct with regard to requests for interconnects with the Panhandle system for service to the Kansas City area. This matter was resolved between the parties in March 1999 and did not have a material adverse effect on consolidated results of operations or financial position.

In May 1997, Anadarko filed suits against Panhandle and other PanEnergy affiliates, as defendants, both in the United States District Court for the Southern District of Texas and state district court of Harris County, Texas. Pursuing only the federal court claim, Anadarko claims that it was effectively indemnified by the defendants against any responsibility for refunds of Kansas ad valorem taxes which are due purchasers of gas from Anadarko, retroactive to 1983. In October 1998 and January 1999, the FERC issued orders on ad valorem tax issues, finding that first sellers of gas were primarily liable for refunds. The FERC also noted that claims for indemnity or reimbursement among the parties would be better addressed by the United States District Court for the Southern District of Texas. Panhandle believes the resolution of this matter will not have a material adverse effect on consolidated results of operations or financial position.

Panhandle is also involved in other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Where appropriate, Panhandle has made accruals in accordance with SFAS 5, Accounting for Contingencies, in order to provide for such matters. Management believes the final disposition of these proceedings will not have a material adverse effect on consolidated results of operations or financial position.

OTHER COMMITMENTS AND CONTINGENCIES: In 1993, the U.S. Department of the Interior announced its intention to seek additional royalties from gas producers as a result of payments received by such producers in connection with past take-or-pay settlements, and buyouts and buydowns of gas sales contracts with natural gas pipelines. Panhandle's pipelines, with respect to certain producer contract settlements, may be contractually required to reimburse or, in some instances, to indemnify producers against such royalty claims. The potential liability of the producers to the government and of the pipelines to the producers involves complex issues of law and fact which are likely to take substantial time to resolve. If required to reimburse or indemnify the producers, Panhandle's pipelines will file with FERC to recover a portion of these costs from pipeline customers. Management believes these commitments and contingencies will not have a material adverse effect on consolidated results of operations or financial position.

Under the terms of a settlement related to a transportation agreement between Panhandle and Northern Border Pipeline Company, Panhandle guarantees payment to Northern Border Pipeline Company under a transportation agreement held by an affiliate of Pan-Alberta Gas Limited. The transportation agreement requires estimated total payments of $53 million for the remainder of 1999 through 2001. Management believes the probability that Panhandle will be required to perform under this guarantee is remote.

7. ENVIRONMENTAL MATTERS

Panhandle is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters.

Panhandle has identified environmental contamination at certain sites on its systems and has undertaken clean-up programs at these sites. The contamination resulted from the past use of lubricants in compressed air systems containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Soil and sediment testing, to date, has detected no significant off-site contamination. Panhandle has communicated with the EPA and appropriate state regulatory agencies on these matters. Under the terms of the sale of Panhandle to CMS Energy, as discussed in Note 1 to the Consolidated Financial Statements, a subsidiary of Duke Energy is obligated to complete the Panhandle clean-up programs at certain agreed-upon sites and to defend and indemnify Panhandle against certain future environmental litigation and claims. These clean-up programs are expected to continue until 2001.

8. BENEFIT PLANS

RETIREMENT PLAN: Following the acquisition of Panhandle by CMS Energy described in Note 1, Panhandle now participates in CMS Energy's non-contributory defined benefit retirement plan covering most employees with a minimum of one year vesting service.

Under the terms of the acquisition of Panhandle by CMS Energy, benefit obligations related to active employees and certain plan assets were transferred to CMS Energy. Benefit obligations related to existing retired employees and remaining plan assets were retained by a subsidiary of Duke Energy.

OTHER POSTRETIREMENT BENEFITS: Panhandle, in conjunction with CMS Energy, provides certain health care and life insurance benefits for retired employees on a contributory and noncontributory basis. Substantially all employees may become eligible for these benefits if they have met certain age and service requirements as defined in the plans.

Under the terms of the acquisition of Panhandle by CMS Energy as discussed in Note 1 to the Consolidated Financial Statements, benefit obligations related to active employees were transferred to CMS Energy, and benefit obligations related to existing retired employees and plan assets were retained by a subsidiary of Duke Energy.

9. TAXES

As described in Note 1, the stock of Panhandle was acquired from subsidiaries of Duke Energy by CMS Panhandle Holding for a total of $2.2 billion in cash and acquired debt. The acquisition was treated as an asset acquisition for tax purposes, which eliminated Panhandle's deferred tax liability and gave rise to a new tax basis in Panhandle's assets equal to the purchase price. This tax basis in excess of Panhandle's current book basis creates deferred tax assets and associated paid-in-capital of approximately $477 million. When CMS Panhandle Holding is merged with Panhandle, approximately $462 million of Panhandle's deferred tax assets will be eliminated.

ARTHUR ANDERSEN LLP

Report of Independent Public Accountants

To Panhandle Eastern Pipe Line Company:

We have reviewed the accompanying consolidated balance sheet of Panhandle Eastern Pipe Line Company (a Delaware corporation) and subsidiaries as of March 31, 1999, and the related consolidated statements of income, common stockholder's equity and cash flows for the three-month period then ended. These financial statements are the responsibility of the Company's management. The consolidated financial statements of Panhandle Eastern Pipe Line Company as of December 31, 1998, were audited by other auditors whose report dated February 12, 1999, expressed an unqualified opinion on those statements.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

Houston, Texas,
May 11, 1999.

QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

CMS ENERGY

Quantitative and Qualitative Disclosures About Market Risk is contained in PART I: CMS ENERGY CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS which is incorporated by reference herein.

CONSUMERS

Quantitative and Qualitative Disclosures About Market Risk is contained in PART I: CONSUMERS ENERGY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS which is incorporated by reference herein.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The discussion below is limited to an update of developments that have occurred in various judicial and administrative proceedings, many of which are more fully described in CMS Energy's, Consumers' and Panhandle Eastern Pipe Line Company's Form 10-K for the year ended December 31, 1998. Reference is made to the Notes to the Consolidated Financial Statements included herein for additional information regarding various pending administrative and judicial proceedings involving rate, operating, regulatory and environmental matters.

CONSUMERS

ANTITRUST LITIGATION
For a discussion of Consumers' antitrust litigation see Note 2 subsection "Antitrust" of the Condensed Notes to the Consolidated Financial Statements in Part I of this Report, incorporated by reference herein.

PANHANDLE

REGULATORY MATTERS
For a discussion of certain Panhandle regulatory matters see Note 2 "Regulatory Matters" of the Condensed Notes to the Consolidated Financial Statements in Part I of this Report, incorporated by reference herein.

OTHER MATTERS
For a discussion of Panhandle's other litigation matters see Note 6 subsection "Litigation" of the Condensed Notes to the Consolidated Financial Statements in Part I of this Report, incorporated by reference herein.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) LIST OF EXHIBITS

| | | | |
|---|---|---|---|
| (4)(a) | - | Panhandle: | Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee |
| (4)(b) | - | Panhandle: | First Supplemental Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee, including a form of Guarantee by Panhandle Eastern Pipe Line Company of the obligations of CMS Panhandle Holding Company |
| (10)(a) | - | Panhandle: | Purchase Agreement between the Underwriters named therein and CMS Panhandle Holding Company dated March 23, 1999 |
| (12) | - | CMS Energy: | Statements regarding computation of Ratio of Earnings to Fixed Charges |
| (15)(a) | - | CMS Energy: | Letter of Independent Public Accountant |
| (27)(a) | - | CMS Energy: | Financial Data Schedule |
| (27)(b) | - | Consumers: | Financial Data Schedule |
| (27)(c) | - | Panhandle: | Financial Data Schedule |
| (99) | - | CMS Energy: | Consumers Gas Group Financials |

(B) REPORTS ON FORM 8-K

CMS Energy filed Current Reports on Form 8-K on January 20, 1999 covering matters pursuant to "Item 5. Other Events" and on April 6, 1999 covering matters pursuant to "Item 2. Acquisition of Assets" and "Item 7. Exhibits."

Panhandle Eastern Pipe Line Company filed Current Reports on Form 8-K on January 26, 1999 covering matters pursuant to "Item 5. Other Events" and on April 5, 1999 covering matters pursuant to "Item 2. Disposition of Assets", "Item 4. Changes in Registrant's Certifying Accountant" and "Item 7. Exhibits."

Consumers did not file any Current Reports on Form 8-K since filing its Annual Report on Form 10-K for the year ended December 31, 1998.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiary.

CMS ENERGY CORPORATION

(Registrant)

Dated: May 13, 1999 By: /s/ A.M. Wright

Alan M. Wright
Senior Vice President and
Chief Financial Officer

CONSUMERS ENERGY COMPANY

(Registrant)

Dated: May 13, 1999 By: /s/ A.M. Wright

Alan M. Wright
Senior Vice President and
Chief Financial Officer

PANHANDLE EASTERN PIPE LINE COMPANY

(Registrant)

Dated: May 13, 1999 By: /s/ A.M. Wright

Alan M. Wright
Senior Vice President and
Chief Financial Officer

LIST OF EXHIBITS

| | | | |
|---|---|---|---|
| (4)(a) | - | Panhandle: | Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee |
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| (27)(a) | - | CMS Energy: | Financial Data Schedule |
| (27)(b) | - | Consumers: | Financial Data Schedule |
| (27)(c) | - | Panhandle: | Financial Data Schedule |
| (99) | - | CMS Energy: | Consumers Gas Group Financials |

EXHIBIT (4)(a)

CMS PANHANDLE HOLDING COMPANY
(TO BE MERGED WITH AND INTO THE GUARANTOR AND SUCCESSOR),
as Issuer

PANHANDLE EASTERN PIPE LINE COMPANY,
as Guarantor

AND

NBD BANK,
as Trustee

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# INDENTURE

Dated as of March 29, 1999

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Debt Securities and
Guaranteed Debt Securities

CROSS-REFERENCE TABLE*

| Section of Trust Indenture Act of 1939, as amended | Section of Indenture |
|---|---|
| 310(a) | 7.09 |
| 310(b) | 7.08<br>7.10 |
| 310(c) | Inapplicable |
| 311(a) | 7.13(a) |
| 311(b) | 7.13(b) |
| 311(c) | Inapplicable |
| 5.02(a) | |
| 312(b) | 5.02(b) |
| 312(c) | 5.02(c) |
| 313(a) | 5.04(a) |
| 313(b) | 5.04(b) |
| 313(c) | 5.04(a)<br>5.04(b) |
| 313(d) | 5.04(c) |
| 314(a) | 5.03 |
| 314(b) | Inapplicable |
| 314(c) | 13.06 |
| 314(d) | Inapplicable |
| 314(e) | 13.06 |
| 314(f) | Inapplicable |
| 315(a) | 7.01(a)<br>7.02 |
| 315(b) | 6.07 |
| 315(c) | 7.01 |
| 315(d) | 7.01(b)<br>7.01(c) |
| 315(e) | 6.07 |
| 316(a) | 6.06<br>8.04 |
| 316(b) | 6.04 |
| 316(c) | 8.01 |

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* This Cross-Reference Table does not constitute part of the Indenture and shall not have any bearing on the interpretation of any of its terms or provisions.

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INDENTURE, dated as of March 29, 1999, among CMS Panhandle Holding Company, a Michigan corporation (the "Issuer"), Panhandle Eastern Pipe Line Company, a Delaware corporation (the "Guarantor" or the "Company"), and NBD Bank, as trustee (the "Trustee"):

WHEREAS, for its lawful corporate purposes, the Issuer has duly authorized the execution and delivery of this Indenture to provide for the issuance of unsecured debt securities (hereinafter referred to as the "Debt Securities"), in an unlimited aggregate principal amount to be issued from time to time in one or more series as in this Indenture provided, as registered Debt Securities without coupons, to be authenticated by the certificate of the Trustee;

WHEREAS, for its lawful corporate purposes, the Guarantor has duly authorized the execution and delivery of this Indenture and deems it appropriate from time to time to issue its guarantee of the Securities on the terms herein provided (the "Guarantees"; the Debt Securi ties, together with any Guarantees in respect thereof, the "Securities"), until the consummation of a merger of the Issuer with and into the Company (the "Merger");

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the assumption of all rights and obligations of the Issuer under this Indenture upon consumma tion of the Merger;

WHEREAS, to provide the terms and conditions upon which the Securities are to be authenticated, issued and delivered, the Issuer and the Guarantor have duly authorized the execution of this Indenture; and

WHEREAS, all things necessary to make this Indenture a valid agreement of the Issuer and the Guarantor, in accordance with its terms, have been done.

NOW, THEREFORE, in consideration of the premises and the purchase of the Securities by the holders thereof, it is mutually covenanted and agreed as follows for the equal and ratable benefit of the holders of Securities:

## ARTICLE I.

## DEFINITIONS

SECTION 1.1 Definitions of Terms.

The terms defined in this Section (except as in this Indenture otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section and shall include the plural as well as the singular. All other terms used in this Indenture that are

defined in the Trust Indenture Act of 1939, as amended, or that are by reference in such Act defined in the Securities Act of 1933, as amended (except as herein otherwise expressly provided or unless the context otherwise requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of the execution of this instrument.

"Affiliate" means, with respect to a specified Person, any Person directly or indirectly controlling, controlled by, or under common control with the specified Person.

"Authenticating Agent" means an authenticating agent with respect to all or any of the series of Securities appointed with respect to all or any series of the Securities by the Trustee pursuant to Section 2.10.

"Bankruptcy Law" means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

"Board of Directors" means the Board of Directors of the Issuer or the Guarantor, as the case may be, or any duly authorized committee of such Board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Issuer or Guarantor, as the case may be, to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification.

"Business Day" means, with respect to any series of Securities, a business day on which banking institutions in the Borough of Manhattan, the City of New York, the City of Detroit, Michigan or Chicago, Illinois are not authorized or required by law, or regulation to close.

"Company" means the Guarantor.

"Corporate Trust Office" means the office of the Trustee at which, at any particular time, its corporate trust business shall be principally administered, which office at the date hereof is located at 611 Woodward Ave., Detroit, Michigan 48226.

"Custodian" means any receiver, trustee, assignee, liquidator, or similar official under any Bankruptcy Law.

"Debt Securities" means the debt securities authenticated and delivered under this Indenture.

"Default" means any event, act or condition that with notice or lapse of time, or both, would constitute an Event of Default.

"Depositary" means, with respect to Securities of any series, for which the Issuer shall determine that all or some part of such Securities will be represented by one or more Global Securities, The Depository Trust Company, New York, New York, another clearing agency, or any successor registered as a clearing agency under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or other applicable statute or regulation, which, in each case, shall be designated by the Issuer pursuant to either Section 2.01 or 2.11.

"Event of Default" means, with respect to Securities of a particular series any event specified in Section 6.01, continued for the period of time, if any, therein designated.

"Global Security" means, with respect to any series of Securities, a Security executed by the Issuer and delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction, all in accordance with the Indenture, which shall be registered in the name of the Depositary or its nominee.

"Guarantee" means the agreement of the Guarantor, in the form set forth in Section 2.12 hereof, to be endorsed on the Debt Securities authenticated and delivered under this Indenture.

"Guarantor" means Panhandle Eastern Pipe Line Company, a corporation duly organized and existing under the laws of the State of Delaware and, subject to the provisions of Article X, shall also include its successors and assigns.

"herein", "hereof" and "hereunder", and other words of similar import, refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into in accordance with the terms hereof.

"Interest Payment Date", when used with respect to any installment of interest on a Debt Security of a particular series, means the date specified in such Debt Security or in a Board Resolution or in an indenture supplemental hereto with respect to such series as the fixed date on which an installment of interest with respect to Debt Securities of that series is due and payable.

"Issuer" means CMS Panhandle Holding Company, a corporation duly organized and existing under the laws of the State of Michigan, and, subject to the provisions of Article X, shall also include its successors and assigns.

"Officers' Certificate" means a certificate signed by one of the Chairman, the President, any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President"), and by the Chief Financial Officer,

Treasurer, any Assistant Treasurer, the Secretary or an Assistant Secretary of the Issuer or the Guarantor, as the case may be, that is delivered to the Trustee in accordance with the terms hereof; provided, that no individual shall be entitled to sign in more than one capacity. Each such certificate shall include the statements provided for in Section 13.07, if and to the extent required by the provisions thereof.

"Opinion of Counsel" means an opinion in writing of legal counsel, who may be an employee of or counsel for the Issuer or the Guarantor, as the case may be, that is delivered to the Trustee in accordance with the terms hereof. Each such opinion shall include the statements provided for in Section 13.07, if and to the extent required by the provisions thereof.

"Outstanding", when used with reference to Debt Securities of any series, means, subject to the provisions of Section 8.04, as of any particular time, all Debt Securities of that series theretofore authenticated and delivered by the Trustee under this Indenture, except (a) Debt Securities theretofore canceled by the Trustee or any paying agent, or delivered to the Trustee or any paying agent for cancellation or that have previously been canceled; (b) Debt Securities or portions thereof for the payment or redemption of which moneys or U.S. Government Obligations in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Issuer) or shall have been set aside and segregated in trust by the Issuer (if the Issuer shall act as its own paying agent); provided, however, that if such Debt Securities or portions of such Debt Securities are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article Three provided, or provision satisfactory to the Trustee shall have been made for giving such notice; and (c) Debt Securities in lieu of or in substitution for which other Debt Securities shall have been authenticated and delivered pursuant to the terms of Section 2.07.

"Person" means any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, other entity, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt and guarantee as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 2.07 in lieu of a lost, destroyed or stolen Security shall be deemed to evidence the same debt as the lost, destroyed or stolen Security.

"Responsible Officer" when used with respect to the Trustee means the Chairman of the Board of Directors of the Trustee, any Vice Chairman of the Board of Directors of the Trustee, the Chairman of the Trust Committee, the Chairman of the Executive Committee, any Vice Chairman of the Executive Committee, the President, any Vice President, the Secretary, the Treasurer, any trust officer, any corporate trust officer or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the Persons who at

the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Securities" means any Debt Securities and any Guarantee endorsed thereon.

"Securityholder", "holder of Securities", "registered holder", or other similar term, means the Person or Persons in whose name or names a particular Security shall be registered on the books of the Issuer kept for that purpose in accordance with the terms of this Indenture.

"Subsidiary" means, with respect to any Person, (i) any corporation at least a majority of whose outstanding Voting Stock shall at the time be owned, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, (ii) any general partnership, joint venture or similar entity, at least a majority of whose outstanding partnership or similar interests shall at the time be owned by such Person, or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries and (iii) any limited partnership of which such Person or any of its Subsidiaries is a general partner.

"Trustee" means NBD Bank, and, subject to the provisions of Article VII, shall also include its successors and assigns, and, if at any time there is more than one Person acting in such capacity hereunder, "Trustee" shall mean each such Person. The term "Trustee" as used with respect to a particular series of the Securities shall mean the trustee with respect to that series.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended, subject to the provisions of Sections 9.01, 9.02, and 10.01, as in effect at the date of execution of this instrument.

"U.S. Government Obligations" means securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America that, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933, as amended) as custodian with respect to any such U.S. Government Obligation or a specific payment of principal of or interest on any such U.S. Government Obligation held by such custodian for the account of the holder of such depositary receipt; provided, however, that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal of or interest on the U.S. Government Obligation evidenced by such depositary receipt.

"Voting Stock", as applied to stock of any Person, means shares, interests, participations or other equivalents in the equity interest (however designated) in such Person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such Person, other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.

## ARTICLE II.

## ISSUE, DESCRIPTION, TERMS, EXECUTION, REGISTRATION AND EXCHANGE OF SECURITIES

SECTION 2.1 Designation and Terms of Securities.

(a) The aggregate principal amount of Debt Securities that may be authenticated and delivered under this Indenture is unlimited. The Debt Securities may be issued in one or more series up to the aggregate principal amount of Debt Securities of that series from time to time authorized by or pursuant to a Board Resolution of the Issuer or pursuant to one or more indentures supplemental hereto. Prior to the initial issuance of Debt Securities of any series, there shall be established in or pursuant to a Board Resolution of the Issuer, and set forth in an Officers' Certificate of the Issuer, or established in one or more indentures supplemental hereto:

(1) the title of the Debt Security of the series (which shall distinguish the Debt Securities of the series from all other Debt Securities);

(2) any limit upon the aggregate principal amount of the Debt Securities of that series that may be authenticated and delivered under this Indenture (except for Debt Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Debt Securities of that series);

(3) the date or dates on which the principal of the Debt Securities of the series is payable;

(4) the rate or rates at which the Debt Securities of the series shall bear interest or the manner of calculation of such rate or rates, if any;

(5) the date or dates from which such interest shall accrue, the Interest Payment Dates on which such interest will be payable or the manner of determination of such Interest Payment Dates and the record date for the determination of holders to whom interest is payable on any such Interest Payment Dates;

(6) the right, if any, to extend the interest payment periods and the duration of such extension;

(7) the period or periods within which, the price or prices at which and the terms and conditions upon which, Debt Securities of the series may be redeemed, in whole or in part, at the option of the Issuer;

(8) the obligation, if any, of the Issuer to redeem or purchase Debt Securities of the series pursuant to any sinking fund or analogous provisions (including payments made in cash in participation of future sinking fund obligations) or at the option of a holder thereof and the period or periods within which, the price or prices at which, and the terms and conditions upon which, Debt Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(9) the subordination terms of the Debt Securities of the series, if any;

(10) the form of the Debt Securities of the series including the form of the Certificate of Authentication for such series;

(11) if other than denominations of one thousand U.S. dollars ($1,000) or any integral multiple thereof, the denominations in which the Debt Securities of the series shall be issuable;

(12) any and all other terms with respect to such series (which terms shall not be inconsistent with the terms of this Indenture) including any terms which may be required by or advisable under United States laws or regulations or advisable in connection with the marketing of Debt Securities of that series;

(13) whether all or some part of the Debt Securities can be represented by one or more Global Securities and, in such case, the identity for the Depositary for such series;

(14) whether the Debt Securities will be convertible into shares of common stock or other securities of the Issuer and, if so, the terms and conditions upon which such Debt Securities will be so convertible, including the conversion price and the conversion period;

(15) if other than the principal amount thereof, the portion of the principal amount of Debt Securities of the series which shall be payable upon declaration of acceleration of the maturity thereof pursuant to Section 6.01;

(16) any additional or different Events of Default or restrictive covenants provided for with respect to the Debt Securities of the series;

(17) whether the Debt Securities will vote as a class with one or more series of Outstanding Securities under the Indenture, for purposes of Sections 6.06(b) and 9.02 hereof;

(18) any provisions granting special rights to holders when a specified event occurs; and

(19) any special tax implications of the notes, including provisions for original issue discount securities, if offered.

All Debt Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to any such Board Resolution or in any indentures supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution of the Issuer, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Issuer and delivered to the Trustee at or prior to the delivery of the Officers' Certificate of the Issuer setting forth the terms of the series.

Debt Securities of any particular series may be issued at various times, with different dates on which the principal or any installment of principal is payable, with different rates of interest, if any, or different methods by which rates of interest may be determined, with different dates on which such interest may be payable and with different redemption dates.

(b) Prior to the issuance of any of the Guarantees, the exact form and terms of such Guarantees, which shall comply with the terms of Section 2.12 hereof and contain such additional terms as are permitted by this Indenture, shall be established by an Officers' Certificate of the Guarantor or in an indenture supplemental hereto.

SECTION 2.2 Form of Securities and Trustee's Certificate.

The Securities of any series and the Trustee's certificate of authentication to be borne by such Securities shall be substantially of the tenor and purport as set forth in one or more indentures supplemental hereto or as provided in a Board Resolution of the Issuer and as set forth in an Officers' Certificate of the Issuer and the Guarantor, and may have such letters, numbers or other marks of identification or designation and such legends or endorsements printed, lithographed or engraved thereon as the Issuer may deem appropriate and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which Securities of that series may be listed, or to conform to usage.

SECTION 2.3 Denominations: Provisions for Payment.

The Securities shall be issuable as registered Securities and in the denominations of one thousand U.S. dollars ($1,000) or any integral multiple thereof, subject to Section 2.01(10). The Securities of a particular series shall bear interest payable on the dates and at the rate specified with respect to that series. The principal of and the interest on the Securities of any series, as well as any premium thereon in case of redemption thereof prior to maturity, shall be payable in the coin or currency of the United States of America that at the time is legal tender for public and private debt, at the office or agency of the Issuer maintained for that purpose in the Borough of Manhattan, the City and State of New York. Each Security shall be dated the date of its authentication. Interest on the Securities shall be computed on the basis of a 360-day year composed of twelve 30-day months.

The interest installment on any Security that is payable, and is punctually paid or duly provided for, on any Interest Payment Date for Securities of that series shall be paid to the Person in whose name said Security (or one or more Predecessor Securities) is registered at the close of business on the regular record date for such interest installment. In the event that any Security of a particular series or portion thereof is called for redemption and the redemption date is subsequent to a regular record date with respect to any Interest Payment Date and prior to such Interest Payment Date, interest on such Security will be paid upon presentation and surrender of such Security as provided in Section 3.03.

Any interest on any Security that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date for Securities of the same series (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered holder on the relevant regular record date by virtue of having been such holder; and such Defaulted Interest shall be paid by the Issuer, at its election, as provided in clause (1) or clause (2) below:

(1) The Issuer may make payment of any Defaulted Interest on Securities to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Issuer shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Security and the date of the proposed payment, and at the same time the Issuer shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record date for the payment of such Defaulted Interest which shall not be more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Issuer of such special record date and, in the name and at the expense of the

Issuer, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Securityholder at his or her address as it appears in the Security Register (as hereinafter defined), not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered on such special record date and shall be no longer payable pursuant to the following clause (2).

(2) The Issuer may make payment of any Defaulted Interest on any Securities in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Issuer to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Unless otherwise set forth in a Board Resolution of the Issuer or one or more indentures supplemental hereto establishing the terms of any series of Securities pursuant to Section 2.01 hereof, the term "regular record date" as used in this Section with respect to a series of Securities with respect to any Interest Payment Date for such series shall mean either the fifteenth day of the month immediately preceding the month in which an Interest Payment Date established for such series pursuant to Section 2.01 hereof shall occur, if such Interest Payment Date is the first day of a month, or the last day of the month immediately preceding the month in which an Interest Payment Date established for such series pursuant to Section 2.01 hereof shall occur, if such Interest Payment Date is the fifteenth day of a month, whether or not such date is a Business Day.

Subject to the foregoing provisions of this Section, each Security of a series delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Security of such series shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Security.

SECTION 2.4 Execution and Authentications.

The Debt Securities shall be signed on behalf of the Issuer by, and any Guarantees endorsed thereon shall be signed on behalf of the Guarantor by, its Chairman, its President, any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President"), its Treasurer, or an Assistant Treasurer, and attested by the Secretary or an Assistant Secretary. Signatures may be in the form of a manual or facsimile signature. The Issuer and the Guarantor may use the facsimile signature of any Person who shall have been a Chairman, President, Vice President, Treasurer, Assistant Treasurer, Secretary or Assistant Secretary thereof, notwithstanding the fact that at the time the Securities shall be authenticated and delivered or disposed of such Person shall have ceased to be the Chairman,

President, Vice President, Treasurer, Assistant Treasurer, Secretary or Assistant Secretary, of the Issuer or the Guarantor, as the case may be. The Securities may contain such notations, legends or endorsements required by law, stock exchange rule or usage. Each Security shall be dated the date of its authentication by the Trustee.

A Security shall not be valid until authenticated manually by an authorized signatory of the Trustee, or by an Authenticating Agent. Such signature shall be conclusive evidence that the Security so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Securities of any series executed by the Issuer and the Guarantor to the Trustee for authentication, together with a written order of the Issuer for the authentication and delivery of such Securities, signed by its Chairman, President or any Vice President and its Secretary or any Assistant Secretary, and the Trustee in accordance with such written order shall authenticate and deliver such Securities.

In authenticating such Securities and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Opinion of Counsel stating that the form and terms thereof have been established in conformity with the provisions of this Indenture.

The Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner that is not reasonably acceptable to the Trustee.

SECTION 2.5 Registration of Transfer and Exchange.

(a) Securities of any series may be exchanged upon presentation thereof at the office or agency of the Issuer designated for such purpose in the Borough of Manhattan, the City and State of New York, for other Securities of such series of authorized denominations, and for a like aggregate principal amount, upon payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, all as provided in this Section. In respect of any Securities so surrendered for exchange, the Issuer shall execute, the Trustee shall authenticate and such office or agency shall deliver in exchange therefor the Security or Securities of the same series that the Securityholder making the exchange shall be entitled to receive, bearing numbers not contemporaneously outstanding.

(b) The Issuer shall keep, or cause to be kept, at its office or agency designated for such purpose in the Borough of Manhattan, the City and State of New York, or such other location designated by the Issuer a register or registers (herein referred to as the

"Security Register") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall register the Securities and the transfers of Securities as in this Article provided and which at all reasonable times shall be open for inspection by the Trustee. The registrar for the purpose of registering Securities and transfer of Securities as herein provided shall be appointed as authorized by Board Resolution (the "Security Registrar").

Upon surrender for transfer of any Security at the office or agency of the Issuer designated for such purpose, the Issuer shall execute, the Trustee shall authenticate and such office or agency shall deliver in the name of the transferee or transferees a new Security or Securities of the same series as the Security presented for a like aggregate principal amount.

All Securities presented or surrendered for exchange or registration of transfer, as provided in this Section, shall be accompanied (if so required by the Issuer or the Security Registrar) by a written instrument or instruments of transfer, in form satisfactory to the Issuer or the Security Registrar, duly executed by the registered holder or by such holder's duly authorized attorney in writing.

(c) No service charge shall be made for any exchange or registration of transfer of Securities, or issue of new Securities in case of partial redemption of any series, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, other than exchanges pursuant to Section 2.06, the second paragraph of Section 3.03 and Section 9.04 not involving any transfer.

(d) The Issuer shall not be required (i) to issue, exchange or register the transfer of any Securities during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of less than all the Outstanding Securities of the same series and ending at the close of business on the day of such mailing, nor (ii) to register the transfer of or exchange any Securities of any series or portions thereof called for redemption. The provisions of this Section 2.05 are, with respect to any Global Security, subject to Section 2.11 hereof.

SECTION 2.6 Temporary Securities.

Pending the preparation of definitive Securities of any series, the Issuer and the Guarantor may execute, and the Trustee shall authenticate and deliver, temporary Securities (printed, lithographed or typewritten) of any authorized denomination. Such temporary Securities shall be substantially in the form of the definitive Securities in lieu of which they are issued, but with such omissions, insertions and variations as may be appropriate for temporary Securities, all as may be determined by the Issuer. Every temporary Security of any series shall be executed by the Issuer and, if applicable, the Guarantor, and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with like effect, as the definitive Securities of such series. Without unnecessary delay the Issuer and, if applicable, the Guarantor, will execute and will furnish definitive Securities of such series and thereupon any or

all temporary Securities of such series may be surrendered in exchange therefor (without charge to the holders), at the office or agency of the Issuer designated for the purpose in the Borough of Manhattan, the City and State of New York, and the Trustee shall authenticate and such office or agency shall deliver in exchange for such temporary Securities an equal aggregate principal amount of definitive Securities of such series, unless the Issuer advises the Trustee to the effect that definitive Securities need not be executed and furnished until further notice from the Issuer. Until so exchanged, the temporary Securities of such series shall be entitled to the same benefits under this Indenture as definitive Securities of such series authenticated and delivered hereunder.

SECTION 2.7 Mutilated, Destroyed, Lost or Stolen Securities.

In case any temporary or definitive Security shall become mutilated or be destroyed, lost or stolen, the Issuer and, if applicable, the Guarantor (subject to the next succeeding sentence) shall execute, and upon the Issuer's request the Trustee (subject as aforesaid) shall authenticate and deliver, a new Security of the same series, bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated Security, or in lieu of and in substitution for the Security so destroyed, lost or stolen. In every case the applicant for a substituted Security shall furnish to the Issuer, the Guarantor (if applicable) and the Trustee such security or indemnity as may be required by them to save each of them harmless, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Issuer, the Guarantor (if applicable) and the Trustee evidence to their satisfaction of the destruction, loss or theft of the applicant's Security and of the ownership thereof. The Trustee may authenticate any such substituted Security and deliver the same upon the written request or authorization of any officer of the Issuer. Upon the issuance of any substituted Security, the Issuer may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith. In case any Security that has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Issuer may, instead of issuing a substitute Security, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Security) if the applicant for such payment shall furnish to the Issuer, the Guarantor (if applicable) and the Trustee such security or indemnity as they may require to save them harmless, and, in case of destruction, loss or theft, evidence to the satisfaction of the Issuer, the Guarantor (if applicable) and the Trustee of the destruction, loss or theft of such Security and of the ownership thereof.

Every replacement Security issued pursuant to the provisions of this Section shall constitute an additional contractual obligation of the Issuer or the Guarantor, as the case may be, whether or not the mutilated, destroyed, lost or stolen Security shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of the same series duly issued hereunder. All Securities shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities, and shall preclude (to the extent lawful) any and all other rights or remedies,

notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.8 Cancellation.

All Securities surrendered for the purpose of payment, redemption, exchange or registration of transfer shall, if surrendered to the Issuer, the Guarantor or any paying agent, be delivered to the Trustee for cancellation, or, if surrendered to the Trustee, shall be cancelled by it, and no Securities shall be issued in lieu thereof except as expressly required or permitted by any of the provisions of this Indenture. On request of the Issuer at the time of such surrender, the Trustee shall deliver to the Issuer canceled Securities held by the Trustee. In the absence of such request the Trustee may dispose of canceled Securities in accordance with its standard procedures and deliver a certificate of disposition to the Issuer. If the Issuer or the Guarantor shall otherwise acquire any of the Securities, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are delivered to the Trustee for cancellation.

SECTION 2.9 Benefits of Indenture.

Nothing in this Indenture or in the Securities, express or implied, shall give or be construed to give to any Person, other than the parties hereto and the holders of the Securities any legal or equitable right, remedy or claim under or in respect of this Indenture, or under any covenant, condition or provision herein contained; all such covenants, conditions and provisions being for the sole benefit of the parties hereto and of the holders of the Securities.

SECTION 2.10 Authenticating Agent.

So long as any of the Securities of any series remain Outstanding there may be an Authenticating Agent for any or all such series of Securities which the Trustee shall have the right to appoint. Said Authenticating Agent shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon exchange, transfer or partial redemption thereof, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. All references in this Indenture to the authentication of Securities by the Trustee shall be deemed to include authentication by an Authenticating Agent for such series. Each Authenticating Agent shall be acceptable to the Issuer and shall be a corporation that has a combined capital and surplus, as most recently reported or determined by it, sufficient under the laws of any jurisdiction under which it is organized or in which it is doing business to conduct a trust business, and that is otherwise authorized under such laws to conduct such business and is subject to supervision or examination by Federal or State authorities. If at any time any Authenticating Agent shall cease to be eligible in accordance with these provisions, it shall resign immediately.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Issuer. The Trustee may at any time (and upon request by the Issuer shall) terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Issuer. Upon resignation, termination or cessation of eligibility of any Authenticating Agent, the Trustee may appoint an eligible successor Authenticating Agent acceptable to the Issuer. Any successor Authenticating Agent, upon acceptance of its appointment hereunder, shall become vested with all the rights, powers and duties of its predecessor hereunder as if originally named as an Authenticating Agent pursuant hereto.

SECTION 2.11 Global Securities.

(a) If the Issuer shall establish pursuant to Section 2.01 that all or some part of the Securities of a particular series can be represented by one or more Global Securities, then the Issuer shall execute and the Trustee shall, in accordance with Section 2.04, authenticate and deliver, Global Securities that (i) shall represent, and shall be denominated in an amount equal to the aggregate principal amount of, such Securities of such series, (ii) shall be registered in the name of the Depositary or its nominee, (iii) shall be delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction and (iv) shall bear a legend substantially to the following effect: "Except as otherwise provided in Section 2.11 of the Indenture, this Security may be transferred, in whole but not in part, only to another nominee of the Depositary or to a successor Depositary or to a nominee of such successor Depositary."

(b) Notwithstanding the provisions of Section 2.05, a Global Security of a series may be transferred, in whole but not in part and in the manner provided in Section 2.05, only to another nominee of the Depositary for such series, or to a successor Depositary for such series selected or approved by the Issuer or to a nominee of such successor Depositary.

(c) If at any time the Depositary for a series of the Securities notifies the Issuer that it is unwilling or unable to continue as Depositary for such series or if at any time the Depositary for such series shall no longer be registered or in good standing under the Exchange Act, or other applicable statute or regulation, and a successor Depositary for such series is not appointed by the Issuer within 90 days after the Issuer receives such notice or becomes aware of such condition, as the case may be, this Section 2.11 shall no longer be applicable to the Securities of such series and the Issuer will execute, and subject to Section 2.05, the Trustee will authenticate and deliver Securities of such series which has been represented by Global Securities in definitive registered form without coupons, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Securities of such series in exchange for such Global Securities. In addition, the Issuer may at any time determine that the Securities of any series shall no longer be represented by Global Securities and that the provisions of this Section 2.11 shall no longer apply to the Securities of such series. In such event the Issuer and the Guarantor will execute and subject to Section 2.05, the Trustee, upon receipt of an Officers' Certificate evidencing such determination by the Issuer, will authenticate

and deliver the Securities of such series in definitive registered form without coupons, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Securities of such series in exchange for such Global Securities. Upon the exchange of the Global Securities for such Securities in definitive registered form without coupons, in authorized denominations, the Global Securities shall be canceled by the Trustee. An entire Global Note may be exchanged for certificated notes if there shall have occurred and be continuing a Default or an Event of Default. Such Securities in definitive registered form issued in exchange for the Global Securities pursuant to this Section 2.11(c) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Securities to the Depositary for delivery to the Persons in whose names such Securities are so registered.

SECTION 2.12 Unconditional Guarantees.

(FORM OF GUARANTEE)

FOR VALUE RECEIVED, the Guarantor, hereby irrevocably and unconditionally guarantees to the registered holder of this Debt Security upon which this Guarantee is endorsed that: (i) principal of, premium, if any, interest and any other payments on said security will be promptly paid in full when due, subject to any applicable grace period, whether on the stated maturity, on an interest payment date, by acceleration, by call for redemption, upon repurchase or purchase pursuant to the Indenture referred to therein or otherwise, and interest on the overdue principal and premium, if any, and interest on any interest or any other payment, to the extent lawful (in each case including interest accruing on or after filing of any petition in bankruptcy or reorganization relating to the Issuer or the Guarantor, whether or not a claim for post-filing interest is allowed in each proceeding) and all other obligations of the Issuer to the registered holder of this Debt Security under this Debt Security or the Indenture will be promptly paid in full when due or performed, all in accordance with the terms hereof and thereof; and (ii) in case of any extension of time of payment or renewal of said Debt Security or of any such other obligations, the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, subject to any applicable grace period, whether at maturity, on an interest payment date, by acceleration, required repurchase or otherwise.

The Guarantor hereby agrees that its obligations hereunder shall be as if it were principal debtor and not merely surety, and shall be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of this Debt Security or the Indenture, any failure to enforce the provisions of this Debt Security or the Indenture, any waiver, modification or indulgence granted to the Issuer with respect thereto by the holders of this Debt Security or the Trustee, or any other circumstance which may otherwise constitute a legal discharge of a surety or guarantor; provided that, notwithstanding the foregoing, no such waiver, modification, indulgence or circumstance shall without the written consent to the Guarantor increase the principal amount of this Debt Security or the interest rate thereon or

change the currency of payment with respect to this Debt Security, or alter the stated maturity thereof. The Guarantor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of the Issuer, to require that the Trustee pursue or exhaust its legal or equitable remedies against the Issuer prior to exercising its rights under the Guarantee (including, for the avoidance of doubt, any right which the Guarantor may have to require the seizure and sale of the assets of the Issuer to satisfy the outstanding principal of, interest on or any other amount payable under this Debt Security prior to recourse against the Guarantor or its assets), protest or notice with respect to this Debt Security or the indebtedness evidenced thereby and all demands whatsoever, and covenants that, except as otherwise set forth below and in the Indenture, the Guarantee of the Guarantor will not be discharged with respect to this Debt Security except by payment in full of the principal thereof, premium, if any, any interest thereon and all other amounts payable thereunder. If at any time while this Guarantee remains in effect any payment of principal of and interest on this Debt Security is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Issuer, the Guarantor's obligations hereunder with respect to such payment shall be reinstated as of the date of such rescission, restoration or return as though such a payment had become due but had not been made at such times.

This Guarantee is dated the date of the Debt Security upon which it is endorsed.

If for any reason this Guarantee shall be deemed to be unenforceable, the Guarantor hereby irrevocably and unconditionally agrees as a primary obligor to indemnify fully the registered holder of this Debt Security upon which this Guarantee is endorsed for and against any amounts owed by the Issuer in respect of this Debt Security and the Indenture that otherwise would be payable under this Guarantee.

The Guarantor shall be subrogated to all rights of the holder of said Security against the Issuer in respect of any amounts paid by the Guarantor pursuant to the provisions of this Guarantee; provided, however, that the Guarantor shall not, without the consent of the holders of all of the Securities then outstanding, be entitled to enforce or to receive any payments arising out of or based upon such right of subrogation until the principal of and premium, if any, and interest on all Securities shall have been paid in full or payment thereof shall have been provided for in accordance with said Indenture.

Notwithstanding anything to the contrary contained herein, if following any payment of principal or interest by the Issuer on the Securities to the holders of the Securities it is determined by a final decision of a court of competent jurisdiction that such payment shall be avoided by a trustee in bankruptcy (including any debtor-in-possession) as a preference under 11 U.S.C. Section 547 and such payment is paid by such holder to such trustee in bankruptcy, then and to the extent of such repayment, the obligations of the Guarantor hereunder shall remain in full force and effect.

Notwithstanding anything to the contrary contained herein, upon consummation of the Merger, the Company will assume all of the Issuer's obligations on this Debt Security and under the Indenture, and the Company will be automatically and unconditionally released and discharged from its obligations under this Guarantee.

This Guarantee shall not be valid or become obligatory for any purpose with respect to a Security until the certificate of authentication on such Security shall have been signed by the Trustee (or the Authentication Agent).

This Guarantee shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, Panhandle Eastern Pipe Line Company has caused this Guarantee to be signed in its corporate name by the facsimile signature of two of its officers thereunto duly authorized.

SECTION 2.13 Execution of Guarantee.

To evidence the Guarantee to the Securityholders specified in Section 2.12, the Guarantor hereby agrees to execute the Guarantees, in substantially the form above recited, to be endorsed on each Security authenticated and delivered by the Trustee (or the Authenticating Agent) which is to be guaranteed by the Guarantor. Each such Guarantee shall be signed on behalf of the Guarantor as set forth in Section 2.04 prior to the authentication of the Security on which it is endorsed, and the delivery of such Security by the Trustee (or the Authenticating Agent), after the authentication thereof hereunder, shall constitute due delivery of such Guarantee on behalf of the Guarantor.

SECTION 2.14 Consummation of the Merger; Assumption by the Company; Release of the Guarantees.

(a) Upon consummation of the Merger, each of the Issuer, the Company and the Trustee hereby agrees that the Company shall immediately, automatically and unconditionally assume, and the Company hereby agrees promptly to pay, perform and discharge when due, each and every debt, obligation, covenant and agreement incurred, made or to be paid, performed or discharged by the Issuer under the Indenture and the Securities issued thereunder. The Company hereby agrees to be bound by all the terms, provisions and conditions of the Indenture and the Securities and each of the Issuer, the Company and the Trustee hereby agrees that the Company shall be the successor and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer, as the predecessor company, under the Indenture and the Securities, and that thereafter the Issuer shall be relieved of all obligations and covenants under this Indenture and the Securities. The Company shall not be required to execute a supplemental indenture to effect the provisions of this Section 2.14(a).

(b) Upon consummation of the Merger, the Company shall be automatically and unconditionally released from its obligations under any and all Guarantees and thereafter shall issue no more Guarantees.

ARTICLE III.

REDEMPTION OF DEBT SECURITIES AND SINKING FUND PROVISIONS

SECTION 3.1 Redemption.

The Issuer may redeem the Debt Securities of any series issued hereunder on and after the dates and in accordance with the terms established for such series pursuant to Section 2.01 hereof.

SECTION 3.2 Notice of Redemption.

(a) In case the Issuer shall desire to exercise such right to redeem all or, as the case may be, a portion of the Debt Securities of any series in accordance with the right reserved so to do, the Issuer shall, or shall cause the Trustee to, give notice of such redemption to holders of the Debt Securities of such series to be redeemed by mailing, first class postage prepaid, a notice of such redemption not less than 30 days and not more than 90 days (or fewer than 90 days if so established by the terms of such series of Debt Securities pursuant to Section 2.01) before the date fixed for redemption of that series to such holders at their last addresses as they shall appear upon the Security Register unless a shorter period is specified in the Debt Securities to be redeemed. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the registered holder receives the notice. In any case, failure duly to give such notice to the holder of any Security of any series designated for redemption in whole or in part, or any defect in the notice, shall not affect the validity of the proceedings for the redemption of any other Debt Securities of such series or any other series. In the case of any redemption of Debt Securities prior to the expiration of any restriction on such redemption provided in the terms of such Debt Securities or elsewhere in this Indenture, the Issuer shall furnish the Trustee with an Officers' Certificate evidencing compliance with any such restriction.

Each such notice of redemption shall specify the date fixed for redemption and the redemption price at which Debt Securities of that series are to be redeemed, and shall state that payment of the redemption price of such Debt Securities to be redeemed will be made at the office or agency of the Issuer in the Borough of Manhattan, the City and State of New York, upon presentation and surrender of such Debt Securities, that interest accrued to the date fixed for redemption will be paid as specified in said notice, that from and after said date interest will cease to accrue and that the redemption is for a sinking fund, if such is the case. If less than all the Debt Securities of a series are to be redeemed, the notice to the holders of Debt Securities of

that series to be redeemed in whole or in part shall specify the particular Debt Securities to be so redeemed. In case any Security is to be redeemed in part only, the notice that relates to such Security shall state the portion of the principal amount thereof to be redeemed, and shall state that on and after the redemption date, upon surrender of such Security, a new Security of such series in principal amount equal to the unredeemed portion thereof will be issued.

(b) If less than all the Debt Securities of a series are to be redeemed, the Issuer shall give the Trustee at least 45 days' notice in advance of the date fixed for redemption as to the aggregate principal amount of Debt Securities of the series to be redeemed, and thereupon the Trustee shall select, by lot or in such other manner as it shall deem appropriate and fair in its discretion and that may provide for the selection of a portion or portions (equal to one thousand U.S. dollars ($1,000) or any integral multiple thereof) of the principal amount of such Debt Securities of a denomination larger than $1,000, the Debt Securities to be redeemed and shall thereafter promptly notify the Issuer in writing of the numbers of the Debt Securities to be redeemed, in whole or in part.

The Issuer may, if and whenever it shall so elect, by delivery of instructions signed on its behalf by its Chairman, President or any Vice President, instruct the Trustee or any paying agent to call all or any part of the Debt Securities of a particular series for redemption and to give notice of redemption in the manner set forth in this Section, such notice to be in the name of the Issuer or its own name as the Trustee or such paying agent may deem advisable. In any case in which notice of redemption is to be given by the Trustee or any such paying agent, the Issuer shall deliver or cause to be delivered to, or permit to remain with, the Trustee or such paying agent, as the case may be, such Security Register, transfer books or other records, or suitable copies or extracts therefrom, sufficient to enable the Trustee or such paying agent to give any notice by mail that may be required under the provisions of this Section.

SECTION 3.3 Payment Upon Redemption.

(a) If the giving of notice of redemption shall have been completed as above provided, the Debt Securities or portions of Debt Securities of the series to be redeemed specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption and interest on such Debt Securities or portions of Debt Securities shall cease to accrue on and after the date fixed for redemption, unless (i) the Issuer shall default in the payment of such redemption price and accrued interest with respect to any such Security or portion thereof, or (ii) such notice shall specifically state that the redemption is conditional upon the deposit with the Trustee, on or before the date fixed for redemption, of moneys in an amount necessary to effect such redemption, and such moneys are not so deposited. On presentation and surrender of such Debt Securities on or after the date fixed for redemption at the place of payment specified in the notice, said Debt Securities shall be paid and redeemed at the applicable redemption price for such series, together with interest accrued thereon to the date fixed for redemption (but if the date fixed for redemption is an interest payment date, the interest installment payable on such date

shall be payable to the registered holder at the close of business on the applicable record date pursuant to Section 2.03).

(b) Upon presentation of any Security of such series that is to be redeemed in part only, the Issuer shall execute and the Trustee shall authenticate and the office or agency where the Security is presented shall deliver to the holder thereof, at the expense of the Issuer, a new Security of the same series, of authorized denominations in principal amount equal to the unredeemed portion of the Security so presented.

SECTION 3.4 Sinking Fund.

The provisions of Sections 3.04, 3.05 and 3.06 shall be applicable to any sinking fund for the retirement of Debt Securities of a series, except as otherwise specified as contemplated by Section 2.01 for Debt Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Debt Securities of any series is herein referred to as a "mandatory sinking fund payment," and any payment in excess of such minimum amount provided for by the terms of Debt Securities of any series is herein referred to as an "optional sinking fund payment". If provided for by the terms of Debt Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 3.05. Each sinking fund payment shall be applied to the redemption of Debt Securities of any series as provided for by the terms of Debt Securities of such series.

SECTION 3.5 Satisfaction of Sinking Fund Payments with Debt Securities.

The Issuer (i) may deliver Outstanding Debt Securities of a series (other than any Debt Securities previously called for redemption) and (ii) may apply as a credit Debt Securities of a series that have been redeemed either at the election of the Issuer pursuant to the terms of such Debt Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Debt Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Debt Securities of such series required to be made pursuant to the terms of such Debt Securities as provided for by the terms of such series, provided that such Debt Securities have not been previously so credited. Such Debt Securities shall be received and credited for such purpose by the Trustee at the redemption price specified in such Debt Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 3.6 Redemption of Debt Securities for Sinking Fund.

Not less than 45 days prior to each sinking fund payment date for any series of Debt Securities, the Issuer will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of the

series, the portion thereof, if any, that is to be satisfied by delivering and crediting Debt Securities of that series pursuant to Section 3.05 and the basis for such credit and will, together with such Officers' Certificate, deliver to the Trustee any Debt Securities to be so delivered. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Debt Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 3.02 and cause notice of the redemption thereof to be given in the name of and at the expense of the Issuer in the manner provided in Section 3.02. Such notice having been duly given, the redemption of such Debt Securities shall be made upon the terms and in the manner stated in Section 3.03.

ARTICLE IV.

CERTAIN COVENANTS

SECTION 4.1 Payment of Principal, Premium and Interest.

So long as any series of the Securities remain Outstanding, the Issuer will duly and punctually pay or cause to be paid the principal of (and premium, if any) and interest on the Debt Securities of that series at the time and place and in the manner provided herein and established with respect to such Debt Securities.

SECTION 4.2 Maintenance of Office or Agency.

So long as any series of the Securities remain Outstanding, the Issuer agrees to maintain an office or agency in the Borough of Manhattan, the City and State of New York, with respect to each such series and at such other location or locations as may be designated as provided in this Section 4.02, where (i) Securities of that series may be presented for payment, (ii) Securities of that series may be presented as hereinabove authorized for registration of transfer and exchange, and (iii) notices and demands to or upon the Issuer in respect of the Securities of that series and this Indenture may be given or served, such designation to continue with respect to such office or agency until the Issuer shall, by written notice signed by its Chairman, President or a Vice President and delivered to the trustee, designate some other office or agency for such purposes or any of them. If at any time the Issuer shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Issuer hereby appoints the Trustee as its agent to receive all such presentations, notices and demands.

SECTION 4.3 Paying Agents.

(a) So long as any series of the Securities remain Outstanding, if the Issuer shall appoint one or more paying agents for all or any series of the Securities, other than the

Trustee, the Issuer will cause each such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section:

(1) that it will hold all sums held by it as such agent for the payment of the principal of (and premium, if any) or interest on the Securities of that series (whether such sums have been paid to it by the Issuer or by any other obligor of such Securities) in trust for the benefit of the Persons entitled thereto;

(2) that it will give the Trustee notice of any failure by the Issuer (or by any other obligor of such Securities) to make any payment of the principal of (and premium, if any) or interest on the Securities of that series when the same shall be due and payable;

(3) that it will, at any time during the continuance of any failure referred to in the preceding paragraph (a)(2) above, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such paying agent; and

(4) that it will perform all other duties of paying agent as set forth in this Indenture.

(b) If the Issuer shall act as its own paying agent with respect to any series of the Securities, it will on or before each due date of the principal of (and premium, if any) or interest on Securities of that series, set aside, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay such principal (and premium, if any) or interest so becoming due on Securities of that series until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of such action, or any failure (by it or any other obligor on such Securities) to take such action. Whenever the Issuer shall have one or more paying agents for any series of Securities, it will, prior to each due date of the principal of (and premium, if any) or interest on any Securities of that series, deposit with the paying agent a sum sufficient to pay the principal (an premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such paying agent is the Trustee) the Issuer will promptly notify the Trustee of this action or failure so to act.

(c) Notwithstanding anything in this Section to the contrary, (i) the agreement to hold sums in trust as provided in this Section is subject to the provisions of Section 11.05, and (ii) the Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or direct any paying agent to pay, to the Trustee all sums held in trust by the Issuer or such paying agent, such sums to be held by the Trustee upon the same terms and conditions as those upon which such sums were held by the Issuer or such paying agent; and, upon such payment by any paying agent to the Trustee, such paying agent shall be released from all further liability with respect to such money.

SECTION 4.4 Appointment to Fill Vacancy in Office of Trustee.

The Issuer, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 4.5 Compliance with Consolidation Provisions.

(a) Prior to the consummation of the Merger, other than the Merger, the Issuer shall not consolidate with or merge into, or convey, transfer or lease its assets substantially as an entirety to any other Person or Persons.

(b) The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(1) the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and any premium and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Company or a Subsidiary as a result of such transaction as having been incurred by the Company or such Subsidiary at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(3) if, as a result of any such consolidation or merger or such conveyance, transfer or lease, properties or assets of the Company would become subject to a mortgage, pledge, lien, security interest or other encumbrance which would not be permitted by this Indenture, the Company or such successor Person, as the case may be, shall take such steps as shall be necessary effectively to secure the Securities equally and ratably with (or prior to) all indebtedness secured thereby; and

(4) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

(c) Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 4.05(b), the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

SECTION 4.6 Statements Regarding Default.

Each of the Issuer and the Guarantor will deliver to the Trustee, within 120 days after the end of each fiscal year of the Issuer or the Guarantor, as the case may be, ending after the date hereof, a brief certificate from the principal executive officer, principal financial officer or principal accounting officer as to his or her knowledge of the compliance by the Issuer or Guarantor, as the case may be, with all conditions and covenants under this Indenture. For purposes of this Section 4.06, such compliance shall be determined without regard to any period of grace or requirement of notice under this Indenture.

## ARTICLE V.

## SECURITYHOLDERS' LISTS AND REPORTS BY THE ISSUER AND THE TRUSTEE

SECTION 5.1 Issuer to Furnish Trustee Names and Addresses of Securityholders.

The Issuer will furnish or cause to be furnished to the Trustee (a) on a monthly basis on each regular record date (as defined in Section 2.03) a list, in such form as the Trustee may reasonably require, of the names and addresses of the holders of each series of Securities as of such regular record date, provided that the Issuer shall not be obligated to furnish or cause to furnish such list at any time that the list shall not differ in any respect from the most recent list furnished to the Trustee by the Issuer and (b) at such other times as the Trustee may request in writing within 30 days after the receipt by the Issuer of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished; provided, however, that, in either case, no such list need be furnished for any series for which the Trustee shall be the Security Registrar.

SECTION 5.2 Preservation of Information; Communications With Securityholders.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Securities contained in the most recent list furnished to it as provided in Section 5.01 and as to the names and addresses of holders of Securities received by the Trustee in its capacity as Security Registrar (if acting in such capacity).

(b) The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

(c) Securityholders may communicate as provided in Section 312(b) of the Trust Indenture Act with other Securityholders with respect to their rights under this Indenture or under the Securities.

SECTION 5.3 Reports by the Guarantor.

(a) The Guarantor covenants and agrees to file with the Trustee, within 30 days after the Guarantor is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) that the Guarantor may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Exchange Act; or, if the Guarantor is not required to file information, documents or reports pursuant to either of such sections, then to file with the Trustee and the Commission, in accordance with the rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports that may be required pursuant to Section 13 of the Exchange Act, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations.

(b) The Guarantor covenants and agrees to file with the Trustee and the Commission, in accordance with the rules and regulations prescribed from to time by the Commission, such additional information, documents and reports with respect to compliance by the Guarantor and the Issuer with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations.

(c) The Guarantor covenants and agrees to transmit by mail, first class postage prepaid, or reputable over-night delivery service that provides for evidence of receipt, to the Securityholders, as their names and addresses appear upon the Security Register, within 30 days after the filing thereof with the Trustee, such summaries of any information, documents and reports required to be filed by the Guarantor pursuant to subsections (a) and (b) of this Section as may be required by rules and regulations prescribed from time to time by the Commission.

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SECTION 5.4 Reports by the Trustee.

(a) On or before July 15 in each year in which any of the Securities are Outstanding, the Trustee shall transmit by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register, a brief report dated as of the preceding May 15, if and to the extent required under Section 313(a) of the Trust Indenture Act.

(b) The Trustee shall comply with Section 313(b) and 313(c) of the Trust Indenture Act.

(c) A copy of each such report shall, at the time of such transmission to Securityholders, be filed by the Trustee with the Issuer, with each stock exchange upon which any Securities are listed (if so listed) and also with the Commission. The Issuer agrees to notify the Trustee when any Securities become listed on any stock exchange.

## ARTICLE VI.

## REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS ON EVENT OF DEFAULT

SECTION 6.1 Events of Default.

(a) "Event of Default," wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order, rule or regulation of any administrative or governmental body), unless it is either inapplicable to a particular series of Securities or it is specifically deleted or modified in or pursuant to the terms of such series or in the form of Security of such series:

(1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 60 days; or

(2) default in the payment of the principal of (or premium, if any, on) any Security of that series at its maturity; or

(3) default in the performance, or breach, of any term, covenant or warranty of the Issuer or the Company in this Indenture (other than a term, covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of

series of Securities other than that series), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Issuer or the Company by the Trustee or to the Issuer or the Company and the Trustee by the holders of at least 33% in principal amount of the Outstanding Securities of all series outstanding (or, if any such term, covenant or warranty is not applicable to all series of Securities, by the holders of at least 33% in principal amount of the Outstanding Securities of all series to which it is applicable) (in each case treated as a single class) a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(4) the Issuer or the Company pursuant to or within the meaning of any Bankruptcy Law (A) commences a voluntary case, (B) consents to the entry of any order for relief against it in an involuntary case, (C) consents to the appointment of a Custodian of it or for all or substantially all of its property, or (D) makes a general assignment for the benefit of its creditors; or

(5) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (A) is for relief against the Issuer or the Company in an involuntary case, (B) appoints a Custodian of the Issuer or the Company or for all or substantially all of its property, or (C) orders the liquidation of the Issuer or the Company; and the order or decree remains unstayed and in effect for 90 days;

(6) any Guarantee in respect of such series of Securities ceases to be in full force and effect prior to its release pursuant to Section 2.14(b) or the Guarantor denies or disaffirms its obligations under such Guarantee; or

(7) any other Event of Default provided as contemplated by Section 2.01 with respect to Securities of that series.

(b) If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the holders of not less than 33% in principal amount of the Outstanding Securities of that series may declare the principal amount of all of the Securities of that series to be due and payable immediately, by a notice in writing to the Issuer (and to the Trustee if given by holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable.

(c) At any time after such declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree of the money due has been obtained by the Trustee as hereinafter in this Article provided, the holders of a majority in principal amount of the Outstanding Securities of that series by written notice to the Issuer and the Trustee, may rescind and annul such declaration and its consequences if:

(1) the Issuer or Guarantor has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities of such series,

(B) the principal of (and premium, if any, on) any Securities of such series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensations, expenses, disbursements and advances of the Trustee, its agents and counsel;

and

(2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 6.06.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

(d) In case the Trustee shall have proceeded to enforce any right with respect to Securities of that series under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Issuer, the Guarantor and the Trustee shall be restored respectively to their former positions and rights hereunder, and all rights, remedies and powers of the Issuer and the Trustee shall continue as though no such proceedings had been taken.

SECTION 6.2 Collection of Indebtedness and Suits for Enforcement by Trustee.

(a) The Issuer and the Guarantor covenant that (1) in case it shall default in the payment of any installment of interest on any of the Securities of a series, or any payment required by any sinking or analogous fund established with respect to that series as and when the same shall have become due and payable, and such default shall have continued for a period of 90 Business Days, or (2) in case it shall default in the payment of the principal of (or premium, if any, on) any of the Securities of a series when the same shall have become due and payable, whether upon maturity of the Securities of a series or upon redemption or upon declaration or otherwise, then, upon demand of the Trustee, the Issuer or the Guarantor will pay to the Trustee, for the benefit of the holders of the Securities of that series, the whole amount that then shall

have been become due and payable on all such Securities for principal (and premium, if any) or interest, or both, as the case may be, with interest upon the overdue principal (and premium, if any) and (to the extent that payment of such interest is enforceable under applicable law) upon overdue installments of interest at the rate per annum expressed in the Securities of that series; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, and the amount payable to the Trustee under Section 7.06.

(b) If the Issuer or the Guarantor shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any action or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Issuer or the Guarantor or other obligor upon the Securities of that series and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Issuer or the Guarantor or other obligor upon the Securities of that series, wherever situated.

(c) In case of any receivership, insolvency, liquidation, bankruptcy, reorganization, readjustment, arrangement, composition or judicial proceedings affected the Issuer or the Guarantor, or the creditors or property of either, the Trustee shall have power to intervene in such proceedings and take any action therein that may be permitted by the court and shall (except as may be otherwise provided by law) be entitled to file such proofs of claim and other papers and documents as may be necessary or advisable in order to have the claims of the Trustee and of the holders of Securities of such series allowed for the entire amount due and payable by the Issuer or the Guarantor under the Indenture at the date of institution of such proceedings and for any additional amount that may become due and payable by the Issuer or the Guarantor after such date, and to collect and receive any moneys or other property payable or deliverable on any such claim, and to distribute the same after the deduction of the amount payable to the Trustee under Section 7.06; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the holders of Securities of such series to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to such Securityholders, to pay to the Trustee any amount due it under Section 7.06.

(d) All rights of action and of asserting claims under this Indenture, or under any of the terms established with respect to Securities of that series, may be enforced by the Trustee without the possession of any of such Securities, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for payment to the Trustee of any amounts due under Section 7.06, be for the ratable benefit of the holders of the Securities of such series.

In case of an Event of Default hereunder, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial

proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in the Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Nothing contained herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities of that series or the rights of any holder thereof or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

SECTION 6.3 Application of Moneys Collected.

Any moneys collected by the Trustee pursuant to this Article with respect to a particular series of Securities shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the Securities of that series, and notation thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

FIRST: To the payment of costs and expenses of collection and of all amounts payable to the Trustee under Section 7.06;

SECOND: To the payment of all Senior Indebtedness of the Issuer if and to the extent required by Article Fourteen; and

THIRD: To the payment of the amounts then due and unpaid upon Securities of such series for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively.

SECTION 6.4 Limitation on Suits.

No holder of any Security of any series shall have any right by virtue or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof with respect to the Securities of such series specifying such Event of Default, as hereinbefore provided; (ii) the holders of not less than 33% in aggregate principal amount of the Securities of such series then Outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as trustee hereunder; (iii) such holder or holders shall have offered to

the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby; and (iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have failed to institute any such action, suit or proceeding and (v) during such 60 day period, the holders of a majority in principal amount of the Securities of that series do not give the Trustee a direction inconsistent with the request.

Notwithstanding anything contained herein to the contrary, any other provisions of this Indenture, the right of any holder of any Security to receive payment of the principal of (and premium, if any) and interest on such Security, as therein provided, on or after the respective due dates expressed in such Security (or in the case of redemption, on the redemption date), or to institute suit for the enforcement of any such payment on or after such respective dates or redemption date, shall not be impaired or affected without the consent of such holder and by accepting a Security hereunder it is expressly understood, intended and covenanted by the taker and holder of every Security of such series with every other such taker and holder and the Trustee, that no one or more holders of Securities of such series shall have any right in any manner whatsoever by virtue or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of the holders of any other of such Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities of series. For the protection and enforcement of the provisions of this Section, each and every Securityholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

SECTION 6.5 Rights and Remedies Cumulative; Delay or Omission Not Waiver.

(a) Except as otherwise provided in Section 2.07, all powers and remedies given by this Article to the Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any other powers and remedies available to the Trustee or the holders of the Securities, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to such Securities.

(b) No delay or omission of the Trustee or of any holder of any of the Securities to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or on acquiescence therein; and, subject to the provisions of Section 6.04, every power and remedy given by this Article or by law to the Trustee or the Securityholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Securityholders.

SECTION 6.6 Control by Securityholders.

(a) The holders of a majority in aggregate principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture;

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction; and

(3) the Trustee shall not be obliged to take any action unduly prejudicial to holders not joining in such direction or involving the Trustee in personal liability.

(b) The holders of a majority in aggregate principal amount of the Outstanding Securities of all affected series, considered as one class, may on behalf of the holders of all the Securities of such series waive any past default hereunder with respect to the Securities of such series and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Security of such series, or

(2) in respect of a covenant or provision hereof which cannot be modified or amended without the consent of the holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 6.7 Undertaking to Pay Costs.

All parties to this Indenture agree, and each holder of any Securities by such holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the

Trustee, to any suit instituted by any Securityholder, or group of Securityholders, holding more than 10% in aggregate principal amount of the Outstanding Securities of any series, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security of such series, on or after the respective due dates expressed in such Security or established pursuant to this Indenture.

ARTICLE VII.

CONCERNING THE TRUSTEE

SECTION 7.1 Certain Duties and Responsibilities of Trustee.

(a) The Trustee, prior to the occurrence of an Event of Default with respect to the Securities of a series and after the curing of all Events of Default with respect to the Securities of that series that may have occurred, shall undertake to perform with respect to the Securities of such series such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants shall be read into this Indenture against the Trustee. In case an Event of Default with respect to the Securities of a series has occurred (that has not been cured or waived), the Trustee shall exercise with respect to Securities of that series such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) prior to the occurrence of an Event of Default with respect to the Securities of a series and after the curing or waiving of all such Events of Default with respect to that series that may have occurred:

(i) the duties and obligations of the Trustee shall with respect to the Securities of such series be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable with respect to the Securities of such series except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may with respect to the Securities of such series conclusively rely, as to the truth of the statements and the correctness of the opinions

expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirement of this Indenture;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Responsible Officers of the Trustee, unless it shall be proved that the Trustee, was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Securities of any series at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture with respect to the Securities of that series; and

(4) None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Indenture or adequate indemnity against such risk is not reasonably assured to it.

SECTION 7.2 Certain Rights of Trustee.

Except as otherwise provided in Section 7.01:

(a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any request, direction, order or demand of the Issuer or the Guarantor mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof is herein specifically prescribed); and any Board Resolution may be evidenced to the Trustee by a copy thereof certified by the Secretary or any Assistant Secretary of the Issuer or the Guarantor, as the case may be;

(c) The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted hereunder in good faith and in reliance thereon;

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that may be incurred therein or thereby; nothing contained herein shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default with respect to a series of the Securities (that has not been cured or waived) to exercise with respect to Securities of that series such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(e) The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security, or other papers or documents, unless requested in writing so to do by the holders of not less than a majority in principal amount of the Outstanding Securities of the particular series affected thereby (determined as provided in Section 8.04); provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such costs, expenses or liabilities as a condition to so proceeding. The reasonable expense of every such examination shall be paid by the Issuer and the Guarantor or, if paid by the Trustee, shall be repaid by the Issuer and the Guarantor upon demand; and

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 7.3 Trustee Not Responsible for Recitals or Issuance or Securities.

(a) The recitals contained herein and in the Securities shall be taken as the statements of the Issuer and/or the Guarantor, as the case may be, and the Trustee assumes no responsibility for the correctness of the same.

(b) The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities.

(c) The Trustee shall not be accountable for the use or application by the Issuer or the Guarantor of any of the Securities or of the proceeds of such Securities, or for the use or application of any moneys paid over by the Trustee in accordance with any provision of this Indenture or established pursuant to Section 2.01, or for the use or application of any moneys received by any paying agent other than the Trustee.

SECTION 7.4 May Hold Securities.

The Trustee or any paying agent or Security Registrar, in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not Trustee, paying agent or Security Registrar.

SECTION 7.5 Moneys Held in Trust.

Subject to the provisions of Section 11.05, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received by it hereunder except such as it may agree with the Issuer and the Guarantor to pay thereon.

SECTION 7.6 Compensation and Reimbursement.

(a) The Issuer and the Guarantor covenant and agree to pay to the Trustee, and the Trustee shall be entitled to, such reasonable compensation (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust), as the Issuer, the Guarantor and the Trustee may from time to time agree in writing, for all services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder of the Trustee, and, except as otherwise expressly provided herein, the Issuer and the Guarantor will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Issuer and the Guarantor also covenant to indemnify the Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on the part of the Trustee and arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises.

(b) The obligations of the Issuer and the Guarantor under this Section to compensate and indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by a lien prior to that of the Securities upon all property and funds

held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Securities.

SECTION 7.7 Reliance on Officers' Certificate.

Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting to take any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted to be taken by it under the provisions of this Indenture upon the faith thereof.

SECTION 7.8 Disqualification; Conflicting Interests.

If the Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Trustee and the Issuer shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act.

SECTION 7.9 Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee with respect to the Securities issued hereunder which shall at all times be a corporation organized and doing business under the laws of the United States of America or any State or Territory thereof or of the District of Columbia, or a corporation or other Person permitted to act as trustee by the Commission, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least 50 million U.S. dollars ($50,000,000), and subject to supervision or examination by Federal, State, Territorial, or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Issuer and the Guarantor may not, nor may any Person directly or indirectly controlling, controlled by, or under common control with the Issuer or the Guarantor, serve as Trustee. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, the Trustee shall resign immediately in the manner and with the effect specified in Section 7.10.

SECTION 7.10 Resignation and Removal; Appointment of Successor.

(a) The Trustee or any successor hereafter appointed, may at any time resign with respect to the Securities of one or more series by giving written notice thereof to the Issuer

and the Guarantor and by transmitting notice of resignation by mail, first class postage prepaid, to the Securityholders of such series, as their names and addresses appear upon the Security Register. Upon receiving such notice of resignation, the Issuer and the Guarantor shall promptly appoint a successor trustee with respect to Securities of such series by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee with respect to Securities of such series, or any Securityholder of that series who has been a bona fide holder of a Security or Securities for at least six months may, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any one of the following shall occur:

(1) the Trustee shall fail to comply with the provisions of Section 7.08 after written request therefor by the Issuer or the Guarantor or by any Securityholder who has been a bona fide holder of a Security or Securities for at least six months; or

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.09 and shall fail to resign after written request therefor by the Issuer or the Guarantor or by any such Securityholder; or

(3) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or commence a voluntary bankruptcy proceeding, or a receiver of the Trustee or of its property shall be appointed or consented to, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, the Issuer or the Guarantor may remove the Trustee with respect to all Securities and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, unless the Trustee's duty to resign is stayed as provided herein, any Securityholder who has been a bona fide holder of a Security or Securities for at least six months may, on behalf of that holder and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities of any series at the time Outstanding may at any time remove the Trustee with respect to such series by so notifying the Trustee, the Issuer and the Guarantor and may appoint a successor Trustee for such series with the consent of the Issuer and the Guarantor.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee with respect to the Securities of a series pursuant to any of the provisions of this Section shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.11.

(e) Any successor trustee appointed pursuant to this Section may be appointed with respect to the Securities of one or more series or all of such series, and at any time there shall be only one Trustee with respect to the Securities of any particular series.

SECTION 7.11 Acceptance of Appointment By Successor.

(a) In case of the appointment hereunder of a successor trustee with respect to all Securities, every such successor trustee so appointed shall execute, acknowledge and deliver to the Issuer and the Guarantor and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Issuer or the Guarantor or the successor trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor trustee all the rights, powers, and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor trustee with respect to the Securities of one or more (but not all) series, the Issuer, the Guarantor, the retiring Trustee and each successor trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor trustee relates, (2) shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust, that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee and that no Trustee shall be responsible for any act or failure to act on the part of any other Trustee hereunder; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein, such retiring Trustee shall with respect to the Securities of that or those series to which the appointment of such successor trustee

relates have no further responsibility for the exercise of rights and powers or for the performance of the duties and obligations vested in the Trustee under this Indenture, and each such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor trustee relates; but, on request of the Issuer or the Guarantor or any successor trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor trustee, to the extent contemplated by such supplemental indenture, the property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor trustee relates.

(c) Upon request of any such successor trustee, the Issuer and the Guarantor shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor trustee shall accept its appointment unless at the time of such acceptance such successor trustee shall be qualified and eligible under this Article.

(e) Upon acceptance of appointment by a successor trustee as provided in this Section, the Issuer shall transmit notice of the succession of such trustee hereunder by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register. If the Issuer fails to transmit such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be transmitted at the expense of the Issuer and the Guarantor.

SECTION 7.12 Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee as a whole or substantially as a whole, shall be the successor of the Trustee hereunder, provided that such corporation shall be qualified under the provisions of Section 7.08 and eligible under the provisions of Section 7.09, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 7.13 Preferential Collection of Claims Against the Issuer.

The Trustee shall comply with Section 311(a) of the Trust Indenture Act, excluding any creditor relationship described in Section 311(b) of the Trust Indenture Act. A Trustee who has resigned or been removed shall be subject to Section 311(a) of the Trust Indenture Act to the extent included therein.

## ARTICLE VIII.

## CONCERNING THE SECURITYHOLDERS

SECTION 8.1 Evidence of Action by Securityholders.

Whenever in this Indenture it is provided that the holders of a majority or specified percentage in aggregate principal amount of the Securities of a particular series may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action the holders of such majority or specified percentage of that series have joined therein may be evidenced by any instrument or any number of instruments of similar tenor executed by such holders of Securities of that series in Person or by agent or proxy appointed in writing.

If the Issuer or the Guarantor shall solicit from the Securityholders of any series any request, demand, authorization, direction, notice, consent, waiver or other action, the Issuer or the Guarantor may, at its option, as evidenced by an Officers' Certificate, fix in advance a record date for such series for the determination of Securityholders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action, but the Issuer or the Guarantor shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action may be given before or after the record date, but only the Securityholders of record at the close of business on the record date shall be deemed to be Securityholders for the purposes of determining whether Securityholders of the requisite proportion of Outstanding Securities of that series have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action, and for that purpose the Outstanding Securities of that series shall be computed as of the record date; provided, however, that no such authorization, agreement or consent by such Securityholders on the record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

SECTION 8.2 Proof of Execution by Securityholders.

Subject to the provisions of Section 7.01, proof of the execution of any instrument by a Securityholder (such proof will not require notarization) or his agent or proxy and proof of

the holding by any Person of any of the Securities shall be sufficient if made in the following manner:

(a) The fact and date of the execution by any such Person of any instrument may be proved in any reasonable manner acceptable to the Trustee.

(b) The ownership of Securities shall be proved by the Security Register of such Securities or by a certificate of the Security Registrar thereof.

(c) The Trustee may require such additional proof of any matter referred to in this Section as it shall deem necessary.

SECTION 8.3 Who May be Deemed Owners.

Prior to the due presentment for registration of transfer of any Security, the Issuer, the Guarantor, the Trustee, any paying agent and any Security Registrar may deem and treat the Person in whose name such Security shall be registered upon the books of the Issuer as the absolute owner of such Security (whether or not such Security shall be overdue and notwithstanding any notice of ownership or writing thereon made by anyone other than the Security Registrar) for the purpose of receiving payment of or on account of the principal of, premium, if any, and (subject to Section 2.03) interest on such Security and for all other purposes; and neither the Issuer nor the Guarantor nor the Trustee nor any paying agent nor any Security Registrar shall be affected by any notice to the contrary.

SECTION 8.4 Certain Securities Owned by Issuer or Guarantor Disregarded.

In determining whether the holders of the requisite aggregate principal amount of Securities of a particular series have concurred in any direction, consent of waiver under this Indenture, the Securities of that series that are owned by the Issuer or the Guarantor or any other obligor on the Securities of that series or by any Person directly or indirectly controlling or controlled by or under common control with the Issuer or the Guarantor or any other obligor on the Securities of that series shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, except that for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Securities of such series that the Trustee actually knows are so owned shall be so disregarded. The Securities so owned that have been pledged in good faith may be regarded as Outstanding for the purposes of this Section, if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not a Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer or the Guarantor or any such other obligor. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 8.5 Actions Binding on Future Securityholders.

At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the holders of the majority or percentage in aggregate principal amount of the Securities of a particular series specified in this Indenture in connection with such action, any holder of a Security of that series that is shown by the evidence to be included in the Securities the holders of which have consented to such action may, by filing written notice with the Trustee, and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Security. Except as aforesaid any such action taken by the holder of any Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Security, and of any Security issued in exchange therefor, on registration of transfer thereof or in place thereof, irrespective of whether or not any notation in regard thereto is made upon such Security. Any action taken by the holders of the majority or percentage in aggregate principal amount of the Securities of a particular series specified in this Indenture in connection with such action shall be conclusively binding upon the Issuer, the Guarantor, the Trustee and the holders of all the Securities of that series.

ARTICLE IX.

SUPPLEMENTAL INDENTURES

SECTION 9.1 Supplemental Indentures Without the Consent of Securityholders.

In addition to any supplemental indenture otherwise authorized by this Indenture, the Issuer and the Guarantor and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act as then in effect), without the consent of the Securityholders, for one or more of the following purposes:

(a) to cure any ambiguity, defect, or inconsistency herein, in the Securities of any series or in the Guarantees;

(b) to comply with Section 4.05;

(c) to provide for uncertificated Securities in addition to or in place of certificated Securities;

(d) to add to the covenants of the Issuer or the Guarantor for the benefit of the holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Issuer or the Guarantor;

(e) to add to, delete from, or revise the conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication, and delivery of Securities, as herein set forth;

(f) to make any change that does not adversely affect the rights of any Securityholder in any material respect; or

(g) to provide for the issuance of and establish the form and terms and conditions of the Securities of any series and the Guarantees as provided in Section 2.01, to establish the form of any certifications required to be furnished pursuant to the terms of this Indenture or any series of Securities, or to add to the rights of the holders of any series of Securities.

The Trustee is hereby authorized to join with the Issuer and the Guarantor in the execution of any such supplemental indenture, and to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to enter into any such supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section may be executed by the Issuer, the Guarantor and the Trustee without the consent of the holders of any of the Securities at the time Outstanding, notwithstanding any of the provisions of Section 9.02.

SECTION 9.2 Supplemental Indentures With Consent of Securityholders.

With the consent (evidenced as provided in Section 8.01) of the holders of not less than a majority in aggregate principal amount of the Securities of all series affected by such supplemental indenture or indentures at the time Outstanding, considered as one class, the Issuer and the Guarantor, when authorized by Board Resolutions, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act as then in effect) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner not covered by Section 9.01 the rights of the holders of the Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the holders of each Security then Outstanding and affected thereby,

(1) change the stated maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which any Security or any premium or interest thereon is payable;

(2) modify the obligations of the Guarantor under any Guarantee;

(3) reduce the percentage in principal amount of the Outstanding Securities, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture;

(4) change any obligation of the Issuer to maintain an office or agency in the places and for the purposes specified in Section 4.02; or

(5) modify any of the provisions of this Section or Section 6.06 except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the holder of each Outstanding Security affected thereby.

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the holders of Securities of any other series.

It shall not be necessary for the consent of the Securityholders of any series affected thereby under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

SECTION 9.3 Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture pursuant to the provisions of this Article or of Section 4.05, this Indenture, with respect to such series, shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Issuer, the Guarantor and the holders of Securities of the series affected thereby shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.4 Securities Affected by Supplemental Indentures.

Securities of any series, affected by a supplemental indenture, authenticated and delivered after the execution of such supplemental indenture pursuant to the provisions of this Article or of Section 4.05, may bear a notation in form approved by the Issuer, provided such form meets the requirements of any exchange upon which such series may be listed, as to any

matter provided for in such supplemental indenture. If the Issuer and the Guarantor shall so determine, new Securities of that series so modified as to conform, in the opinion of the Board of Directors of the Issuer and the Guarantor, to any modification of this Indenture contained in any such supplemental indenture may be prepared by the Issuer and the Guarantor, authenticated by the Trustee and delivered in exchange for the Securities of that series then Outstanding.

SECTION 9.5 Execution of Supplemental Indentures.

Upon the request of the Issuer and the Guarantor, accompanied by their Board Resolutions authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Securityholders required to consent thereto as aforesaid, the Trustee shall join with the Issuer and the Guarantor in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion but shall not be obligated to enter into such supplemental indenture. The Trustee, subject to the provisions of Section 7.01, may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to this Article is authorized or permitted by, and conforms to, the terms of this Article and that it is proper for the Trustee under the provisions of this Article to join in the execution thereof; provided, however, that such Opinion of Counsel need not be provided in connection with the execution of a supplemental indenture that establishes the terms of a series of Debt Securities and any related Guarantee pursuant to Section 2.01 hereof.

Promptly after the execution by the Issuer, the Guarantor and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Trustee shall transmit by mail, first class postage prepaid, a notice, setting forth in general terms the substance of such supplemental indenture, to the Securityholders of all series affected thereby as their names and addresses appear upon the Security Register. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

## ARTICLE X.

## [RESERVED]

ARTICLE XI.

SATISFACTION AND DISCHARGE

SECTION 11.1 Satisfaction and Discharge of Indenture.

If at any time: (a) the Issuer or the Guarantor shall have delivered to the Trustee for cancellation all Securities of a series theretofore authenticated (other than any Securities that shall have ben destroyed, lost or stolen and that shall have been replaced or paid as provided in Section 2.07) and Securities for whose payment money or U.S. Government Obligations have theretofore been deposited in trust or segregated and held in trust by the Issuer or the Guarantor (and thereupon repaid to the Issuer or the Guarantor or discharged from such trust, as provided in Section 11.05); or (b) all such Securities of a particular series not theretofore delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Issuer or the Guarantor shall deposit or cause to be deposited with the Trustee as trust funds the entire amount in moneys or U.S. Government Obligations sufficient or a combination thereof, sufficient in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay at maturity or upon redemption all Securities of that series not theretofore delivered to the Trustee for cancellation, including principal (and premium, if any) and interest due or to become due to such date of maturity or date fixed for redemption, as the case may be, and if the Issuer or the Guarantor shall also pay or cause to be paid all other sums payable hereunder with respect to such series by the Issuer and the Guarantor; then this Indenture shall thereupon cease to be of further effect with respect to such series except for the provisions of Sections 2.03, 2.05, 2.07, 4.01, 4.02, 4.03 and 7.10, that shall survive until the date of maturity or redemption date, as the case may be, and Sections 7.06 and 11.05, that shall survive to such date and thereafter, and the Trustee, on demand of the Issuer and the Guarantor and at the cost and expense of the Issuer and the Guarantor, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture with respect to such series.

SECTION 11.2 Legal Defeasance; Covenant Defeasance.

(a) In addition to discharge of the Indenture pursuant to Section 11.01, the Issuer and the Guarantor shall be deemed to have paid and discharged the entire indebtedness on all the Securities of such a series on the 123rd day after the date of the deposit referred to in clause (1) below, and the provisions of this Indenture with respect to the Securities of such series shall no longer be in effect (except for the provisions of Sections 2.03, 2.05, 2.07, 4.01, 4.02, 4.03, 7.06, 7.10 and 11.05 hereof, which shall survive until such Securities shall mature and be paid; thereafter, Sections 7.06 and 11.05 shall survive), and the Trustee, at the expense of the Issuer and the Guarantor, shall, upon demand of the Issuer and the Guarantor, execute proper

instruments acknowledging the same, if the conditions set forth below are satisfied (hereinafter, "defeasance"):

(1) The Issuer or the Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust, for the purposes of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Securities of such series (i) cash in an amount, or (ii) in the case of any series of Securities the payments on which may only be made in legal coin or currency of the United States, U.S. Government Obligations, maturing as to principal and interest at such times and in such amounts as will insure the availability of cash, or (iii) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay (A) the principal and interest and premium, if any, on all Securities of such series on each date that such principal, interest or premium, if any, is due and payable or on any redemption date established pursuant to clause (3) below, and (B) any mandatory sinking fund payments on the dates on which such payments are due and payable in accordance with the terms of the Indenture and the Securities of such series;

(2) The Issuer or the Guarantor has delivered to the Trustee an Opinion of Counsel based on the fact that (x) the Issuer or the Guarantor has received from, or there has been published by, the Internal Revenue Service a ruling, or (y) since the date hereof, there has been a change in the applicable federal income tax law, in either case to the effect that, and such opinion shall confirm that, the holders of the Securities of such series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit and defeasance had not occurred;

(3) If the Securities are to be redeemed prior to stated maturity (other than from mandatory sinking fund payments or analogous payments), notice of such redemption shall have been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee shall have been made;

(4) No default or Event of Default shall have occurred and be continuing on the date of such deposit; and

(5) The Issuer or the Guarantor has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to the defeasance contemplated by this provision have been complied with.

For this purpose, such defeasance means that the Issuer, the Guarantor and any other obligor upon the Securities of such series shall be deemed to have paid and discharged the entire debt represented by the Securities of such series, which shall thereafter be deemed to be

"Outstanding" only for the purposes of Section 11.03 and the Sections referred to in the first paragraph of this Section 11.02(a), and to have satisfied all its other obligations under the Securities of such series and this Indenture insofar as the Securities of such series are concerned.

(b) The Issuer and the Guarantor and any other obligor, if any, shall be released on the 123rd day after the date of the deposit referred to in clause (1) below from their obligations under Sections 4.05, 5.03 and any covenants or provisions designated in such series of Securities as being subject to this Section 11.02(b) pursuant to Section 2.01 with respect to the Securities of any series on and after the date the conditions set forth below are satisfied (hereinafter, "covenant defeasance"), and the Securities of such series shall thereafter be deemed to be not "Outstanding" for the purposes of any request, demand, authorization, direction, notice, waiver, consent or declaration or other action or act of holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed outstanding for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to the Securities of such series, the Issuer and the Guarantor may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such Section, whether directly or indirectly by reason of any reference elsewhere herein to such Section or by reason of any reference in such Section to any other provision herein or in any other document and such omission to comply shall not constitute a default or an Event of Default under Section 6.01, but, except as specified above, the remainder of this Indenture and the Securities of such series shall be unaffected thereby. The following shall be the conditions to application of this Section 11.02(b):

(1) The Issuer or the Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Securities of such series, (i) cash in an amount, or (ii) in the case of any series of Securities the payments on which may only be made in legal coin or currency of the United States, U.S. Government Obligations, maturing as to principal and interest at such times and in such amounts as will insure the availability of cash, or (iii) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay (A) the principal and interest and premium, if any, on all Securities of such series on each date that such interest or premium, if any, is due and payable or on any redemption date established pursuant to clause (2) below, and (B) any mandatory sinking fund payments on the day on which such payments are due and payable in accordance with the terms of the Indenture and the Securities of such series;

(2) If the Securities are to be redeemed prior to stated maturity (other than from mandatory sinking fund payments or analogous payments), notice of such redemption shall have been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee shall have been made;

(3) No default or Event of Default shall have occurred and be continuing on the date of such deposit;

(4) The Issuer or the Guarantor shall have delivered to the Trustee an Opinion of Counsel which shall confirm that the holders of the Securities of such series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and covenant defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit and covenant defeasance had not occurred; and

(5) The Issuer or the Guarantor shall have delivered to the Trustee an Officers' Certificate stating that all conditions precedent provided for relating to the covenant defeasance contemplated by this provision have been complied with.

SECTION 11.3 Deposited Moneys to be Held in Trust.

All moneys or U.S. Government Obligations deposited with the Trustee pursuant to Sections 11.01 or 11.02 shall be held in trust and shall be available for payment as due, either directly or through any paying agent (including the Issuer acting as its own paying agent), to the holders of the particular series of Securities for the payment or redemption of which such moneys or U.S. Government Obligations have been deposited with the Trustee.

SECTION 11.4 Payment of Moneys Held by Paying Agents.

In connection with the satisfaction and discharge of this Indenture all moneys or U.S. Government Obligations then held by any paying agent under the provisions of this Indenture shall, upon demand of the Issuer or the Guarantor, be paid to the Trustee and thereupon such paying agent shall be released from all further liability with respect to such moneys or U.S. Government Obligations.

SECTION 11.5 Repayment to Issuer.

Any moneys or U.S. Government Obligations deposited with any paying agent or the Trustee, or then held by the Issuer or the Guarantor, as the case may be, in trust for payment of principal of or premium or interest on the Securities of a particular series that are not applied but remain unclaimed by the holders of such Securities for at least two years after the date upon which the principal of (and premium, if any) or interest on such Securities shall have respectively become due and payable, shall be repaid to the Issuer or the Guarantor, as the case may be, on May 31 of each year or (if then held by the Issuer or the Guarantor) shall be discharged from such trust; and thereupon the paying agent and the Trustee shall be released from all further liability with respect to such moneys or U.S. Government Obligations, and the holder of any of the Securities entitled to receive such payment shall thereafter, as an unsecured general creditor, look only to the Issuer or the Guarantor for the payment thereof.

ARTICLE XII.

IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

SECTION 12.1 No Recourse.

No recourse under or upon any obligation, covenant or agreement of this Indenture, or of any Debt Security or Guarantee, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, stockholder, officer or director, past, present or future as such, of the Issuer or the Guarantor or of any predecessor or successor corporation, either directly or through the Issuer or the Guarantor or any such predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the obligations issued hereunder are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, stockholders, officers or directors as such, of the Issuer or the Guarantor or of any predecessor or successor corporation, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, stockholder, officer or director as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of such Securities.

ARTICLE XIII.

MISCELLANEOUS PROVISIONS

SECTION 13.1 Effect on Successors and Assigns.

All the covenants, stipulations, promises and agreements in this Indenture contained by or on behalf of the Issuer or the Guarantor shall bind their respective successors and assigns, whether so expressed or not.

SECTION 13.2 Actions by Successor.

Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Issuer or the Guarantor shall and may be done and performed with like force and effect by the corresponding board, committee or officer of any corporation that shall at the time be the lawful sole successor of the Issuer or the Guarantor, as the case may be.

SECTION 13.3 Surrender of Issuer Powers.

The Issuer or the Guarantor by instrument in writing executed by authority of 2/3 (two-thirds) of its Board of Directors and delivered to the Trustee may surrender any of the powers reserved to the Issuer or the Guarantor, as the case may be, and thereupon such power so surrendered shall terminate both as to the Issuer or the Guarantor, as the case may be, and as to any successor corporation.

SECTION 13.4 Notices.

Except as otherwise expressly provided herein any notice or demand that by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Securities to or on the Issuer or the Guarantor may be given or served by being deposited first class postage prepaid in a post-office letterbox addressed (until another address is filed in writing by the Issuer with the Trustee), as follows: c/o Panhandle Eastern Pipe Line Company, 5444 Westheimer Court, Houston, Texas 77056-5310, Attention: Secretary. Any notice, election, request or demand by the Issuer or any Securityholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the Corporate Trust Office of the Trustee.

SECTION 13.5 Governing Law.

This Indenture and each Security shall be deemed to be a contract made under the internal laws of the State of New York, and for all purposes shall be construed in accordance with the laws of said State.

SECTION 13.6 Treatment of Debt Securities as Debt.

It is intended that the Debt Securities will be treated as indebtedness and not as equity for federal income tax purposes. The provisions of this Indenture shall be interpreted to further this intention.

SECTION 13.7 Compliance Certificates and Opinions.

(a) Upon any application or demand by the Issuer or the Guarantor to the Trustee to take any action under any of the provisions of this Indenture, the Issuer or the Guarantor, as the case may be, shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent have been complied with, except that in the case of any such application or demand as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or demand, no additional certificate or opinion need be furnished.

(b) Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant in this Indenture shall include (1) a statement that the Person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

SECTION 13.8 Payments on Business Days.

Except as provided pursuant to Section 2.01 pursuant to a Board Resolution, and as set forth in an Officers' Certificate, or established in one or more indentures supplemental to this Indenture, in any case where the date of maturity of interest or principal of any Security or the date of redemption of any Security shall not be a Business Day, then payment of interest or principal (and premium, if any) may be made on the next succeeding Business Day with the same force and effect as if made on the nominal date of maturity or redemption, and no interest shall accrue for the period after such nominal date.

SECTION 13.9 Conflict with Trust Indenture Act.

If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control.

SECTION 13.10 Counterparts.

This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 13.11 Separability.

In case any one or more of the provisions contained in this Indenture or in the Securities of any series shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of such Securities, but this Indenture and such Securities shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 13.12 Assignment.

Each of the Issuer and the Guarantor will have the right at all times to assign any of its respective rights or obligations under this Indenture to a direct or indirect wholly-owned Subsidiary of the Guarantor, provided that, in the event of any such assignment, the Issuer or the Guarantor, as the case may be, will remain liable for all such obligations. Subject to the foregoing, the Indenture is binding upon and inures to the benefit of the parties thereto and their respective successors and assigns. This Indenture may not otherwise be assigned by the parties thereto.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed all as of the day and year first above written.

CMS PANHANDLE HOLDING COMPANY,
as Issuer

By: /s/ Alan M. Wright
---
Name: Alan M. Wright
Title: Senior Vice President and
Chief Financial Officer

PANHANDLE EASTERN PIPE LINE COMPANY,
as Guarantor

By: /s/ Alan M. Wright
---
Name: Alan M. Wright
Title: Senior Vice President and
Chief Financial Officer

NBD BANK,
as Trustee

By: /s/ J. Michael Banas
---
Name: J. Michael Banas
Title: Vice President

EXHIBIT (4)(b)

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FIRST SUPPLEMENTAL INDENTURE

among

CMS PANHANDLE HOLDING COMPANY
(TO BE MERGED WITH AND INTO THE GUARANTOR AND SUCCESSOR)
Issuer,

PANHANDLE EASTERN PIPE LINE COMPANY,
Guarantor

and

NBD BANK,
Trustee

Dated as of March 29, 1999

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FIRST SUPPLEMENTAL INDENTURE, dated as of March 29, 1999 (the "First Supplemental Indenture"), among CMS Panhandle Holding Company, a Michigan corporation (the "Issuer"), Panhandle Eastern Pipe Line Company, a Delaware corporation (the "Company" or the "Guarantor"), and NBD Bank, as trustee (the "Trustee") under the indenture dated as of March 29, 1999 among the Issuer, the Guarantor and the Trustee (the "Base Indenture" and, as so supplemented, the "Indenture").

WHEREAS, the Issuer and the Guarantor executed and delivered the Base Indenture to the Trustee to provide for the future issuance of the Issuer's unsecured debt securities guaranteed by the Guarantor, to be issued from time to time in one or more series as might be determined by the Issuer under the Indenture, in an unlimited aggregate principal amount which may be authenticated and delivered as provided in the Base Indenture;

WHEREAS, pursuant to the terms of the Base Indenture, the Issuer desires to provide for the establishment of a new series of its Debt Securities in three tranches to be known as its 6.125% Senior Notes due 2004, 6.500% Senior Notes due 2009 and 7.000% Senior Notes due 2029 in aggregate principal amounts of $300,000,000, $200,000,000 and $300,000,000, respectively, and the Guarantor desires to provide for the issuance of a Guarantee of such Debt Securities (the "Note Guarantee" and, together with the Debt Securities, the "Notes"), the form and substance of such Notes and the terms, provisions and conditions thereof to be set forth as provided in the Base Indenture and this First Supplemental Indenture;

WHEREAS, the Issuer, the Guarantor and the Initial Purchasers named therein have entered into a Registration Rights Agreement, dated as of March 29, 1999 (the "Registration Rights Agreement"), which requires the Issuer and the Guarantor to use their best efforts to make an Exchange Offer which would enable holders of Notes to exchange such Notes for Notes not subject to certain restrictions under the Securities Act or to cause a Shelf Registration Statement to be declared effective with respect to the Notes (in each case as defined in such Registration Rights Agreement); and

WHEREAS, the Issuer and the Guarantor have requested that the Trustee execute and deliver this First Supplemental Indenture, and all requirements necessary to make this First Supplemental Indenture a valid instrument, in accordance with its terms, and to make the Notes, when executed by the Issuer and authenticated and delivered by the Trustee, the valid obligations of the Issuer and to make the Guarantee endorsed thereon when executed by the Guarantor a valid obligation of the Guarantor, have been performed, and the execution and delivery of this First Supplemental Indenture has been duly authorized in all respects:

NOW THEREFORE, in consideration of the purchase and acceptance of the Notes by the holders thereof, and for the purpose of setting forth, as provided in the Indenture, the form and substance of the Notes and the terms, provisions and conditions thereof, the Issuer and the Guarantor covenant and agree with the Trustee as follows:

ARTICLE I.

DEFINITIONS

SECTION 1.1 Definition of Terms.

Unless the context otherwise requires:

(a) a term defined in the Base Indenture has the same meaning when used in this First Supplemental Indenture;

(b) a term defined anywhere in this First Supplemental Indenture has the same meaning throughout;

(c) the singular includes the plural and vice versa;

(d) a reference to a Section or Article is to a Section or Article of this First Supplemental Indenture;

(e) headings are for convenience of reference only and do not affect interpretation;

(f) the following terms have the meanings given to them in this Section 1.01(f):

"Adjusted Consolidated Net Income" means, for any period, the net income of the Company and its Consolidated Subsidiaries, plus (i) depreciation and amortization expense of the Company and its Consolidated Subsidiaries, (ii) income taxes and deferred taxes of the Company and its Consolidated Subsidiaries and (iii) other non-cash charges, in each case, determined on a consolidated basis in accordance with generally accepted accounting principles; provided, however, that there shall not be included in such Adjusted Consolidated Net Income (i) any net income of any Person if such Person is not a Subsidiary, except that (A) the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Consolidated Subsidiary as a dividend or other distribution and (B) the Company's equity in a net loss of any such Person for such period shall be included in determining such Adjusted Consolidated Net Income; and (ii) any net income of any Person acquired by the Company or a Subsidiary in a pooling-of-interests transaction for any period prior to the date of such acquisition.

"Capital Stock" means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) corporate stock, including any Preferred Stock or letter stock; provided that Hybrid Preferred Securities are not considered Capital Stock for purposes of this definition.

"Consolidated Debt" means the total Debt of the Company and its Consolidated Subsidiaries, as set forth on the consolidated balance sheet of the Company and its Consolidated Subsidiaries for the Company's most recently completed fiscal quarter, prepared in accordance with generally accepted accounting principles.

"Consolidated Interest Expense" means, for any period, the total interest expense in respect of Consolidated Debt of the Company and its Consolidated Subsidiaries, including, without duplication, (i) interest expense attributable to capital leases, (ii) amortization of debt discount, (iii) capitalized interest, (iv) cash and noncash interest payments, (v) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing, (vi) net costs under Interest Rate Protection Agreements (including amortization of discount) and (vii) interest expense in respect of obligations of other Persons that constitutes Debt of the Company or any of its Consolidated Subsidiaries, provided, however, that Consolidated Interest Expense shall exclude any costs otherwise included in interest expense recognized on early retirement of debt.

"Consolidated Net Tangible Assets" means, at any date of determination, the total amount of assets after deducting therefrom (i) all current liabilities (excluding (A) any current liabilities that by their terms are extendable or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed, and (B) current maturities of long-term debt), and (ii) the value (net of any applicable reserves) of all goodwill, trade names, trademarks, patents and other like intangible assets, all as set forth on the consolidated balance sheet of the Company and its Consolidated Subsidiaries for the Company's most recently completed fiscal quarter, prepared in accordance with generally accepted accounting principles. "Intangible assets" does not include any value write-up of tangible assets (other than in connection with the acquisition of the Company and its affiliated companies by CMS Energy) in connection with acquisition transactions accounted for on a purchase method.

"Consolidated Subsidiary" means any Subsidiary whose accounts are or are required to be consolidated with the accounts of the Company in accordance with generally accepted accounting principles.

"CMS Energy" means CMS Energy Corporation, a Michigan corporation and any successor entity.

"Debt" means any obligation created or assumed by any Person for the repayment of money borrowed and any purchase money obligation created or assumed by such Person.

"Exchangeable Stock" means any Capital Stock of a corporation that is exchangeable or convertible into another security (other than Capital Stock of such corporation that is neither Exchangeable Stock nor Redeemable Stock).

"Fixed Charge Coverage Ratio" means the ratio of Adjusted Consolidated Net Income plus Consolidated Interest Expense to Consolidated Interest Expense, for the four fiscal quarters of the Company ending immediately prior to the date of determination (or, in respect of

any such determination occurring on or prior to December 31, 1999, the number of full fiscal quarters that shall have elapsed from the date of issuance of the Notes).

"Funded Debt" means all Debt maturing one year or more from the date of the creation thereof, all Debt directly or indirectly renewable or extendable, at the option of the debtor, by its terms or by the terms of any instrument or agreement relating thereto, to a date one year or more from the date of the creation thereof, and all Debt under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more.

"Global Note" means a Note or Notes represented by a Global Security.

"Hybrid Preferred Securities" means preferred securities issued by a Hybrid Preferred Securities Subsidiary, where such preferred securities have the following characteristics: (i) such Hybrid Preferred Securities Subsidiary lends substantially all of the proceeds from the issuance of such preferred securities to the Company in exchange for subordinated debt issued by the Company, respectively; (ii) such preferred securities contain terms providing for the deferral of distributions corresponding to provisions providing for the deferral of interest payments on such subordinated debt; and (iii) the Company makes periodic interest payments on such subordinated debt, which interest payments are in turn used by the Hybrid Preferred Securities Subsidiary to make corresponding payments to the holders of the Hybrid Preferred Securities.

"Hybrid Preferred Securities Subsidiary" means any business trust or limited partnership (or similar entity) (i) all of the common equity interest of which is owned (either directly or indirectly through one or more wholly-owned Subsidiaries of the Company) at all times by the Company, (ii) that has been formed for the purpose of issuing Hybrid Preferred Securities and (iii) substantially all of the assets of which consist at all times solely of subordinated debt issued by the Company and payments made from time to time on such subordinated debt.

"Interest Rate Protection Agreement" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement designed to protect the Issuer or any Subsidiary against fluctuations in interest rates.

"Leverage Ratio" means 100% multiplied by the ratio of Consolidated Debt to Total Capital at the end of the most recent fiscal quarter preceding the date of determination.

"Lien" means any mortgage, pledge, security interest, charge, lien or other encumbrance of any kind, whether or not filed, recorded or perfected under applicable law.

"Loan" means any direct or indirect advance (other than advances to customers in the ordinary course of business that are recorded as receivables on the balance sheet of the Person making such advances), loan or other extension of credit (including by way of guarantee or similar arrangement) to another Person or any purchase of Debt issued by another Person, where

such advance, loan, extension of credit or Debt is subordinated in right of payment to the senior creditors of the borrower.

"Moody's" means Moody's Investors Service, Inc., and any successor thereto which is a nationally recognized statistical rating organization, or if such entity shall cease to rate the Notes or shall cease to exist and there shall be no such successor thereto, any other nationally recognized statistical rating organization selected by the Company which is acceptable to the Trustee.

"Non-Convertible Capital Stock" means, with respect to any corporation, any non-convertible Capital Stock of such corporation and any Capital Stock of such corporation convertible solely into non-convertible Capital Stock other than Preferred Stock of such corporation; provided, however, that Non-Convertible Capital Stock shall not include any Redeemable Stock or Exchangeable Stock.

"Permitted Liens" means: (i) Liens upon rights-of-way for pipeline purposes; (ii) any governmental Lien, mechanics', materialmen's, carriers' or similar Lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined Lien which is incidental to construction; (iii) the right reserved to, or vested in, any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to purchase or recapture or to designate a purchaser of, any property; (iv) Liens for taxes and assessments which are (A) for the then current year, (B) not at the time delinquent, or (C) delinquent but the validity of which is being contested at the time by the Company or any Subsidiary in good faith; (v) Liens of, or to secure performance of, leases; (vi) any Lien upon, or deposits of, any assets in favor of any surety company or clerk of court for the purpose of obtaining indemnity or stay of judicial proceedings; (vii) any Lien upon property or assets acquired or sold by the Company or any Restricted Subsidiary resulting from the exercise of any rights arising out of defaults on receivables; (viii) any Lien incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations; (ix) any Lien upon any property or assets in accordance with customary banking practice to secure any Debt incurred by the Company or any Restricted Subsidiary in connection with the exporting of goods to, or between, or the marketing of goods in, or the importing of goods from, foreign countries; or (x) any Lien in favor of the United States of America or any state thereof, or any other country, or any political subdivision of any of the foregoing, to secure partial, progress, advance or other payments pursuant to any contract or statute, or any Lien securing industrial development, pollution control or similar revenue bonds.

"Principal Property" means any natural gas pipeline system, natural gas gathering system or natural gas storage facility located in the United States, except any such property that in the opinion of the Board of Directors is not of material importance to the business conducted by the Company and its Consolidated Subsidiaries taken as a whole.

"Redeemable Stock" means any Capital Stock that by its terms or otherwise is required to be redeemed prior to the 90th day before the stated maturity of any of the outstanding Notes or is redeemable at the option of the holder thereof at any time prior to the 90th day before the stated maturity of any of the outstanding Notes.

"Restricted Subsidiary" means any Subsidiary of the Company owning or leasing any Principal Property.

"Standard & Poor's" means Standard & Poor's Ratings Group, a division of McGraw Hill Inc., and any successor thereto which is a nationally recognized statistical rating organization, or if such entity shall cease to rate the Notes or shall cease to exist and there shall be no such successor thereto, any other nationally recognized statistical rating organization selected by the Company which is acceptable to the Trustee.

"Sale-Leaseback Transaction" means, with respect to the Company or any Restricted Subsidiary, the sale or transfer by the Company or such Restricted Subsidiary of any Principal Property to a Person (other than the Company or a Subsidiary) and the taking back by the Company or such Restricted Subsidiary, as the case may be, of a lease of such Principal Property. With respect to the Issuer, "Sale-Leaseback Transaction" means the sale or transfer by the Issuer of any assets or property to another Person and the taking back by the Issuer of a lease of such assets or property.

"Subsidiary" means, with respect to any Person, (i) any corporation at least a majority of whose outstanding Voting Stock shall at the time be owned, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, (ii) any general partnership, joint venture or similar entity, at least a majority of whose outstanding partnership or similar interests shall at the time be owned by such Person, or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries and (iii) any limited partnership of which such Person or any of its Subsidiaries is a general partner.

"Total Capital" means the sum of (i) Consolidated Debt and (ii) Capital Stock, Hybrid Preferred Securities, premium on Capital Stock, capital surplus, capital in excess of par value and retained earnings (however the foregoing may be designated), less, to the extent not otherwise deducted, the cost of shares of Capital Stock of the Company held in treasury, all as set forth on the consolidated balance sheet of the Company and its Consolidated Subsidiaries for the Company's most recently completed fiscal quarter, prepared in accordance with generally accepted accounting principles.

"Voting Stock" means securities of any class or classes the holders of which are ordinarily, in the absence of contingencies, entitled to vote for corporate directors (or persons performing similar functions).

ARTICLE II.

GENERAL TERMS AND CONDITIONS OF
THE NOTES

SECTION 2.1 Designation and Principal Amount.

There is hereby authorized a single series of Debt Securities in three tranches designated as follows:

(a) (1) The "6.125% Senior Notes due 2004" (the "2004 Notes"), limited in aggregate principal amount to $300,000,000, which amount shall be as set forth in any written order of the Issuer for the authentication and delivery of Notes pursuant to Section 2.04 of the Base Indenture; and (2) a Guarantee of such Debt Securities.

(b) (1) The "6.500% Senior Notes due 2009" (the "2009 Notes"), limited in aggregate principal amount to $200,000,000, which amount shall be as set forth in any written order of the Issuer for the authentication and delivery of Notes pursuant to Section 2.04 of the Base Indenture; and (2) a Guarantee of such Debt Securities.

(c) (1) The "7.000% Senior Notes due 2029" (the "2029 Notes"), limited in aggregate principal amount to $300,000,000, which amount shall be as set forth in any written order of the Issuer for the authentication and delivery of Notes pursuant to Section 2.04 of the Base Indenture; and (2) a Guarantee of such Debt Securities.

SECTION 2.2 Maturity.

The 2004 Notes will mature on March 15, 2004, the 2009 Notes will mature on July 15, 2009 and the 2029 Notes will mature on July 15, 2029.

SECTION 2.3 Interest.

Interest shall accrue from the dates, and shall be payable on the 2004 Notes, the 2009 Notes and the 2029 Notes in the amounts, and as otherwise set forth in the form of the Note appearing in Article VI of this First Supplemental Indenture.

SECTION 2.4 Redemption.

The Notes may be redeemed at the option of the Issuer at any time from time to time, in whole or in part, in the manner set forth in the form of the Notes appearing in Article VI of this First Supplemental Indenture.

SECTION 2.5 Form.

The forms of the 2004 Notes, the 2009 Notes and the 2029 Notes shall be substantially in forms provided for in Article VI. The respective terms of the 2004 Notes, the 2009 Notes and the 2029 Notes form part of this First Supplemental Indenture. The Notes may be represented by one or more Global Notes and one or more Notes in definitive, registered form. The Notes will be initially issued as Global Notes registered in the name of Cede & Co. (as nominee for the Depository Trust Company ("DTC"), New York, New York, which, together with its nominees and their successors, is hereby designated the Depositary for the Notes). The Notes shall initially contain restrictions on transfer, substantially as described in the form set forth in Article VI. Each Note, whether in the form of a Global Note or in certificated form, shall initially bear a non-registration legend and a Restricted Certificate of Transfer, in each case in substantially the form set forth in such form.

It is contemplated that beneficial interests in Notes owned by qualified institutional buyers (as defined in Rule 144A under the Securities Act) ("QIBs") or sold to QIBs in reliance upon Rule 144A under the Securities Act will be represented by one or more global certificates registered in the name of Cede & Co., as registered owner and as nominee for DTC; and beneficial interests in Notes acquired by foreign purchasers pursuant to Regulation S under the Securities Act will be evidenced by one or more separate global certificates (each the "Regulation S Global Certificate"), also registered in the name of Cede & Co., as registered owner and as nominee for DTC for the accounts of Euroclear and Cedel Bank; prior to the 40th day after the date of initial issuance of the Notes, beneficial interests in the Regulation S Global Certificate may be held only through Euroclear or Cedel Bank; Notes acquired by Institutional Accredited Investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) ("IAIs") and other eligible transferees, who are not QIBs and who are not foreign purchasers pursuant to Regulation S under the Securities Act, will be in certificated form. The Trustee and the Issuer will have no responsibility under the Indenture for transfers of beneficial interests in the Notes. So long as a Note bears a non-registration legend and a Restricted Transfer Certificate the Trustee shall authenticate and issue new Notes upon a registration of transfer only upon receipt of a Restricted Transfer Certificate in the form set forth in Article VI. The Trustee shall refuse to register any transfer of a Note in violation of the legend set forth on such Note and without appropriate completion of the Restricted Transfer Certificate on such Note.

Subject to the conditions set forth therein and in the Indenture, pursuant to the Registration Rights Agreement, the non-registration legend and the Restricted Transfer Certificate may be removed or rendered inapplicable in the event of an Exchange Offer or the effectiveness of a Shelf Registration Statement, in each case, in respect of the Notes.

## ARTICLE III.

## COVENANTS

SECTION 3.1 Limitation on Restricted Payments.

(a) Prior to the consummation of the Merger, the Issuer shall not declare, make or pay any Restricted Payment (as defined herein), except (i) to the extent necessary to consummate the Merger, or (ii) to the extent the Company would be permitted to make such Restricted Payment pursuant to Section 3.01(b) of this First Supplemental Indenture.

(b) So long as any of the Notes are outstanding and until either:

(1) such Notes are rated Baa1 (or an equivalent rating) or higher by Moody's and BBB+ (or an equivalent rating) or higher by Standard & Poor's; or

(2) so long as the Company is a Subsidiary of CMS Energy, the long-term senior unsecured debt rating of CMS Energy is rated Baa3 (or an equivalent rating) or higher by Moody's and BBB- (or an equivalent rating) or higher by Standard & Poor's;

in each case at which time the Company will be permanently released from the provisions of this Section 3.01(b), the Company will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

(i) declare or pay any dividend or make any distribution on the Capital Stock of the Company to the direct or indirect holders of its Capital Stock (except dividends or distributions payable solely in its Non-Convertible Capital Stock or in options, warrants or other rights to purchase such Non-Convertible Capital Stock and except dividends or distributions payable to the Company or a Subsidiary);

(ii) purchase, redeem or otherwise acquire or retire for value any Capital Stock of the Company; or

(iii) make any Loan to CMS Energy or any of its Affiliates that is not a Subsidiary of the Company;

(any such dividend, distribution, purchase, redemption, other acquisition or retirement described in (i) through (iii) above being hereinafter referred to as a "Restricted Payment"), unless at the time the Company or such Restricted Subsidiary makes such Restricted Payment and after giving effect thereto:

(1) no Event of Default, and no event that with the lapse of time or the giving of notice or both would constitute an Event of Default, shall have occurred and be continuing (or would result therefrom);

(2) the Company's Fixed Charge Coverage Ratio is greater than or equal to 2.2; and

(3) the Company's Leverage Ratio is less than or equal to 55%.

Notwithstanding the foregoing, the Company or any of its Restricted Subsidiaries may declare, make or pay any Restricted Payment, if at the time the Company or such Restricted Subsidiary makes such Restricted Payment and after giving effect thereto:

(1) no Event of Default, and no event that with the lapse of time or the giving of notice or both would constitute an Event of Default, shall have occurred and be continuing (or would result therefrom); and

(2) the aggregate amount of such Restricted Payment and all other Restricted Payments made since the date of issuance of the Notes would not exceed the sum of:

(A) $50 million;

(B) 75% of Adjusted Consolidated Net Income accumulated since the date of issuance of the Notes to the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Restricted Payment; and

(C) the aggregate net cash proceeds received by the Company after the date of issuance of the Notes from capital contributions or the issuance of Capital Stock of the Company to a person who is not a Subsidiary of the Company, or from the issuance to such a person of options, warrants or other rights to acquire such Capital Stock of the Company.

None of the foregoing provisions will prohibit:

(i) dividends or other distributions paid in respect of any class of Capital Stock issued by the Company in connection with the acquisition of any business or assets by the Company or a Restricted Subsidiary where the dividends or other distributions with respect to such Capital Stock are payable solely from the net earnings of such business or assets;

(ii) any purchase or redemption of Capital Stock of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, NonConvertible Capital Stock of the Company; or

(iii) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividends would have complied with this covenant.

SECTION 3.2 Limitation on Liens.

(a) Prior to the consummation of the Merger, the Issuer shall not create, assume, incur or suffer to exist any Lien upon any of its property or assets, including common stock of the Company held by the Issuer, except Permitted Liens described in clause (iv) of the definition thereof.

(b) The Company shall not, nor will it permit any Restricted Subsidiary to, create, assume, incur or suffer to exist any Lien upon any Principal Property, whether owned or leased on the date of the Indenture or thereafter acquired, to secure any Debt of the Company or any other Person (other than the Notes), without in any such case making effective provision whereby all of the Notes outstanding shall be secured equally and ratably with, or prior to, such Debt so long as such Debt shall be so secured. There is excluded from this restriction:

(i) any Lien upon any property or assets of the Company or any Restricted Subsidiary in existence on the date of the Indenture or created pursuant to an "after-acquired property" clause or similar term in existence on the date of the Indenture or any mortgage, pledge agreement, security agreement or other similar instrument in existence on the date of the Indenture;

(ii) any Lien upon any property or assets created at the time of acquisition of such property or assets by the Company or any Restricted Subsidiary or within 18 months after such time to secure all or a portion of the purchase price for such property or assets or Debt incurred to finance such purchase price, whether such Debt was incurred prior to, at the time of or within 18 months of such acquisition;

(iii) any Lien upon any property or assets existing thereon at the time of the acquisition thereof by the Company or any Restricted Subsidiary (whether or not the obligations secured thereby are assumed by the Company or any Restricted Subsidiary);

(iv) any Lien upon any property or assets of a Person existing thereon at the time such Person becomes a Restricted Subsidiary by acquisition, merger or otherwise (whether or not such Lien was created in anticipation of such acquisition);

(v) any Lien securing obligations assumed by the Company or any Restricted Subsidiary existing at the time of the acquisition by the Company or any Restricted Subsidiary of the property or assets subject to such Lien or at the time of the acquisition of the Person which owns such property or assets;

(vi) any Lien on property to secure all or part of the cost of construction or improvements thereon or to secure Debt incurred prior to, at the time of, or within 18 months after completion of such construction or making of such improvements, to provide funds for any such purpose;

(vii) any Lien in favor of the Issuer, the Company or any Restricted Subsidiary;

(viii) any Lien created or assumed by the Company or any Restricted Subsidiary in connection with the issuance of Debt the interest on which is excludable from gross income of the holder of such Debt pursuant to the Internal Revenue Code of 1986, as amended, or any successor statute, for the purpose of financing, in whole or in part, the acquisition or construction of property or assets to be used by the Company or any Subsidiary;

(ix) any Lien upon property or assets of any foreign Restricted Subsidiary to secure Debt of that foreign Restricted Subsidiary;

(x) Permitted Liens;

(xi) any Lien created by any program providing for the financing, sale or other disposition of trade or other receivables classified as current assets in accordance with United States generally accepted accounting principles entered into by the Company or by a Subsidiary of the Company, provided that such program is on terms customary for similar transactions, or any document executed by any Subsidiary in connection therewith, provided that such Lien is limited to the trade or other receivables in respect of which such program is created or exists, and the proceeds thereof;

(xii) any Lien upon any additions, improvements, replacements, repairs, fixtures, appurtenances or component parts thereof attaching to or required to be attached to property or assets pursuant to the terms of any mortgage, pledge agreement, security agreement or other similar instrument, creating a Lien upon such property or assets permitted by clauses (i) through (xi), inclusive, above; or

(xiii) any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancing, refundings or replacements) of any Lien, in whole or in part, that is referred to in clauses (i) through (vi), inclusive, above (and liens related thereto referred to in clause (xii) above), or of any Debt secured thereby; provided, however, that the principal amount of Debt secured thereby shall not exceed the greater of the principal amount of Debt so secured at the time of such extension, renewal, refinancing, refunding or replacement and the original principal amount of Debt so secured (plus in each case the aggregate amount of premiums, other payments, costs and expenses paid or incurred in connection with such extension, renewal, refinancing, refunding or replacement); provided further, however, that such extension, renewal, refinancing, refunding or replacement shall be limited to all or a part of the property (including improvements, alterations and repairs on such property) subject to the encumbrance so extended, renewed, refinanced, refunded or replaced (plus improvements, alterations and repairs on such property).

Notwithstanding the foregoing, under the Indenture, the Company may, and may permit any Restricted Subsidiary to, create, assume, incur, or suffer to exist any Lien upon any Principal Property to secure Debt of the Company or any Person (other than the Notes) that is not otherwise excepted by clauses (i) through (xiii), inclusive, above without securing the Notes issued under the Indenture, provided that the aggregate principal amount of all Debt then outstanding secured by such Lien and all similar Liens, together with all net sale proceeds from Sale-Leaseback Transactions (excluding Sale-Leaseback Transactions permitted by clauses (i) through (iv), inclusive, of Section 3.03(b) of this First Supplemental Indenture) does not exceed the greater of 15% of Consolidated Net Tangible Assets or 15% of Total Capital.

SECTION 3.3 Restriction on Sale-Leasebacks.

(a) Prior to the consummation of the Merger, the Issuer shall not engage in a Sale-Leaseback Transaction.

(b) The Company shall not, nor shall it permit any Restricted Subsidiary to, engage in a Sale-Leaseback Transaction, unless:

(i) such Sale-Leaseback Transaction occurs within 18 months from the date of acquisition of the Principal Property subject thereto or the date of the completion of construction or commencement of full operations on such Principal Property, whichever is later;

(ii) the Sale-Leaseback Transaction involves a lease for a period, including renewals, of not more than four years;

(iii) the Company or such Restricted Subsidiary would be entitled to incur Debt secured by a Lien on the Principal Property subject thereto in a principal amount equal to or exceeding the net sale proceeds from such Sale-Leaseback Transaction without securing the Notes; or

(iv) the Company or such Restricted Subsidiary, within an 18-month period after such Sale-Leaseback Transaction, applies or causes to be applied an amount not less than the net sale proceeds from such Sale-Leaseback Transaction to (A) the repayment, redemption or retirement of Funded Debt of the Company or any Subsidiary, or (B) investment in another Principal Property or in a Subsidiary of the Company which owns another Principal Property.

Notwithstanding the foregoing, under the Indenture, the Company may, and may permit any Restricted Subsidiary to, effect any Sale-Leaseback Transaction that is not otherwise excepted by clauses (i) through (iv), inclusive, above, provided that the net sale proceeds from such Sale-Leaseback Transaction, together with the aggregate principal amount of outstanding Debt (other than the Notes) secured by Liens upon any Principal Properties not excepted by

clauses (i) through (xiii), inclusive, of Section 3.02(b) of this First Supplemental Indenture, do not exceed the greater of 15% of the Consolidated Net Tangible Assets or 15% of Total Capital.

SECTION 3.4 Limitation on Other Business Activities.

Prior to the consummation of the Merger, the Issuer shall not engage in any trade, business or operations other than in connection with (i) the holding of common stock (including the making of capital contributions and the receipt of dividends and other distributions in respect thereof) of the Company, (ii) the Merger and (iii) the issuance of the Notes.

SECTION 3.5 Applicability of Covenants.

Unless otherwise stated herein, the foregoing covenants contained in this Article III shall only be in effect so long as any of the Notes are outstanding.

## ARTICLE IV.

## DEFAULT

SECTION 4.1 General.

All of the events specified in paragraphs (1) through (6) in Section 6.01(a) of the Base Indenture shall be "Events of Default" with respect to the Notes.

SECTION 4.2 Additional Event of Default.

The following event shall be an "Event of Default" with respect to the Notes: default in the payment of any Liquidated Damages pursuant to the Registration Rights Agreement with respect to any of the Notes, when due, and continuance of such default for a period of 60 days.

## ARTICLE V.

## DEFEASANCE

SECTION 5.1 General.

All of the provisions of Article XI of the Base Indenture shall be applicable to the Notes.

SECTION 5.2 Covenant Defeasance.

With respect to and pursuant to the terms of Section 11.02(b) of the Base Indenture, the release of covenant obligations provided for therein shall, with respect to the Notes, also apply to Section 3.01, Section 3.02, Section 3.03 and Section 3.04 of this First Supplemental Indenture.

## ARTICLE VI.

## FORM OF NOTE

SECTION 6.1 Form of Note.

The Notes, the Note Guarantee and the Trustee's Certificate of Authentication to be endorsed thereon are to be substantially in the following forms:

(FORM OF FACE OF NOTE)

[IF THE NOTE IS TO BE A GLOBAL NOTE, INSERT This Note is a Global Note within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee of a Depositary. This Note is exchangeable for Notes registered in the name of a person other than the Depositary or its nominee only in the limited circumstances described in the Indenture, and no transfer of this Note (other than a transfer of this Note as a whole by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary) may be registered except in limited circumstances.

Unless this Note is presented by an authorized representative of The Depository Trust Company (55 Water Street, New York, New York) to the issuer or its agent for registration of transfer, exchange or payment, and any Note issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment hereon is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY A PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.]

[IF THE NOTE IS TO BE A RESTRICTED NOTE, INSERT THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH IN THE SECOND SENTENCE HEREOF. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (C) IT IS AN INSTITUTIONAL

"ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A) (1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT (AN "IAI"), (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE ISSUER OR ANY OF ITS SUBSIDIARIES, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (C) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF THE SECURITIES ACT, (D) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (E) TO AN IAI THAT, PRIOR TO SUCH TRANSFER, FURNISHES THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE TRANSFER OF THIS NOTE (THE FORM OF WHICH CAN BE OBTAINED FROM THE TRUSTEE) AND AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER THAT SUCH TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT, (F) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER AND THE GUARANTOR) OR (G) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "U.S. PERSONS" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING.]

No. ---------- $ ----------

CMS Panhandle Holding Company

___% SENIOR NOTE
DUE [2004] [2009] [2029]

CMS PANHANDLE HOLDING COMPANY, a Michigan corporation (the "Issuer", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on [March 15,][July 15,] [2004][2009][2029] ("Maturity") and to pay interest thereon from _____ __, 1999 (the "Original Issue Date") or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, semi-annually in arrears on [IN THE CASE OF THE 2004 NOTES - March 15 and September 15][IN THE CASE OF THE 2009 NOTES AND THE 2029 NOTES - January 15 and July 15] in each year, commencing [IN THE CASE OF THE 2004

NOTES - September 15][IN THE CASE OF THE 2009 NOTES AND THE 2029 NOTES - July 15], 1999 and at Maturity at the rate of [IN THE CASE OF THE 2004 NOTES - 6.125][IN THE CASE OF THE 2009 NOTES - 6.500][IN THE CASE OF THE 2029 NOTES - 7.000]% per annum, until the principal hereof shall have become due and payable, and on any overdue principal and premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Note is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person in whose name this Note (or one or more Predecessor Securities, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment which shall be the close of business on the 1st day of the calendar month in which such Interest Payment Date occurs. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the registered holders of this series of Notes not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. The principal of (and premium, if any) and the interest on this Note shall be payable at the office or agency of the Trustee maintained for that purpose in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Issuer by check mailed to the registered holder at such address as shall appear in the Security Register.

This Note shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

The provisions of this Note are continued on the reverse side hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed.

Dated
---------------, ----

CMS PANHANDLE HOLDING COMPANY

By_____
Name:
Title:

Attest:

By
---
Name:
Title:

(FORM OF CERTIFICATE OF AUTHENTICATION)

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the series of Notes described in the within-mentioned Indenture.

NBD BANK, as Trustee

By
---
Authorized Signatory

(FORM OF GUARANTEE)

FOR VALUE RECEIVED, Panhandle Eastern Pipe Line Company (the "Company" or the "Guarantor"), hereby irrevocably and unconditionally guarantees to the registered holder of this Note upon which this Guarantee is endorsed that: (i) principal of, premium, if any, interest and any other payments on this Note will be promptly paid in full when due, subject to any applicable grace period, whether on the stated maturity, on an interest payment date, by acceleration, by call for redemption, upon repurchase or purchase pursuant to the Indenture referred to therein or otherwise, and interest on the overdue principal and premium, if any, and interest on any interest or any other payment, to the extent lawful (in each case including interest accruing on or after filing of any petition in bankruptcy or reorganization relating to the Issuer or the Guarantor, whether or not a claim for post-filing interest is allowed in each proceeding) and all other obligations of the Issuer to the registered holder of this Note under this Note or the Indenture will be promptly paid in full when due or performed, all in accordance with the terms hereof and thereof; and (ii) in case of any extension of time of payment or renewal of said Note or of any such other obligations, the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, subject to any applicable grace period, whether at maturity, on an interest payment date, by acceleration, required repurchase or otherwise.

The Guarantor hereby agrees that its obligations hereunder shall be as if it were principal debtor and not merely surety, and shall be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of this Note or the Indenture, any failure to enforce the provisions of this Note or the Indenture, any waiver, modification or indulgence granted to the Issuer with respect thereto by the holders of this Note or the Trustee, or any other circumstance which may otherwise constitute a legal discharge of a surety or guarantor; provided that, notwithstanding the foregoing, no such waiver, modification, indulgence or circumstance shall without the written consent to the Guarantor increase the principal amount of this Note or the interest rate thereon or change the currency of payment with respect to this Note, or alter the stated maturity thereof. The Guarantor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of the Issuer, to require that the Trustee pursue or exhaust its legal or equitable remedies against the Issuer prior to exercising its rights under the Guarantee (including, for the avoidance of doubt, any right which the Guarantor may have to require the seizure and sale of the assets of the Issuer to satisfy the outstanding principal of, interest on or any other amount payable under this Note prior to recourse against the Guarantor or its assets), protest or notice with respect to this Note or the indebtedness evidenced thereby and all demands whatsoever, and covenants that, except as otherwise set forth below and in the Indenture, the Guarantee of the Guarantor will not be discharged with respect to this Note except by payment in full of the principal thereof, premium, if any, any interest thereon and all other amounts payable thereunder. If at any time while this Guarantee remains in effect any payment of principal of and interest on this Note is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Issuer, the Guarantor's obligations hereunder with respect to such payment shall be reinstated as

of the date of such rescission, restoration or return as though such a payment had become due but had not been made at such times.

This Guarantee is dated the date of the Note upon which it is endorsed.

If for any reason this Guarantee shall be deemed to be unenforceable, the Guarantor hereby irrevocably and unconditionally agrees as a primary obligor to indemnify fully the registered holder of this Note upon which this Guarantee is endorsed for and against any amounts owed by the Issuer in respect of this Note and the Indenture that otherwise would be payable under this Guarantee.

The Guarantor shall be subrogated to all rights of the holder of said Note against the Issuer in respect of any amounts paid by the Guarantor pursuant to the provisions of this Guarantee; provided, however, that the Guarantor shall not, without the consent of the holders of all of the Securities then outstanding, be entitled to enforce or to receive any payments arising out of or based upon such right of subrogation until the principal of and premium, if any, and interest on all Securities shall have been paid in full or payment thereof shall have been provided for in accordance with said Indenture.

Notwithstanding anything to the contrary contained herein, if following any payment of principal or interest by the Issuer on the Securities to the holders of the Securities it is determined by a final decision of a court of competent jurisdiction that such payment shall be avoided by a trustee in bankruptcy (including any debtor-in-possession) as a preference under 11 U.S.C. Section 547 and such payment is paid by such holder to such trustee in bankruptcy, then and to the extent of such repayment, the obligations of the Guarantor hereunder shall remain in full force and effect.

Notwithstanding anything to the contrary contained herein, upon consummation of the Merger, the Company will assume all of the Issuer's obligations on this Note and under the Indenture, and the Company will be automatically and unconditionally released and discharged from its obligations under this Guarantee.

This Guarantee shall not be valid or become obligatory for any purpose with respect to a Security until the certificate of authentication on such Security shall have been signed by the Trustee (or the Authentication Agent).

This Guarantee shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, Panhandle Eastern Pipe Line Company has caused this Guarantee to be executed.

PANHANDLE EASTERN PIPE LINE COMPANY
as Guarantor

By: _____
Name:
Title: Assistant Secretary

By: _____
Name:
Title:

(FORM OF REVERSE OF NOTE)

This Note is one of a duly authorized series of Securities of the Issuer (herein sometimes referred to as the "Notes"), specified in the Indenture, all issued or to be issued in one or more series under and pursuant to an indenture (the "Base Indenture") dated as of March 29, 1999 among the Issuer, Panhandle Eastern Pipe Line Company, a Delaware corporation, as Guarantor (the "Company" or the "Guarantor") and NBD Bank, as Trustee (the "Trustee"), as supplemented by the First Supplemental Indenture dated as of March 29, 1999 among the Issuer, the Guarantor and the Trustee (the Base Indenture as so supplemented, hereinafter being referred to as the "Indenture"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the holders of the Notes. By the terms of the Indenture, the Notes are issuable in series which may vary as to amount, date of maturity, rate of interest and in other respects as in the Indenture provided. This series of Notes is limited in aggregate principal amount as specified in said First Supplemental Indenture.

[IN THE CASE OF A 2004 NOTE OR 2009 NOTE OR 2029 NOTE -- This tranche of the Notes (the "[2004] [2009] [2029] Notes") is redeemable at the option of the Issuer at any time and from time to time, in whole or in part, upon not less than 30 nor more than 45 days notice to each holder of such Notes, at a redemption price equal to the Make-Whole Price of such Notes. "Make-Whole Price" means an amount equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) as determined by an Independent Investment Banker, the sum of the present values of the remaining scheduled payments of principal and interest thereon (excluding the portion of any such interest accrued to the redemption date) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus, in each case, accrued and unpaid interest thereon to the date of redemption. Unless there is a default in the payment of the redemption price, on and after the date of redemption, interest will cease to accrue on Notes or portions thereof called for redemption.

"Adjusted Treasury Rate" means, with respect to any date of redemption, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price at such date of redemption, plus [IN THE CASE OF A 2004 NOTE - 15 basis points (0.15%)] [IN THE CASE OF A 2009 NOTE - 25 basis points (0.25%)] [IN THE CASE OF A 2029 NOTE - 40 basis points (0.40%)].

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the [2004 Notes] [2009 Notes] [2029 Notes] to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

"Comparable Treasury Price" means, with respect to any date of redemption, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such date of redemption, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities", or (ii) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (A) the average of the Reference Treasury Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Trustee obtains fewer than three such Reference Treasury Dealer Quotations, the average of both such Reference Treasury Dealer Quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Company.

"Reference Treasury Dealer" means, for the Notes, each of Donaldson, Lufkin & Jenrette Securities Corporation, Barclays Capital Inc., Chase Securities Inc., NationsBanc Montgomery Securities LLC, First Chicago Capital Markets, Inc., Salomon Smith Barney Inc. and SG Cowen Securities Corporation and their respective successors; provided, however, that if any of the foregoing shall not be a primary U.S. Government securities dealer in New York City ( a "Primary Treasury Dealer"), the Company shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any date of redemption, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such date of redemption.

If an Event of Default with respect to this Note shall occur and be continuing, the principal of this Note may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture contains provisions for defeasance at any time of (i) the entire indebtedness of this Note or (ii) certain restrictive covenants and certain other obligations with respect to this Note, in each case upon compliance with certain conditions set forth therein.

The Indenture permits, with certain exceptions as therein provided, modifications and amendments of the Indenture by the Guarantor and the Trustee with the consent of the holders of a majority in aggregate principal amount of the outstanding Notes.

The Indenture provides that the holders of a majority in aggregate principal amount of the outstanding Notes may, on behalf of the holders of all Notes, waive, insofar as the Notes are concerned, compliance by the Issuer and Guarantor with certain restrictive provisions of the Indenture.

The Indenture provides that the holders of a majority in aggregate principal amount of the outstanding Notes may, on behalf of all holders of Notes, waive any past default under the Indenture with respect to any Notes, except a default (i) in the payment of principal of, or premium, if any, or any interest on any Note; or (ii) in respect of a covenant or provision of the Indenture which cannot be modified or amended without the consent of the holder of each outstanding Note affected.

The Indenture provides that, subject to the duty of the Trustee during default to act with the required standard of care, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless such holders shall have offered to the Trustee reasonable indemnity. Subject to such provisions for the indemnification of the Trustee, the holders of a majority in aggregate principal amount of the outstanding Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Notes; provided, however, that the Trustee shall not be obligated to take any action unduly prejudicial to holders not joining in such direction or involving the Trustee in personal liability.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and any premium and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein and herein set forth, the transfer of this Note is registerable in the Security Register, upon surrender of this Note for registration of transfer at the office or agency of the Issuer in any place where the principal of and any premium and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Security Registrar duly executed by, the holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Notes are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Notes are exchangeable for a like aggregate principal amount of Notes and of like tenor of a different authorized denomination, as requested by the holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

[IN THE CASE OF A 2004 NOTE OR 2009 NOTE OR 2029 NOTE -- The Issuer shall not be required to (a) issue, exchange or register the transfer of this Note for a period of 15 days next

preceding the mailing of the notice of redemption of Notes or (b) exchange or register the transfer of any Note or any portion thereof selected, called or being called for redemption, except in the case of any Note to be redeemed in part, the portion thereof not so to be redeemed.]

Prior to due presentment of this Note for registration of transfer, the Issuer, the Trustee and any agent of the Issuer or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Issuer, the Trustee nor any such agent shall be affected by notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Issuer or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

All terms used in this Note which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

[IF NOTE IS A RESTRICTED NOTE -
(RESTRICTED CERTIFICATE OF TRANSFER)

FOR VALUE RECEIVED, THE UNDERSIGNED HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO PLEASE INSERT SOCIAL
---
SECURITY NUMBER OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

- ---

- ---
(Please print or typewrite name and address including postal zip code, of assignee)

- ---
the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints
---

- ---
to transfer said Note on the books of the Issuer, with full power of substitution in the premises.

The undersigned certifies that said Note is being resold, pledged or otherwise transferred as follows: (check one)

|_| to the Issuer;

|_| to a Person whom the undersigned reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act of 1933, as amended (the "Securities Act") purchasing for its own account or for the account of a qualified institutional buyer to whom notice is given that the resale, pledge or other transfer is being made in reliance on Rule 144A;

|_| in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act;

|_| to an institution that is an "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that is acquiring this Note for investment purposes and not for distribution; (attach a copy of an Investment Letter For Institutional Accredited Investors in the form annexed signed by an authorized officer of the transferee)

|_| as otherwise permitted by the non-registration legend appearing on this Note; or

|_| as otherwise agreed by the Issuer, confirmed in writing to the Trustee, as follows: (describe)

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Dated:

---

[IF NOTE IS NOT A RESTRICTED NOTE -

(CERTIFICATE OF TRANSFER)

FOR VALUE RECEIVED, THE UNDERSIGNED HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO PLEASE INSERT SOCIAL SECURITY

---

NUMBER OR OTHER IDENTIFYINGNUMBER OF ASSIGNEE

- ---

- ---

(Please print or typewrite name and address including postal zip code, of assignee)

- ---

the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints

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- ---

to transfer said Note on the books of the Issuer, with full power of substitution in the premises.

Dated:

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[IF NOTE IS A RESTRICTED NOTE -

(FORM OF INVESTMENT LETTER FOR
INSTITUTIONAL ACCREDITED INVESTORS)

[Transferor, Trustee and Issuer Names and Addresses]

Ladies and Gentlemen:

In connection with our proposed purchase of [6.125% Senior Notes due 2004][6.500% Senior Notes due 2009][7.000% Senior Notes due 2029] (the "Notes") issued by CMS Panhandle Holding Company, a Michigan corporation ("Issuer"), as guaranteed by Panhandle Eastern Pipe Line Company, a Delaware corporation (the "Guarantor"), we confirm that:

1. We have received a copy of the Offering Memorandum (the "Offering Memorandum") relating to the Notes and such other information as we deem necessary in order to make our investment decision. We acknowledge that we have read and agree to the matters stated under the caption NOTICE TO INVESTORS in such Offering Memorandum, and the restrictions on duplication or circulation of, or disclosure relating to, such Offering Memorandum.

2. We understand that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Indenture relating to Notes (the "Indenture") and that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth under NOTICE TO INVESTORS in the Offering Memorandum and the undersigned agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with such restrictions and conditions and the Securities Act of 1933, as amended ("Securities Act").

3. We understand that the offer and sale of the Notes have not been registered under the Securities Act, and that the Notes may not be offered or sold except as permitted in the following sentence. We agree, on our own behalf and on behalf of any accounts for which we are acting as hereinafter stated, that if we sell any Notes, we will do so only (A) to the Issuer, (B) in accordance with Rule 144A under the Securities Act to a "qualified institutional buyer" (as defined therein), (C) to an institutional "accredited investor" (as defined below) that, prior to such transfer, furnishes to the Trustee (as defined in the Indenture) a signed letter containing certain representations and agreements relating to the restrictions on transfer of the Notes (substantially in the form of this letter) and an opinion of counsel acceptable to the Issuer and the Guarantor that such transfer is

in compliance with the Securities Act, (D) outside the United States in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (E) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available), or (F) pursuant to an effective registration statement under the Securities Act, and we further agree to provide to any person purchasing any of the Notes from us a notice advising such purchaser that resales of the Notes are restricted as stated herein.

4. We understand that, on any proposed resale of any Notes, we will be required to furnish to the Trustee and Issuer such certifications, legal opinions and other information as the Trustee and Issuer may reasonably require to confirm that the proposed sale complies with the foregoing restrictions. We further understand that the Notes purchased by us will bear a legend to the foregoing effect.

5. We are an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) and have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Notes, and we and any accounts for which we are acting are each able to bear the economic risk of our or its investment.

6. We are acquiring the Notes purchased by us for our own account or for one or more accounts (each of which is an institutional "accredited investor") as to each of which we exercise sole investment discretion.

You, the Issuer and the Trustee are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

By: ---------- Name: Title:

(END OF FORM)

ARTICLE VII.

ORIGINAL ISSUE OF NOTES AND GUARANTEES

SECTION 7.1 Original Issue of Notes and Guarantees.

Upon execution of this First Supplemental Indenture, 2004 Notes in aggregate principal amount of $300,000,000, 2009 Notes in aggregate principal amount of $200,000,000 and 2029 Notes in aggregate principal amount of $300,000,000 may be executed by the Issuer and Note Guarantees endorsed thereon executed by the Guarantor. Such Notes and Note Guarantees endorsed thereon may be delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Notes to or upon the written order of the Issuer, signed by its Chairman, President or any Vice President and its Secretary or an Assistant Secretary, without any further action by the Issuer.

ARTICLE VIII.

MISCELLANEOUS

SECTION 8.1 Ratification of Indenture.

The Base Indenture, as supplemented by this First Supplemental Indenture, is in all respects ratified and confirmed, and this First Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided. The provisions of this First Supplemental Indenture shall supersede the provisions of the Indenture to the extent the Indenture is inconsistent herewith.

SECTION 8.2 Trustee Not Responsible for Recitals.

The recitals herein contained are made by the Issuer and the Guarantor and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this First Supplemental Indenture.

SECTION 8.3 Governing Law.

This First Supplemental Indenture and each Note shall be deemed to be a contract made under the internal laws of the State of New York, and for all purposes shall be construed in accordance with the laws of said State.

SECTION 8.4 Separability.

In case any one or more of the provisions contained in this First Supplemental Indenture or in the Notes shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of

this First Supplemental Indenture or of the Notes, but this First Supplemental Indenture and the Notes shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 8.5 Counterparts.

This First Supplemental Indenture may be executed in any number of counterparts each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the day and year first above written.

CMS PANHANDLE HOLDING COMPANY
As Issuer

By: /s/ Alan M. Wright
---
Name: Alan M. Wright
Title: Senior Vice President and Chief Financial Officer

PANHANDLE EASTERN PIPE LINE COMPANY
As Guarantor

By: /s/ Alan M. Wright
---
Name: Alan M. Wright
Title: Senior Vice President and Chief Financial Officer

NBD BANK,
as Trustee

By: /s/ J. Michael Banas
---
Name: J. Michael Banas
Title: Vice President

EXHIBIT (10)(a)

$800,000,000

CMS PANHANDLE HOLDING COMPANY

$300,000,000 6.125% Senior Notes due 2004
$200,000,000 6.500% Senior Notes due 2009
$300,000,000 7.000% Senior Notes due 2029

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Purchase Agreement

March 23, 1999

Donaldson, Lufkin & Jenrette
Securities Corporation
Barclays Capital Inc.
Chase Securities Inc.
NationsBanc Montgomery Securities LLC
First Chicago Capital Markets, Inc.
Salomon Smith Barney Inc.
SG Cowen Securities Corporation
c/o Donaldson, Lufkin & Jenrette
Securities Corporation
277 Park Avenue
New York, New York 10172

Dear Sirs:

CMS Panhandle Holding Company, a Michigan corporation (the "Company") confirms its agreement with Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), NationsBanc Montgomery Securities LLC, Chase Securities Inc., Barclays Capital Inc., First Chicago Capital Markets, Inc, SG Cowen Securities Corporation, and Salomon Smith Barney Inc. (each, an "Initial Purchaser", and collectively, the "Initial Purchasers") with respect to the issue and sale by the Company and the purchase by the Initial Purchasers, acting severally and not jointly, of the respective principal amounts set forth in Schedule A of its $300,000,000 6.125% Senior Notes due 2004 (the "2004 Notes"), $200,000,000 6.500% Senior Notes due 2009 (the "2009 Notes"), and $300,000,000 7.000% Senior Notes due 2029 (the "2029 Notes") (together, the "Senior Notes"), subject to the terms and conditions set forth herein. The Senior Notes are to be issued pursuant to the provisions of the Indenture, dated as of March 29, 1999, by and among the Company, Panhandle Eastern Pipe Line Company, a Delaware corporation ("Panhandle"), and NBD Bank, as trustee (the "Trustee"), relating to the Senior Notes (the "Base Indenture"), as supplemented by a First Supplemental Indenture, to be dated March 29, 1999 (the "Supplemental Indenture" and together with the Base Indenture, the

"Indenture"), by and among the Company, Panhandle and the Trustee. Following the Closing Date (as defined below), the Company will merge with and into Panhandle. Until the Company merges with and into Panhandle, Panhandle will irrevocably and unconditionally guarantee all payments under the Senior Notes, pursuant to the terms of the guarantee (the "Guarantee") included in the Base Indenture. Once the Company has merged with and into Panhandle, the obligations of the Company under the Senior Notes and the Indenture will be assumed by Panhandle. Capitalized terms used but not defined herein shall have the meanings given to such terms in the Indenture.

Holders (including subsequent transferees) of the Senior Notes will have the registration rights set forth in the registration rights agreement (the "Registration Rights Agreement"), to be dated the Closing Date (as defined below), for so long as such Senior Notes constitute "Transfer Restricted Securities" (as defined in the Registration Rights Agreement). Pursuant to the Registration Rights Agreement, the Company will agree to file with the Securities and Exchange Commission (the "Commission"), under the circumstances set forth therein, (i) a registration statement (the "Registration Statement") under the Securities Act of 1933, as amended (the "Act") relating to senior notes (the "Exchange Notes") to be offered in exchange for the Senior Notes (such offer to exchange being referred to as the "Exchange Offer") and (ii) a shelf registration statement pursuant to Rule 415 under the Act (the "Shelf Registration Statement" and, together with the Exchange Offer Registration Statement, the "Registration Statements") relating to the resale by certain holders of the Senior Notes and to use its best efforts to cause such Registration Statements to be declared and remain effective and usable for the periods specified in the Registration Rights Agreement and to consummate the Exchange Offer. The Senior Notes and the Exchange Notes issuable in exchange therefor are collectively referred to herein as the "Notes." This Agreement, the Indenture, the Notes and the Registration Rights Agreement are hereinafter sometimes referred to collectively as the "Operative Documents."

1. Offering Memorandum: The Senior Notes will be offered and sold to the Initial Purchasers pursuant to one or more exemptions from the registration requirements under the Act. The Company and Panhandle have prepared a preliminary offering memorandum dated March 22, 1999 (the "Preliminary Offering Memorandum") and an offering memorandum, dated March 23, 1999 (the "Offering Memorandum") relating to the Senior Notes, which incorporate by reference documents filed by Panhandle pursuant to Sections 13, 14 or 15 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). As used herein, the term "Preliminary Offering Memorandum" and "Offering Memorandum" shall include respectively the documents incorporated by reference therein. Any reference herein to the terms "amend," "amendment" or "supplement" with respect to the Preliminary Offering Memorandum and Offering Memorandum shall be deemed to include amendments or supplements to the Preliminary Offering Memorandum and Offering Memorandum, and documents incorporated by reference after the date of this Agreement and prior to the termination of the offering of the Senior Notes by the Initial Purchasers.

Upon original issuance thereof, and until such time as the same is no longer required pursuant to the Indenture, (and all securities issued in exchange or in substitution thereof) the Senior Notes shall bear the following legend:

THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A)(1) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) TO AN INSTITUTIONAL ACCREDITED INVESTOR IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES.

2. Agreements to Sell and Purchase: On the basis of the representations, warranties and covenants contained in this Agreement, and subject to the terms and conditions contained herein, the Company agrees to issue and sell to the several Initial Purchasers, and the Initial Purchasers agree, severally and not jointly, to purchase from the Company, the principal amounts of Senior Notes set forth opposite the name of such Initial Purchaser on Schedule A hereto at a purchase price equal to 99.084% in the case of the 2004 Notes, 98.973% in the case of the 2009 Notes and 97.859% in the case of the 2029 Notes, of the respective principal amounts thereof (collectively, the "Purchase Price").

The Company hereby agrees that, without the prior written consent of DLJ, it will not offer, sell, contract to sell or otherwise issue debt securities substantially similar to the Senior Notes for a period from the date of the execution of this Agreement until the date 30 days after the Closing Date.

3. Terms of Offering: The Initial Purchasers have advised the Company that the Initial Purchasers will take offers (the "Exempt Resales") of the Senior Notes purchased hereunder on the terms set forth in the Offering Memorandum solely to (i) persons whom the Initial Purchasers reasonably believe to be "qualified institutional buyers" as defined in Rule 144A under the Act ("QIBs") and (ii) to persons permitted to purchase the Senior Notes in offshore transactions in reliance upon Regulation S under the Act (each, a "Regulation S

Purchaser") (such persons specified in clauses (i) and (ii) being referred to herein as the "Eligible Purchasers"). The Initial Purchasers will offer the Senior Notes to Eligible Purchasers initially at a price equal to 100% of the principal amount thereof. Such price may be changed at any time without notice.

4. Delivery and Payment:

(a) Delivery of and payment of the Purchase Price for the Senior Notes shall be made at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 919 Third Avenue, New York, NY 10022, or such other location as may be mutually acceptable. Payment for the Senior Notes shall be made to the Company in federal or other funds immediately available in New York City against delivery of such Senior Notes for the respective accounts of the several Initial Purchasers at 10:00 a.m., New York City time, on March 29, 1999, or at such other time as shall be agreed upon by the Initial Purchasers and the Company. The time and date of such delivery and the payment are herein called the "Closing Date."

(b) Certificates for the Senior Notes shall be in definitive form or global form, as specified by you, and registered in such names and in such denominations as you shall request in writing not later than one full business day prior to the Closing Date. The certificates evidencing the Senior Notes shall be delivered to you on the Closing Date for the respective accounts of the several Initial Purchasers, with any transfer taxes payable in connection with the transfer of the Senior Notes to the Initial Purchasers duly paid, against payment of the Purchase Price therefor plus accrued interest, if any, to the date of payment and delivery. Certificates for the Senior Notes shall be made available to the Initial Purchasers for inspection not later than 9:30 a.m., New York City time, on the business day immediately preceding the Closing Date.

5. Agreements of the Company: In further consideration of the agreements of the Initial Purchasers herein contained, the Company covenants as follows:

(a) To prepare the Preliminary Offering Memorandum and Offering Memorandum in a form approved by you; to make no amendment or any supplement to the Preliminary Offering Memorandum and Offering Memorandum which shall be disapproved by your counsel upon legal grounds in writing, after consultation with you, promptly after reasonable notice thereof; and to furnish you with copies thereof.

(b) To advise the Initial Purchasers promptly and, if requested by the Initial Purchasers, confirm such advice in writing, (i) of the issuance by any state securities commission of any stop order suspending the qualification or exemption from qualification of any Senior Notes for offering or sale in any jurisdiction designated by the Initial Purchasers pursuant to Section 5(e) hereof, or the initiation of any proceeding by any state securities commission or any other federal or state regulatory authority for such purpose. The Company shall use its best efforts to prevent the issuance of any stop order or order suspending the qualification or exemption of any Senior Notes under any state securities or Blue Sky laws and, if at any time any state securities commission or other federal or state regulatory authority shall issue an order suspending the

qualification or exemption of any Senior Notes under any state securities or Blue Sky laws, the Company shall use its best efforts to obtain the withdrawal or lifting of such order at the earliest possible time.

(c) Prior to 10:00 a.m., New York City time, on the Business Day next succeeding the date of this Agreement, or as soon as otherwise mutually agreed, and from time to time thereafter, to furnish the Initial Purchasers and those persons identified by the Initial Purchasers to the Company as many copies of the Offering Memorandum, and any amendments or supplements thereto, in such quantities as the Initial Purchasers may reasonably request. Subject to the Initial Purchasers' compliance with their representations and warranties and agreements set forth in Section 7 hereof, the Company consents to the use of the Offering Memorandum, and any amendments and supplements thereto required pursuant hereto, by the Initial Purchasers in connection with Exempt Resales.

(d) Until such time as either of the Registration Statements shall be declared effective by the Commission, but in no event later than nine months after the date of the Offering Memorandum, any event shall have occurred as a result of which the Offering Memorandum as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made when such Offering Memorandum is delivered, not misleading, or, if for any other reason it shall be necessary or desirable during such same period to amend or supplement the Offering Memorandum, to notify you and upon your request to prepare and, subject to Section 5(a) and 5(j) hereof, furnish without charge to each Initial Purchaser and to any dealer in securities as many copies as you may from time to time reasonably request of an amended Offering Memorandum or a supplement to the Offering Memorandum which will correct such statement or omission or effect such compliance.

(e) To use its best efforts to qualify the Senior Notes for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Initial Purchasers may designate and to pay (or cause to be paid), or reimburse (or cause to be reimbursed) the Initial Purchasers and their counsel for, reasonable filing fees and expenses in connection therewith (including the reasonable fees and disbursements of counsel to the Initial Purchasers and filing fees and expenses paid and incurred prior to the date hereof), provided, however, that the Company shall not be required to qualify to do business as a foreign corporation or as a securities dealer or to file a general consent to service of process or to file annual reports or to comply with any other requirements deemed by the Company to be unduly burdensome.

(f) So long as the Notes are outstanding, (i) to mail and make generally available as soon as practicable after the end of each fiscal year to the record holders of the Notes a financial report of the Company on a consolidated basis, all such financial reports to

include a consolidated balance sheet, a consolidated statement of operations, a consolidated statement of cash flows and a consolidated statement of shareholders' equity as of the end of and for such fiscal year, together with comparable information as of the end of and for the preceding year, certified by the Company's independent public accountants and (ii) to mail and make generally available as soon as practicable after the end of each quarterly period (except for the last quarterly period of each fiscal year,) to such holders, a consolidated balance sheet, a consolidated statement of operations and a consolidated statement of cash flows as of the end of and for such period, and for the period from the beginning of such year to the close of such quarterly period, together with comparable information for the corresponding periods of the preceding year.

(g) So long as any of the Senior Notes remain outstanding and during any period in which either the Company is not subject to Section 13 or 15(d) of the Exchange Act, to make available to any holder of Senior Notes in connection with any sale thereof and any prospective purchaser of such Senior Notes from such holder, the information required by Rule 144A(d)(4) under the Act.

(h) To pay all expenses, fees and taxes (other than transfer taxes on sales by the respective Initial Purchasers) in connection with the issuance and delivery of the Senior Notes, except that the Company shall be required to pay the fees and disbursements (other than fees and disbursements referred to in paragraph (e) of this Section 5) of Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, counsel to the Initial Purchasers, only in the events provided in paragraph (i) of this Section 5, the Initial Purchasers hereby agreeing to pay such fees and disbursements in any other event, and that except as provided in such paragraph (i), the Company shall not be responsible for any out-of-pocket expenses of the Initial Purchasers in connection with their services hereunder.

(i) If the Initial Purchasers shall not take up and pay for the Senior Notes due to the failure of the Company to comply with any of the conditions specified in Section 10 hereof, or, if this Agreement shall be terminated in accordance with the provisions of Section 11(b) hereof prior to the Closing Date, to pay the reasonable fees and disbursements of Skadden, Arps, Slate, Meagher & Flom LLP, counsel to the Initial Purchasers, and, if the Initial Purchasers shall not take up and pay for the Senior Notes due to the failure of the Company to comply with any of the conditions specified in Section 10 hereof, to reimburse the Initial Purchasers for their reasonable out-of-pocket expenses, in an aggregate amount not exceeding a total of $3,000, incurred in connection with the financing contemplated by this Agreement.

(j) During the period referred to in paragraph (d) of this Section 5, to not amend or supplement the Offering Memorandum unless the Company has furnished the Initial Purchasers and counsel to the Initial Purchasers with a copy for their review and comment a reasonable time prior to filing and has reasonably considered any comments of the Initial

Purchasers, or any such amendment or supplement to which such counsel shall reasonably object on legal grounds in writing, after consultation with the Initial Purchasers.

(k) During the period referred to in paragraph (d) of this Section 5, to furnish the Initial Purchasers with copies of all documents required to be filed with the Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(l) During the period referred to in paragraph (d) of this Section 5, to comply with all requirements under the Exchange Act relating to the filing with the Commission of its reports pursuant to Section 13 of the Exchange Act and of its proxy statements pursuant to Section 14 of the Exchange Act.

(m) To comply in all material respects with all of its agreements set forth in the Registration Rights Agreement.

(n) To obtain the approval of The Depository Trust Company ("DTC") for "book-entry" transfer of the Notes, and to comply in all material respects with all of its agreements set forth in the representation letters of the Company to DTC relating to the approval of the Notes by DTC for "book-entry" transfer.

(o) Not to (or permit any affiliate to) sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in the Act) that would be integrated with the sale of the Senior Notes to the Initial Purchasers or pursuant to Exempt Resales in a manner that would require the registration of any such sale of the Senior Notes under the Act.

(p) Not to voluntarily claim, and to actively resist any attempts to claim, the benefit of any usury laws against the holders of any Notes.

(q) To cause the Exchange Offer to be made in the appropriate form to permit Exchange Notes registered pursuant to the Act to be offered in exchange for the Senior Notes and to comply in all material respects with all applicable federal and state securities laws in connection with the Exchange Offer.

(r) During the period of two years after the Closing Date, not to, and not permit any of its affiliates (as defined in Rule 144 under the Act) to, resell any of the Notes which constitute "restricted securities" under Rule 144 that have been reacquired by any of them.

(s) To apply the net proceeds of the offering and sale of the Senior Notes in the manner set forth in the Offering Memorandum under the caption "Use of Proceeds".

6. Representations and Warranties of the Company: The Company represents and warrants to, and agrees with, each of the Initial Purchasers that:

(a) Each of the Preliminary Offering Memorandum and the Offering Memorandum does not, and any supplement or amendment to it will not, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties contained in this paragraph shall not apply to statements in or omissions from the Preliminary Offering Memorandum and the Offering Memorandum (or any supplement or amendment thereto) based upon information relating to the Initial Purchasers furnished to the Company in writing by the Initial Purchasers expressly for use therein. No stop order preventing the use of the Offering Memorandum, or any amendment or supplement thereto, or any order asserting that any of the transactions contemplated by this Agreement are subject to the registration requirements of the Act, has been issued.

(b) The documents incorporated by reference in the Preliminary Offering Memorandum and the Offering Memorandum, when they were filed (or, if an amendment with respect to any such document was filed, when such amendment was filed) with the Commission, conformed in all material respects to the requirements of the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and any further documents so filed and incorporated by reference will, when they are filed with the Commission, conform in all material respects to the requirements of the Exchange Act and the rules and regulations of the Commission promulgated thereunder; none of such documents, when it was filed (or, if an amendment with respect to any such document was filed, when such amendment was filed), contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and no such further document, when it is filed, will contain an untrue statement of a material fact or will omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading.

(c) Each of the Company and Panhandle has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation and has all requisite authority to own or lease its properties and conduct its business as described in the Preliminary Offering Memorandum and the Offering Memorandum and to consummate the transactions contemplated hereby, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business as described in the Preliminary Offering Memorandum and the Offering Memorandum or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on either the Company or Panhandle and their respective Subsidiaries (as defined in Rule 405 under the Act, and hereinafter called a "Subsidiary"), taken as a whole;

each Significant Subsidiary (as defined in Rule 405 under the Act, and hereinafter called a "Significant Subsidiary") of the Company and Panhandle has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has all requisite authority to own or lease its properties and conduct its business as described in the Preliminary Offering Memorandum and the Offering Memorandum and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business as described in the Preliminary Offering Memorandum and the Offering Memorandum or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on either the Company or Panhandle and their respective Subsidiaries, taken as a whole.

(d) This Agreement has been duly authorized, executed and delivered by the Company.

(e) The Notes are in the form contemplated by the Indenture and have been duly authorized by the Company. At the Closing Date, the Senior Notes will have been duly executed and delivered by the Company and, (i) the Senior Notes, when authenticated by the Trustee in the manner provided for in the Indenture and delivered against payment therefor as provided in this Agreement, and (ii) the Exchange Notes, when issued, executed and authenticated in accordance with the terms of the Exchange Offer and the Indenture, will constitute valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally or by general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity), and will be entitled to the security afforded by the Indenture equally and ratably with all securities outstanding thereunder. The Notes conform in all material respects to the descriptions thereof in the Preliminary Offering Memorandum and the Offering Memorandum.

(f) The Registration Rights Agreement has been duly authorized by the Company. At the Closing Date, the Registration Rights Agreement will have been duly executed and delivered by the Company and will constitute a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms except to the extent that the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity) by, equitable principles of general applicability. The Registration Rights Agreement conforms in all material respects to the description thereof in the Preliminary Offering Memorandum and the Offering Memorandum.

(g) The Indenture has been duly authorized by the Company. At the Closing Date, the Indenture will have been duly executed and delivered by the Company and will

constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally or by general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity); the Indenture conforms in all material respects to the description thereof in the Preliminary Offering Memorandum and the Offering Memorandum; and the Indenture conforms to the requirements of the Trust Indenture Act of 1939, as amended (the "TIA").

(h) On and after the Closing Date, of the outstanding capital stock of each of Panhandle, Panhandle Storage Company and Trunkline LNG Company and each subsidiary of Panhandle organized in the United States (the "U.S. Subsidiaries") will be owned directly or indirectly by the Company, free and clear of any security interest, claim, lien, or other encumbrance or preemptive rights), and there are no outstanding rights (including, without limitation, preemptive rights), warrants or options to acquire, or instruments convertible into or exchangeable for, any shares of capital stock or other equity interest in any of Panhandle Storage Company, Trunkline LNG Company and the U.S. Subsidiaries or any contract, commitment, agreement, understanding or arrangement of any kind relating to the issuance of any such capital stock, any such convertible or exchangeable securities or any such rights, warrants or options. The Company has no subsidiaries and has conducted no business prior to the date hereof other than in connection with the transactions contemplated by this Agreement.

(i) Each of the Company and Panhandle have all necessary consents, authorizations, approvals, orders, certificates and permits of and from, and have made all declarations and filings with, all federal, state, local and other governmental authorities, all self-regulatory organizations and all courts and other tribunals, to own, lease, license and use its properties and assets and to conduct its business in the manner described in the Preliminary Offering Memorandum and the Offering Memorandum, except to the extent that the failure to obtain or file would not have a material adverse effect on either the Company or Panhandle.

(j) No order, license, consent, authorization or approval of, or exemption by, or the giving of notice to, or the registration with any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, and no filing, recording, publication or registration in any public office or any other place, was or is now required to be obtained by either of the Company or Panhandle to authorize their execution or delivery of, or the performance of its obligations under, this Agreement, in the case of the Company, or any of the Operative Documents, in the case of the Company and Panhandle, except such as have been obtained or may be required under state securities or Blue Sky laws or as referred to in the Preliminary Offering Memorandum and the Offering Memorandum.

(k) None of the issuance and sale of the Notes, or the execution or delivery by the Company and Panhandle of, or the performance by the Company and Panhandle of their

respective obligations under, this Agreement, in the case of the Company, or the Operative Documents, in the case of the Company and Panhandle, did or will conflict with, result in a breach of any of the terms or provisions of, or constitute a default or require the consent of any party under the Company's and Panhandle's Articles of Incorporation or by-laws, any material agreement or instrument to which each of the Company and Panhandle is a party, any existing applicable law, rule or regulation or any judgment, order or decree of any government, governmental instrumentality or court, domestic or foreign, having jurisdiction over either the Company or Panhandle or any of their respective properties or assets, or, except as described in the Preliminary Offering Memorandum and the Offering Memorandum, did or will result in the creation or imposition of any lien on either of the Company's or Panhandle's respective properties or assets.

(l) Except as disclosed in the Offering Memorandum, there is no action, suit, proceeding, inquiry or investigation (at law or in equity or otherwise) pending or, to the knowledge of the Company, threatened against either the Company or Panhandle, respectively, by any governmental authority that (i) questions the validity, enforceability or performance of this Agreement or any of the Operative Documents or (ii) if determined adversely, is likely to have a material adverse effect on the business or financial condition of either the Company or Panhandle, or have a material adverse effect on the ability of the Company to perform its obligations hereunder or the ability of either the Company or Panhandle to consummate the transactions contemplated by this Agreement.

(m) There has not been any material and adverse change in the business, properties or financial condition of either the Company or Panhandle from that set forth or incorporated by reference in the Offering Memorandum (other than changes referred to in or contemplated by the Offering Memorandum).

(n) Except as set forth in the Offering Memorandum, no event or condition exists that constitutes, or with the giving of notice or lapse of time or both would constitute, a default or any breach or failure to perform by the Company, Panhandle or any of their respective Significant Subsidiaries in any material respect under any indenture, mortgage, loan agreement, lease or other material agreement or instrument to which either the Company or Panhandle or any of their respective Significant Subsidiaries is a party or by which they or any of their Significant Subsidiaries or any of their respective properties may be bound.

(o) The Offering Memorandum, as of its date, contained all the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Act.

(p) When the Senior Notes are issued and delivered pursuant to this Agreement, the Senior Notes will not be of the same class (within the meaning of Rule 144A under the Act) as any security of the Company or Panhandle that is listed on a national securities exchange registered under Section 6 of the Exchange Act or that is quoted in a United States automated inter-dealer quotation system.

(q) Neither the Company or Panhandle nor any Affiliate of the Company or Panhandle has directly, or through any agent, (i) sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any security (as defined in the Act) which is or will be integrated with the sale of the Senior Notes in a manner that would require the registration under the Act of the Senior Notes or (ii) engaged in any form of general solicitation or general advertising in connection with the offering of the Senior Notes, (as those terms are used in Regulation D under the Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Act, including, but not limited to, publication or release of articles, notices or other communications published in any newspaper, magazine, or similar medium or broadcast over television or radio, or any seminar or meeting whose attendees have been invited by any general solicitation or general advertising. No securities of the same class as the Senior Notes have been issued and sold by the Company within the six-month period immediately prior to the date hereof.

(r) Prior to the effectiveness of any Registration Statement, the Indenture is not required to be qualified under the TIA.

(s) None of the Company or Panhandle nor any of their respective affiliates or any person acting on its or their behalf (other than the Initial Purchasers, as to whom the Company and Panhandle make no representation) has engaged or will engage in any directed selling efforts within the meaning of Regulation S under the Act ("Regulation S") with respect to the Senior Notes.

(t) The Senior Notes offered and sold in reliance on Regulation S have been and will be offered and sold only in offshore transactions.

(u) The sale of the Senior Notes pursuant to Regulation S is not part of a plan or scheme to evade the registration provisions of the Act.

(v) The Company, Panhandle and their respective affiliates and all persons acting on their behalf (other than the Initial Purchasers, as to whom the Company and Panhandle make no representation) have complied with and will comply with, in all material respects, the offering restrictions requirements of Regulation S in connection with the offering of the Senior Notes outside the United States and, in connection therewith, the Offering Memorandum will contain the disclosure required by Rule 902(h).

(w) No registration under the Act of the Senior Notes is required for the sale of the Senior Notes to the Initial Purchasers as contemplated hereby or for the Exempt Resales assuming the accuracy of the Initial Purchasers' representations and warranties and agreements set forth in Section 7 hereof.

(x) Neither the Company or Panhandle nor any of their respective Subsidiaries, after giving effect to the offering and sale of the Senior Notes, will be, an

"investment company" within the meaning of the Investment Company Act of 1940, as amended.

The Company acknowledges that the Initial Purchasers and, for purposes of the opinions to be delivered to the Initial Purchasers pursuant to Section 10 hereof, counsel to the Company and Panhandle and counsel to the Initial Purchasers will rely upon the accuracy and truth of the foregoing representations and hereby consents to such reliance.

7. Initial Purchasers' Representations and Warranties: Upon the authorization by you of the release of the Senior Notes, the several Initial Purchasers propose to offer the Senior Notes for sale upon the terms and conditions set forth in this Agreement and the Offering Memorandum and each Initial Purchaser hereby represents and warrants to, and agrees with the Company that:

(a) It will offer and sell the Senior Notes only to Eligible Purchasers;

(b) It is an Institutional Accredited Investor; and

(c) It will not offer or sell the Senior Notes by any form of general solicitation or general advertising, including but not limited to the methods described in Rule 502(c) under the Act.

8. Indemnification:

(a) The Company agrees, to the extent permitted by law, to indemnify and hold harmless each of the Initial Purchasers and each person, if any, who controls any such Initial Purchaser within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act or otherwise, and to reimburse the Initial Purchasers and such controlling person or persons, if any, for any legal or other expenses incurred by them in connection with defending any action, suit or proceeding (including governmental investigations) as provided in Section 8(c) hereof, insofar as such losses, claims, damages, liabilities or actions, suits or proceedings (including governmental investigations) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Offering Memorandum, or, if the Offering Memorandum shall be amended or supplemented, in the Offering Memorandum as so amended or supplemented or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any such untrue statement or alleged untrue statement or omission or alleged omission which was made in the Offering Memorandum or in the Offering Memorandum as so amended or supplemented, in reliance upon and in conformity with information furnished in writing to the Company by, or through DLJ on behalf of, any Initial Purchaser expressly for use therein and except that this indemnity

shall not inure to the benefit of any Initial Purchaser (or any person controlling such Initial Purchaser) on account of any losses, claims, damages, liabilities or actions, suits or proceedings arising from the sale of the Senior Notes to any person if a copy of the Offering Memorandum, as the same may then be supplemented or amended (excluding, however, any document then incorporated or deemed incorporated therein by reference), was not sent or given by or on behalf of such Initial Purchaser to such person (i) with or prior to the written confirmation of sale involved or (ii) as soon as available after such written confirmation, relating to an event occurring prior to the payment for and delivery to such person of the Senior Notes involved in such sale, and the omission or alleged omission or untrue statement or alleged untrue statement was corrected in the Offering Memorandum as supplemented or amended at such time.

The Company's indemnity agreement contained in this Section 8(a), and the covenants, representations and warranties of the Company and Panhandle contained in this Agreement, shall remain in full force and effect regardless of any investigation made by or on behalf of any person, and shall survive the delivery of and payment for the Senior Notes hereunder, and the indemnity agreement contained in this Section 8 shall survive any termination of this Agreement. The liabilities of the Company in this Section 8(a) are in addition to any other liabilities of the Company under this Agreement or otherwise.

(b) Each Initial Purchaser agrees, severally and not jointly, to the extent permitted by law, to indemnify, hold harmless and reimburse the Company, each other Initial Purchaser and each person, if any, who controls the Company or any such other Initial Purchaser within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, to the same extent and upon the same terms as the indemnity agreement of the Company set forth in Section 8(a) hereof, but only with respect to alleged untrue statements or omissions made in the Offering Memorandum or in the Offering Memorandum, as amended or supplemented, (if applicable) in reliance upon and in conformity with information furnished in writing to the Company by such Initial Purchaser expressly for use therein.

The indemnity agreement on the part of each Initial Purchaser contained in this Section 8(b) and the representations and warranties of such Initial Purchaser contained in this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any other person, and shall survive the delivery of and payment for the Senior Notes hereunder, and the indemnity agreement contained in this Section 8(b) shall survive any termination of this Agreement. The liabilities of each Initial Purchaser in this Section 8(b) are in addition to any other liabilities of such Initial Purchaser under this Agreement or otherwise.

(c) If a claim is made or an action, suit or proceeding (including governmental investigations) is commenced or threatened against any person as to which indemnity may be sought under Section 8(a) or 8(b), such person (the "Indemnified Person") shall notify the person against whom such indemnity may be sought (the "Indemnifying

Person") promptly after any assertion of such claim threatening to institute an action, suit or proceeding or if such an action, suit or proceeding is commenced against such Indemnified Person, promptly after such Indemnified Person shall have been served with a summons or other first legal process, giving information as to the nature and basis of the claim. Failure to so notify the Indemnifying Person shall not, however, relieve the Indemnifying Person from any liability which it may have on account of the indemnity under Section 8(a) or 8(b) if the Indemnifying Person has not been prejudiced in any material respect by such failure. Subject to the immediately succeeding sentence, the Indemnifying Person shall assume the defense of any such litigation or proceeding, including the employment of counsel and the payment of all expenses, with such counsel being designated, subject to the immediately succeeding sentence, in writing by DLJ in the case of parties indemnified pursuant to Section 8(b) and by the Company in the case of parties indemnified pursuant to Section 8(a). Any Indemnified Person shall have the right to participate in such litigation or proceeding and to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless (i) the Indemnifying Person and the Indemnified Person shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include (x) the Indemnifying Person and (y) the Indemnified Person and, in the written opinion of counsel to such Indemnified Person, representation of both parties by the same counsel would be inappropriate due to actual or likely conflicts of interest between them, in either of which cases the reasonable fees and expenses of counsel (including disbursements) for such Indemnified Person shall be reimbursed by the Indemnifying Person to the Indemnified Person. If there is a conflict as described in clause (ii) above, and the Indemnified Persons have participated in the litigation or proceeding utilizing separate counsel whose fees and expenses have been reimbursed by the Indemnifying Person and the Indemnified Persons, or any of them, are found to be solely liable, such Indemnified Person shall repay to the Indemnifying Person such fees and expenses of such separate counsel as the Indemnifying Person shall have reimbursed. It is understood that the Indemnifying Person shall not, in connection with any litigation or proceeding or related litigation or proceedings in the same jurisdiction as to which the Indemnified Persons are entitled to such separate representation, be liable under this Agreement for the reasonable fees and out-of-pocket expenses of more than one separate firm (together with not more than one appropriate local counsel) for all such Indemnified Persons. Subject to the next paragraph, all such fees and expenses shall be reimbursed by payment to the Indemnified Persons of such reasonable fees and expenses of counsel promptly after payment thereof by the Indemnified Persons.

In furtherance of the requirement above that fees and expenses of any separate counsel for the Indemnified Persons shall be reasonable, the Initial Purchasers and the Company agree that the Indemnifying Person's obligations to pay such fees and expenses shall be conditioned upon the following:

(i) in case separate counsel is proposed to be retained by the Indemnified Persons pursuant to clause (ii) of the preceding paragraph, the

Indemnified Persons shall in good faith fully consult with the Indemnifying Person in advance as to the selection of such counsel;

(ii) reimbursable fees and expenses of such separate counsel shall be detailed and supported in a manner reasonably acceptable to the Indemnifying Person (but nothing herein shall be deemed to require the furnishing to the Indemnifying Person of any information, including without limitation, computer print-outs of lawyers' daily time entries, to the extent that, in the judgment of such counsel, furnishing such information might reasonably be expected to result in a waiver of any attorney-client privilege); and

(iii) The Company and the Initial Purchasers shall cooperate in monitoring and controlling the fees and expenses of separate counsel for Indemnified Persons for which the Indemnifying Person is liable hereunder, and the Indemnified Person shall use every reasonable effort to cause such separate counsel to minimize the duplication of activities as between themselves and counsel to the Indemnifying Person.

The Indemnifying Person shall not be liable for any settlement of any litigation or proceeding effected without the written consent of the Indemnifying Person, but if settled with such consent or if there be a final judgment for the plaintiff, the Indemnifying Person agrees, subject to the provisions of this Section 8, to indemnify the Indemnified Person from and against any loss, damage, liability or expenses by reason of such settlement or judgment. The Indemnifying Person shall not, without the prior written consent of the Indemnified Persons, effect any settlement of any pending or threatened litigation, proceeding or claim in respect of which indemnity has been properly sought by the Indemnified Persons hereunder, unless such settlement includes an unconditional release by the claimant of all Indemnified Persons from all liability with respect to claims which are the subject matter of such litigation, proceeding or claim.

(d) If the indemnification provided for in this Section 8 above is unavailable to or insufficient to hold harmless an Indemnified Person under this Section 8 in respect of any losses, claims, damages or liabilities (or actions, suits or proceedings (including governmental investigations) in respect thereof) referred to therein, then each Indemnifying Person under this Section 8 above shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Indemnifying Person on the one hand and the Indemnified Person on the other from the offering of the Senior Notes. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then each Indemnifying Person shall contribute to such amount paid or payable by such Indemnified Person in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of each Indemnifying Person, if any, on the one hand and the Indemnified Person on the other in connection with the statements or omissions which

resulted in such losses, claims, damages or liabilities (or actions, suits or proceedings (including governmental investigations) in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Initial Purchasers on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company and the total discounts or commissions received by the Initial Purchasers, in each case as set forth in the Offering Memorandum, bear to the aggregate offering price of the Senior Notes. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Initial Purchasers on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Initial Purchasers agree that it would not be just and equitable if contribution pursuant to this Section 8(d) were determined by pro rata allocation (even if the Initial Purchasers were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 8(d). The amount paid or payable by an Indemnified Person as a result of the losses, claims, damages or liabilities (or actions, suits or proceedings (including governmental proceedings) in respect thereof) referred to above in this Section 8(d) shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Person in connection with investigating or defending any such action, suits or proceedings (including governmental proceedings) or claim, provided that the provisions of this Section 8 above have been complied with (in all material respects) in respect of any separate counsel for such Indemnified Person. Notwithstanding the provisions of this Section 8(d), no Initial Purchaser shall be required to contribute any amount greater than the excess of (i) the total price at which the Senior Notes sold and distributed by it to the public were offered to the public over (ii) the amount of any damages which such Initial Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Initial Purchasers' obligations in this Section 8(d) to contribute are several in proportion to their respective purchase obligations and not joint.

The agreement with respect to contribution contained in this Section 8(d) shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any Initial Purchaser, and shall survive delivery of and payment for the Senior Notes hereunder and any termination of this Agreement.

9. The respective indemnities, agreements, representations, warranties and other statements of the Company, Panhandle and the several Initial Purchasers, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Initial Purchaser or any controlling person of any

Initial Purchaser, the Company or Panhandle, or any officer, director or controlling person of the Company or Panhandle, and shall survive delivery of and payment for the Notes.

10. Conditions of Initial Purchaser's Obligations: The several obligations of the Initial Purchasers shall be subject to the condition that all representations and warranties and other statements of the Company herein are, at and as of the Closing Date, true and correct, the condition that the Company shall have performed all of its obligations hereunder theretofore to be performed, and the following additional conditions:

(a) That all legal proceedings to be taken in connection with the issue and sale of the Senior Notes shall be reasonably satisfactory in form and substance to Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, counsel to the Initial Purchasers.

(b) That, at the Closing Date, the Initial Purchasers shall be furnished with the following opinions, dated the Closing Date:

(i) Opinion of Michael D. VanHemert, Esq., as special counsel to the Company and Panhandle, substantially to the effect set forth in Exhibit A to this Agreement; and

(ii) Opinion of Skadden, Arps, Slate, Meagher & Flom LLP, of New York, New York, counsel to the Initial Purchasers, substantially to the effect set forth in Exhibit B to this Agreement.

(c) That on the date of the Preliminary Offering Memorandum and on the Closing Date the Initial Purchasers shall have received a letter from each of Arthur Andersen LLP, Deloitte & Touche LLP and KPMG LLP in form and substance satisfactory to the Initial Purchasers, dated as of such respective dates, (i) confirming that they are independent public accountants within the meaning of the Act and the applicable rules and regulations adopted by the Commission thereunder, (ii) stating that in their opinion the financial statements examined by them and included or incorporated by reference in the Offering Memorandum complied as to form in all material respects with the applicable accounting requirements of the Commission, including the applicable rules and regulations adopted by the Commission, and (iii) covering, as of a date not more than three business days prior to the date of such letter, such other matters as the Initial Purchasers reasonably request.

(d) That, between the date of the execution of this Agreement and the Closing Date, no material and adverse change shall have occurred in the business, properties or financial condition of each of the Company, Panhandle and their respective Subsidiaries, taken as a whole, which, in the judgment of the Initial Purchasers, impairs the marketability of the Senior Notes (other than changes referred to in or contemplated by the Offering Memorandum).

(e) That, at the Closing Date, each of the Company and Panhandle shall have delivered to the Initial Purchasers a certificate of an executive officer of each of the Company and Panhandle to the effect that, to the best of his or her knowledge, information and belief, (i) there shall have been no material adverse change in the business, properties or financial condition of each of the Company and Panhandle from that set forth in the Offering Memorandum (other than changes referred to in or contemplated by the Offering Memorandum); (ii) the representations and warranties of each of the Company and Panhandle herein at and as of the Closing Date are true and correct; and (iii) each of the Company and Panhandle has complied with all agreements and satisfied all conditions on their part to be per formed or satisfied at or prior to the Closing Date.

(f) That each of the Company and Panhandle shall have executed and delivered the Registration Rights Agreement.

(g) That Panhandle shall have executed and delivered the Supplemental Agreement, dated as of March 29, 1999, among Panhandle, the Company and the Initial Purchasers.

(h) That the Company shall have performed such of its obligations under this Agreement as are to be performed at or before the Closing Date by the terms hereof.

(i) That the Company shall have complied with the provisions of Section 5(c) hereof with respect to the furnishing of Offering Memorandum on the Business Day next succeeding the date of this Agreement;

(j) That any additional documents or agreements reasonably requested by the Initial Purchasers or their counsel to permit the Initial Purchasers to perform their obligations or permit their counsel to deliver opinions hereunder shall have been provided to them.

(k) That between the date of the execution of this Agreement and the Closing Date there has been no downgrading of the investment ratings of any of the Company's or Panhandle's securities by Standard & Poor's Ratings Group, Moody's Investors Service, Inc. or Duff & Phelps Credit Rating Co., and neither the Company nor Panhandle shall not have been placed on "credit watch" or "credit review" with negative implications by any of such statistical rating organizations if any of such occurrences shall, in the judgment of the Initial Purchasers, after reasonable inquiries on the part of the Initial Purchasers, impair the marketability of the Senior Notes.

(l) That the acquisition and reorganization of the Panhandle Companies (as defined in the Offering Memorandum) by the Company, as described in the Offering Memorandum, shall have been consummated on the Closing Date.

11. Effectiveness and Termination of Agreement; Initial Purchaser Default:

(a) This Agreement shall become effective upon the execution and delivery of this Agreement by the parties hereto.

(b) This Agreement may be terminated at any time prior to the Closing Date by the Initial Purchasers if, prior to such time, any of the following events shall have occurred: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange; (ii) a suspension or material limitation in trading in Panhandle's secu rities on the New York Stock Exchange; (iii) a general moratorium on commercial banking activities declared by either Federal or New York State authorities; or (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war, if the effect of any such event specified in this Clause (iv) in the judgment of the Initial Purchasers makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Senior Notes on the terms and in the manner contem plated in the Offering Memorandum.

If the Initial Purchasers elect to terminate this Agreement, as provided in this Section 11, DLJ will promptly notify the Company by telephone or telecopy, confirmed by letter. If this Agreement shall not be carried out by any Initial Purchaser for any reason per mitted hereunder, or if the sale of the Securities to the Initial Purchaser as herein contemplated shall not be carried out because either the Company is not able to comply with the terms hereof, the Company shall not be under any obligation under this Agreement and shall not be liable to any Initial Purchaser or to any member of any selling group for the loss of anticipated profits from the transactions contemplated by this Agreement and the Initial Purchaser shall be under no liability to the Company nor be under any liability under this Agreement to one another.

(c) If on the Closing Date any one or more of the Initial Purchasers shall fail or refuse (otherwise than for some reason sufficient to justify in accordance with the terms hereof, the termination of its obligations hereunder) to purchase the Senior Notes which it or they have agreed to purchase hereunder on such date and the aggregate principal amount of the Senior Notes which such defaulting Initial Purchaser or Initial Purchasers, as the case may be, agreed but failed or refused to purchase is not more than one-tenth of the aggregate principal amount of the Senior Notes to be purchased on such date by all Initial Purchasers, each non-defaulting Initial Purchaser shall be obligated severally, in the proportion which the principal amount of the Senior Notes set forth opposite its name in Schedule A bears to the aggregate principal amount of the Senior Notes which all the non-defaulting Initial Purchasers, as the case may be, have agreed to purchase, or in such other proportion as you may specify, to purchase the Senior Notes which such defaulting Initial Purchaser or Initial Purchasers, as the case may be, agreed but failed or refused to purchase on such date; provided that in no event shall the aggregate principal amount of the Senior Notes which any Initial Purchaser has agreed to purchase pursuant to Section 2 hereof be increased pursuant to this Section 11(c) by an

amount in excess of one-ninth of such principal amount of the Senior Notes which such Initial Purchaser agreed to purchase without the written consent of such Initial Purchaser. If on the Closing Date any Initial Purchaser or Initial Purchasers shall fail or refuse to purchase the Senior Notes and the aggregate principal amount of the Senior Notes with respect to which such default occurs is more than one-tenth of the aggregate principal amount of the Senior Notes to be purchased by all Initial Purchasers and arrangements satisfactory to the Initial Purchasers and the Company for purchase of such Senior Notes are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Initial Purchaser and the Company. In any such case which does not result in termination of this Agreement, either you, the Company or Panhandle shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Offering Memorandum or any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Initial Purchaser from liability in respect of any default of any such Initial Purchaser under this Agreement.

(d) Notwithstanding the foregoing, the provisions of Sections 5(e), 5(i), 8 and 9 shall survive any termination of this Agreement.

12. Miscellaneous: Notices given pursuant to any provision of this Agreement shall be addressed as follows: (i) if to the Company, to c/o CMS Energy Corporation, 330 Town Center Drive, Dearborn, Michigan 48126, Attention: Corporate Secretary, and (ii) if to the Initial Purchasers or DLJ, to Donaldson, Lufkin & Jenrette Securities Corporation, 277 Park Avenue, New York, New York 10172, Attn: Mike Ranger (212) 892-7272, or in any case to such other address as the person to be notified may have requested in writing.

Except as otherwise provided, this Agreement has been and is made solely for the benefit of and shall be binding upon the Company and the Initial Purchasers, the Initial Purchasers' directors and officers, any controlling persons referred to herein, and their respective successors and assigns, all as and to the extent provided in this Agreement, and no other person shall acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" shall not include a purchaser of any of the Senior Notes from an Initial Purchaser merely because of such purchase.

This Agreement shall be governed and construed in accordance with the laws of the State of New York.

This Agreement may be signed in various counterparts which together shall constitute one and the same instrument.

Please confirm that the foregoing correctly sets forth the agreement among the Company and the Initial Purchasers.

Very truly yours,

CMS PANHANDLE HOLDING COMPANY

By: /s/ Alan M. Wright
---
Name: Alan M. Wright
Title: Vice President and Chief Financial Officer

Accepted: March 23, 1999

Donaldson, Lufkin & Jenrette Securities Corporation
Barclays Capital Inc.
Chase Securities Inc.
NationsBanc Montgomery Securities LLC
First Chicago Capital Markets, Inc.
Salomon Smith Barney Inc.
SG Cowen Securities Corporation

By: DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION

By: /s/ Gavin Wolfe
---
Name: Gavin Wolfe
Title: Vice President

SCHEDULE A

| Initial Purchaser - ---------- | Principal Amount of 2004 Notes to be Purchased | Principal Amount of 2009 Notes to be Purchased | Principal Amount of 2029 Notes to be Purchased |
|---|---|---|---|
| Donaldson, Lufkin & Jenrette Securities Corporation | $118,800,000 | $79,200,000 | $118,800,000 |
| Barclays Capital Inc. | 51,300,000 | 34,200,000 | 51,300,000 |
| Chase Securities Inc. | 41,550,000 | 27,700,000 | 41,550,000 |
| NationsBanc Montgomery Securities LLC | 41,550,000 | 27,700,000 | 41,550,000 |
| First Chicago Capital Markets, | 15,600,000 | 10,400,000 | 15,600,000 |
| Salomon Smith Barney Inc. | 15,600,000 | 10,400,000 | 15,600,000 |
| SG Cowen Securities Corporation | 15,600,000 | 10,400,000 | 15,600,000 |
| Total | $300,000,000 | $200,000,000 | $300,000,000 |

EXHIBIT (12)

CMS ENERGY CORPORATION
Ratio of Earnings to Fixed Charges and Preferred Securities
Dividends and Distributions
(Millions of Dollars)

| | Three Months Ended March 31, 1999 | Years Ended December 31 - 1998 (b) | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|---|
| Earnings as defined (a) | | | | | | |
| Consolidated net income | $ 98 | $ 242 | $ 244 | $ 224 | $ 195 | $ 177 |
| Income taxes | 37 | 100 | 108 | 137 | 113 | 91 |
| Exclude equity basis subsidiaries | (18) | (92) | (80) | (85) | (57) | (18) |
| Fixed charges as defined, adjusted to exclude capitalized interest of $10, $28, $13, $5, $4 and $2 million for the three months ended March 31, 1999 and for the years ended December 31, 1998, 1997, 1996, 1995 and 1994, respectively | 112 | 395 | 360 | 313 | 299 | 253 |
| Earnings as defined | $ 229 | $ 645 | $ 632 | $ 589 | $ 550 | $ 503 |
| Fixed charges as defined (a) | | | | | | |
| Interest on long-term debt | $ 96 | $ 319 | $ 273 | $ 230 | $ 224 | $ 193 |
| Estimated interest portion of lease rental | 2 | 8 | 8 | 10 | 9 | 9 |
| Other interest charges | 12 | 48 | 49 | 43 | 42 | 30 |
| Preferred securities dividends and distributions | 19 | 77 | 67 | 54 | 42 | 36 |
| Fixed charges as defined | $ 129 | $ 452 | $ 397 | $ 337 | $ 317 | $ 268 |
| Ratio of earnings to fixed charges and preferred securities dividends and distributions | 1.78 | 1.43 | 1.59 | 1.75 | 1.74 | 1.88 |

NOTES:
(a) Earnings and fixed charges as defined in instructions for Item 503 of Regulation S-K.

(b) Excludes a cumulative effect of change in accounting after-tax gain of $43 million.

EXHIBIT (15)

ARTHUR ANDERSEN LLP

To CMS Energy Corporation:

We are aware that CMS Energy Corporation has incorporated by reference in its Registration Statements No. 33-29681, No. 33-47629, No. 33-60007, No. 33-61595, No. 33-60795, No. 33-62573, No. 333-32229, No. 333-63229, No. 333-68937, No. 333-75805 and No. 333-76347 its Form 10-Q for the quarter ended March 31, 1998, which includes our report dated May 11, 1999 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933, that report is not considered a part of the registration statement prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

/s/ Arthur Andersen LLP

Detroit, Michigan,
May 11, 1999.

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENT OF INCOME, STATEMENT OF CASH FLOWS, BALANCE SHEET, AND STATEMENT OF COMMON STOCKHOLDERS' EQUITY, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000811156
CMS ENERGY CORPORATION
1,000,000

| | |
|---|---|
| 3-MOS | |
| DEC-31-1999 | |
| JAN-01-1999 | |
| MAR-31-1999 | |
| PER-BOOK | |
| 3,883 | |
| 5,395 | |
| 1,406 | |
| 3,083 | |
| 0 | |
| 13,767 | |
| 1 | |
| 2,619 | |
| (174) | |
| 2,292 | |
| 393 | |
| 244 | |
| 2,042 | |
| 139 | |
| 5,216 | |
| 0 | |
| 265 | |
| 0 | |
| 99 | |
| 35 | |
| 2,888 | |
| 13,767 | |
| 1,538 | |
| 37 | |
| 1,293 | |
| 1,330 | |
| 208 | |
| 1 | |
| 209 | |
| 98 | |
| 111 | |
| 13 | |
| 98 | |
| 38 | |
| 0 | |
| 321 | |
| .82 | |
| .80 | |

EPS FOR CMS ENERGY COMMON STOCK $ .82
EPS FOR CLASS G COMMON STOCK $1.19

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENT OF INCOME, STATEMENT OF CASH FLOWS, BALANCE SHEET, AND STATEMENT OF COMMON STOCKHOLDERS' EQUITY, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000201533
CONSUMERS ENERGY COMPANY
1,000,000

3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
PER-BOOK
3,883
693
504
1,854
0
6,934
841
495
446
1,836
220
244
806
46
1,217
0
119
0
94
34
2,372
6,934
1,156
68
929
997
159
3
162
43
119
10
109
97
0
386
0
0

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE PANHANDLE EASTERN PIPE LINE COMPANY QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000076063
PANHANDLE EASTERN PIPE LINE COMPANY
1,000

3-MOS
DEC-31-1999
MAR-31-1999
0
0
88000
0
56000
181000
2490000
1652000
1523000
121000
299000
0
0
1000
1068000
1523000
0
133000
0
43000
21000
0
19000
74000
21000
34000
0
0
0
34000
0
0

NOT MEANINGFUL SINCE PANHANDLE EASTERN PIPE LINE COMPANY IS A WHOLLY-OWNED SUBSIDIARY.

EXHIBIT 99

CONSUMERS GAS GROUP
MANAGEMENT'S DISCUSSION AND ANALYSIS

In 1995, CMS Energy issued a total of 7.62 million shares of Class G Common Stock. This class of Common Stock reflects the separate performance of the gas distribution, storage and transportation businesses conducted by Consumers and Michigan Gas Storage Company, a subsidiary of Consumers (collectively, Consumers Gas Group). Accordingly, this MD&A should be read along with the MD&A in the 1998 Annual Report of CMS Energy included and incorporated by reference herein.

CMS Energy is the parent holding company of Consumers and CMS Enterprises Company. Consumers, a combination electric and gas utility company serving the Lower Peninsula of Michigan, is the principal subsidiary of CMS Energy. For further information regarding the businesses of CMS Energy, including the nature and issuance of Class G Common Stock, see the MD&A of CMS Energy.

RESULTS OF OPERATIONS

In Millions

| March 31 | 1999 | 1998 | Change |
|---|---|---|---|
| Three Months Ended | $ 39 | $ 36 | $ 3 |
| Twelve Months Ended | $ 55 | $ 57 | $ (2) |

The increase in net income for the three months ended March 31, 1999 compared to the same 1998 period reflects increased gas deliveries due to colder temperatures during the 1999 heating season. Partially offsetting the increase was the benefit resulting from a one-time accounting change for property taxes in the first quarter of 1998. The recognition of property tax expense was changed from expensing on a calendar year basis to a fiscal year basis which resulted in a benefit of $18 million ($12 million after-tax). The decrease in earnings for the twelve months ended March 31, 1999 compared to the same 1998 period reflects the change in accounting for property taxes implemented in March 1998 as discussed above and an increase in depreciation, partially offset by a decrease in the cost of gas.

GAS ISSUES

For a discussion of Consumers Gas Group operating issues, see Consumers Gas Group Results of Operations - Uncertainties in CMS Energy's MD&A.

CASH POSITION, INVESTING AND FINANCING

OPERATING ACTIVITIES: Consumers Gas Group's cash requirements are met by its operating and financing activities. Consumers Gas Group's cash from operations is derived mainly from Consumers' sale and transportation of natural gas. Cash from operations for the first quarter of 1999 and 1998 totaled $188 million and $159 million, respectively. The $29 million increase primarily reflects increased earnings and depreciation, coupled with the absence of the 1998 cumulative effect of the property tax accounting change.

Consumers Gas Group uses its operating cash primarily to maintain and expand its gas utility transmission and distribution systems, to retire portions of its long-term debt, and to pay dividends.

INVESTING ACTIVITIES: Cash used in investing activities for the first quarter of 1999 and 1998 totaled $20 million and $22 million, respectively. The $2 million decrease in cash used primarily reflects decreased capital expenditures.

FINANCING ACTIVITIES: Cash used in financing activities during the first quarter of 1999 and 1998 totaled $166 million and $133 million, respectively. The $33 million increase in cash used primarily reflects a decrease in the proceeds from senior notes, partially offset by a decrease in the retirement of bonds and other long-term debt.

OTHER INVESTING AND FINANCING MATTERS: Consumers has an agreement permitting the sale of certain accounts receivable for up to $500 million. At March 31, 1999, receivables sold totaled $344 million. Consumers Gas Group's attributed portion of these receivables sold totaled $154 million. Accounts receivable and accrued revenue in the Balance Sheets have been reduced to reflect receivables sold. For further information, see CMS Energy's Note 3.

## CAPITAL EXPENDITURES

CMS Energy estimates the following capital expenditures for Consumers Gas Group, including new lease commitments, over the next three years. These estimates are prepared for planning purposes and are subject to revision.

In Millions

| Years Ended December 31 | 1999 | 2000 | 2001 |
|---|---|---|---|
| Gas utility (a) | $ 120 | $ 120 | $ 118 |
| Michigan Gas Storage | 3 | 3 | 2 |
| | $ 123 | $ 123 | $ 120 |

(a) Includes a portion of anticipated capital expenditures common to Consumers' gas and electric utility businesses.

Consumers Gas Group expects that cash from operations and the ability to access debt markets will provide necessary working capital and liquidity to fund future capital expenditures, required debt payments, and other cash needs in the foreseeable future. For further information regarding forward-looking information, see the Consumers Gas Group Outlook discussion in CMS Energy's MD&A.

## YEAR 2000 COMPUTER MODIFICATIONS

For a discussion of Consumers Gas Group's year 2000 computer modification efforts, see Year 2000 Computer Modifications in CMS Energy's MD&A.

FORWARD-LOOKING STATEMENTS

For cautionary statements relating to Consumers Gas Group's forward-looking information, see Forward- Looking Statements in CMS Energy's MD&A.

CONSUMERS GAS GROUP
STATEMENTS OF INCOME
(UNAUDITED)

| MARCH 31 | THREE MONTHS ENDED 1999 | 1998 | TWELVE MONTHS ENDED 1999 | 1998 |
|---|---|---|---|---|
| | In Millions, Except Per Share Amounts | | | |
| OPERATING REVENUE | $ 506 | $ 429 | $ 1,128 | $ 1,135 |
| Operating Expenses | | | | |
| Operation | | | | |
| Cost of gas sold | 306 | 264 | 606 | 645 |
| Other | 47 | 46 | 178 | 182 |
| | 353 | 310 | 784 | 827 |
| Maintenance | 8 | 9 | 31 | 34 |
| Depreciation, depletion and amortization | 44 | 36 | 105 | 90 |
| General taxes | 23 | 20 | 58 | 54 |
| | 428 | 375 | 978 | 1,005 |
| PRETAX OPERATING INCOME | 78 | 54 | 150 | 130 |
| OTHER INCOME (DEDUCTIONS) | 2 | - | (3) | (2) |
| FIXED CHARGES | | | | |
| Interest on long-term debt | 7 | 7 | 28 | 28 |
| Other interest | 4 | 4 | 15 | 14 |
| Preferred dividends | 1 | 1 | 4 | 5 |
| | 12 | 12 | 47 | 47 |
| INCOME BEFORE INCOME TAXES | 68 | 42 | 100 | 81 |
| INCOME TAXES | 29 | 18 | 45 | 36 |
| NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | 39 | 24 | 55 | 45 |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR PROPERTY TAXES, NET OF $6 TAX | - | 12 | - | 12 |
| NET INCOME | $ 39 | $ 36 | $ 55 | $ 57 |
| NET INCOME ATTRIBUTABLE TO CMS ENERGY SHAREHOLDERS THROUGH RETAINED INTEREST | $ 29 | $ 27 | $ 41 | $ 42 |
| NET INCOME ATTRIBUTABLE TO CLASS G SHAREHOLDERS | $ 10 | $ 9 | $ 14 | $ 15 |
| AVERAGE CLASS G COMMON SHARES OUTSTANDING | 8 | 8 | 8 | 8 |
| BASIC AND DILUTED EARNINGS PER AVERAGE CLASS G COMMON SHARE BEFORE CHANGE IN ACCOUNTING PRINCIPLE | $ 1.19 | $ .73 | $ 1.68 | $ 1.40 |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX, PER AVERAGE CLASS G COMMON SHARE | $ - | $ .36 | $ - | $ .36 |
| BASIC AND DILUTED EARNINGS PER AVERAGE CLASS G COMMON SHARE | $ 1.19 | $ 1.09 | $ 1.68 | $ 1.76 |
| DIVIDEND DECLARED PER CLASS G COMMON SHARE | $ .325 | $ .31 | $ 1.285 | $ 1.225 |

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSUMERS GAS GROUP
STATEMENTS OF CASH FLOWS
(UNAUDITED)

| MARCH 31 | THREE MONTHS ENDED 1999 | 1998 | TWELVE MONTHS ENDED 1999 | 1998 |
|---|---|---|---|---|
| | | | | In Millions |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | $ 39 | $ 36 | $ 55 | $ 57 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation, depletion and amortization | 44 | 36 | 105 | 90 |
| Capital lease and other amortization | 1 | 1 | 2 | 4 |
| Deferred income taxes and investment tax credit | 2 | 4 | 14 | 5 |
| Cumulative effect of accounting change | - | (18) | - | (18) |
| Other | - | - | - | 1 |
| Changes in other assets and liabilities | 102 | 100 | (37) | 86 |
| Net cash provided by operating activities | 188 | 159 | 139 | 225 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Capital expenditures (excludes assets placed under capital lease) | (18) | (20) | (109) | (111) |
| Cost to retire property, net | (2) | (2) | (9) | (9) |
| Proceeds from the sale of property | - | - | 4 | - |
| Other | - | - | 2 | 1 |
| Net cash used in investing activities | (20) | (22) | (112) | (119) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Increase (decrease) in notes payable, net | (124) | (119) | (6) | (17) |
| Return of CMS Energy stockholders' contribution | (35) | (16) | (51) | (55) |
| Payment of common stock dividends | (11) | (10) | (43) | (40) |
| Retirement of bonds and other long-term debt | (1) | (73) | (88) | (83) |
| Repayment of bank loans | - | (10) | - | (11) |
| Payment of capital lease obligations | - | (1) | (5) | (4) |
| Retirement of preferred stock | - | - | - | (26) |
| Proceeds from long-term note and bank loans | 4 | - | 4 | 25 |
| Issuance of common stock | 1 | 2 | 5 | 8 |
| Proceeds from senior notes | - | 94 | 118 | 94 |
| Contribution from CMS Energy stockholders | - | - | 37 | - |
| Net cash used in financing activities | (166) | (133) | (29) | (109) |
| NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS | 2 | 4 | (2) | (3) |
| CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD | 2 | 2 | 6 | 9 |
| CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD | $ 4 | $ 6 | $ 4 | $ 6 |
| OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES WERE: | | | | |
| CASH TRANSACTIONS | | | | |
| Interest paid (net of amounts capitalized) | $ 6 | $ 13 | $ 31 | $ 43 |
| Income taxes paid (net of refunds) | - | 1 | 27 | 41 |
| NON-CASH TRANSACTIONS | | | | |
| ASSETS PLACED UNDER CAPITAL LEASE | $ - | $ 1 | $ 4 | $ 3 |

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSUMERS GAS GROUP
BALANCE SHEETS

| ASSETS | MARCH 31 1999 (UNAUDITED) | DECEMBER 31 1998 | MARCH 31 1998 (UNAUDITED) |
|---|---|---|---|
| | | | In Millions |
| PLANT AND PROPERTY (AT COST) | | | |
| Plant and property | $ 2,374 | $ 2,360 | $ 2,346 |
| Less accumulated depreciation, depletion and amortization | 1,292 | 1,252 | 1,264 |
| | 1,082 | 1,108 | 1,082 |
| Construction work-in-progress | 33 | 31 | 27 |
| | 1,115 | 1,139 | 1,109 |
| CURRENT ASSETS | | | |
| Cash and temporary cash investments at cost, which approximates market | 4 | 2 | 6 |
| Accounts receivable and accrued revenue, less allowances of $2, $3, and $3, respectively | 155 | 75 | 64 |
| Inventories at average cost | | | |
| Gas in underground storage | 82 | 219 | 79 |
| Materials and supplies | 6 | 6 | 7 |
| Deferred income taxes | - | - | 3 |
| Prepayments and other | 38 | 51 | 55 |
| | 285 | 353 | 214 |
| NON-CURRENT ASSETS | | | |
| Postretirement benefits | 128 | 131 | 140 |
| Deferred income taxes | 37 | 16 | 10 |
| Other | 89 | 87 | 62 |
| | 254 | 234 | 212 |
| TOTAL ASSETS | $ 1,654 | $ 1,726 | $ 1,535 |

| STOCKHOLDERS' INVESTMENT AND LIABILITIES | MARCH 31 1999 (UNAUDITED) | DECEMBER 31 1998 | MARCH 31 1998 (UNAUDITED) |
|---|---|---|---|
| | | | In Millions |
| CAPITALIZATION | | | |
| Common stockholders' equity | $ 373 | $ 379 | $ 370 |
| Preferred stock | 53 | 52 | 52 |
| Long-term debt | 465 | 454 | 401 |
| Non-current portion of capital leases | 13 | 14 | 16 |
| | 904 | 899 | 839 |
| CURRENT LIABILITIES | | | |
| Current portion of long-term debt and capital leases | 38 | 37 | 62 |
| Accounts payable | 99 | 92 | 70 |
| Accrued taxes | 69 | 61 | 76 |
| Accrued refunds | 11 | 9 | 8 |
| Accrued interest | 7 | 8 | 2 |
| Deferred income taxes | 5 | 4 | - |
| Notes payable | - | 118 | - |
| Other | 52 | 47 | 45 |
| | 281 | 376 | 263 |
| NON-CURRENT LIABILITIES | | | |
| Regulatory liabilities for income taxes, net | 212 | 189 | 178 |
| Postretirement benefits | 155 | 159 | 166 |
| Deferred investment tax credit | 24 | 25 | 25 |
| Other | 78 | 78 | 64 |
| | 469 | 451 | 433 |
| COMMITMENTS AND CONTINGENCIES (NOTE 4) | | | |
| TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES | $ 1,654 | $ 1,726 | $ 1,535 |

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSUMERS GAS GROUP
STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(UNAUDITED)

| MARCH 31 | THREE MONTHS ENDED 1999 | 1998 | TWELVE MONTHS ENDED 1999 | 1998 |
|---|---|---|---|---|
| | | | | In Millions |
| COMMON STOCK | | | | |
| At beginning and end of period | $ 184 | $ 184 | $ 184 | $ 184 |
| OTHER PAID-IN CAPITAL | | | | |
| At beginning of period | 113 | 102 | 88 | 135 |
| Common stock issued | 1 | 2 | 5 | 8 |
| CMS Energy stockholders' contribution | - | - | 37 | - |
| Return of CMS Energy stockholders' contribution | (35) | (16) | (51) | (55) |
| At end of period | 79 | 88 | 79 | 88 |
| RETAINED EARNINGS | | | | |
| At beginning of period | 82 | 72 | 98 | 81 |
| Net income | 39 | 36 | 55 | 57 |
| Common stock dividends declared | (11) | (10) | (43) | (40) |
| At end of period | 110 | 98 | 110 | 98 |
| TOTAL COMMON STOCKHOLDERS' EQUITY | $ 373 | $ 370 | $ 373 | $ 370 |

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSUMERS GAS GROUP
CONDENSED NOTES TO FINANCIAL STATEMENTS

## 1: CORPORATE STRUCTURE

CMS Energy is the parent holding company of Consumers and Enterprises. Consumers, a combination electric and gas utility company serving the Lower Peninsula of Michigan, is the principal subsidiary of CMS Energy. For further information regarding the businesses of CMS Energy, see the Notes to Consolidated Financial Statements of CMS Energy included and incorporated by reference herein.

CMS Energy has issued shares of Class G Common Stock. This class of Common Stock reflects the separate performance of the gas distribution, storage and transportation businesses conducted by Consumers and Michigan Gas Storage Company, a subsidiary of Consumers (collectively, Consumers Gas Group). For further information regarding the nature and issuance of the Class G Common Stock, see Note 4 to the Consolidated Financial Statements of CMS Energy included and incorporated by reference herein.

These Financial Statements and their related Notes should be read along with the Financial Statements and Notes contained in the 1998 Annual Report of CMS Energy that includes the Report of Independent Public Accountants, included and incorporated by reference herein.

## 2: EARNINGS PER SHARE AND DIVIDENDS

EARNINGS PER SHARE AND DIVIDENDS: Basic and diluted earnings per share for the three month period ended March 31, 1999 and March 31, 1998, reflect the performance of Consumers Gas Group. The earnings attributable to Class G Common Stock and the related amounts per share are computed by considering the weighted average number of shares of Class G Common Stock outstanding.

Earnings attributable to outstanding Class G Common Stock are equal to Consumers Gas Group's net income multiplied by a fraction; the numerator is the weighted average number of Outstanding Shares during the period, and the denominator is the weighted average number of Outstanding Shares and Retained Interest Shares during the period. The earnings attributable to Class G Common Stock on a per share basis, for the three months ended March 31, 1999 and 1998, are based on 25.6 percent, 25.2 percent of the income of Consumers Gas Group, respectively.

In February 1999, CMS Energy declared and paid dividends of $.325 per share on Class G Common Stock. In April 1999, the Board of Directors declared a quarterly divdend of $.325 per share on Class G Common Stock, payable in May of 1999.

## 3: SHORT-TERM FINANCINGS AND CAPITALIZATION

SHORT-TERM FINANCINGS: Consumers' short-term financings are discussed in the Consolidated Financial Statements of CMS Energy Note 3 included and incorporated by reference herein.

Consumers generally manages its short-term financings on a centralized consolidated basis. The portion of receivables sold attributable to Consumers Gas Group at March 31, 1999 and 1998, is estimated by management to be $154 million and $150 million, respectively. Accounts receivable and accrued revenue in the balance sheets have been reduced to reflect receivables sold. The portions of short-term debt and receivables sold attributable to Consumers Gas Group reflect the high utilization of short-term borrowing to finance the purchase of gas for storage in the summer and fall periods. The allocation of short-term financings and related interest charges to Consumers Gas Group generally follows the ratio of gas utility assets to total Consumers' assets. Additionally, the carrying costs for Consumers' sales of certain of its accounts receivable under its trade receivable purchase and sale agreement generally are allocated to Consumers Gas Group based on the ratio of customer revenues contributed by Consumers' gas customers to total Consumers' revenue. As a result of the centralized management of short-term financing, the amounts allocated to Consumers Gas Group are further adjusted in both the seasonal gas inventory build-up period (second and third quarters) and the high seasonal gas sales period (first and fourth quarters) to more closely reflect the higher short-term financing requirements of the inventory build-up period and conversely the lower financing requirements during the higher sales periods. Management believes these allocations to be reasonable.

CAPITAL STOCK AND LONG-TERM DEBT: Consumers Gas Group's capital stock and long-term debt, including debt resulting from the sale of Trust Preferred Securities, have been allocated based on the ratio of gas utility assets (including common assets attributed to the gas utility segment) to total Consumers' assets. Management believes these measurements are reasonable. For information regarding the long-term debt and capital stock of CMS Energy and Consumers, see Note 3 to the Consolidated Financial Statements of CMS Energy included and incorporated by reference herein.

4: COMMITMENTS AND CONTINGENCIES

CAPITAL EXPENDITURES: Consumers Gas Group estimates capital expenditures, including new lease commitments, of $123 million for 1999, $123 million for 2000, and $120 million for 2001. These estimates include an attributed portion of Consumers' anticipated capital expenditures for common plant and equipment.

For further information regarding commitments and contingencies directly affecting Consumers Gas Group (including those involving former manufactured gas plant sites), see the Consumers Gas Group Contingencies and Consumers Gas Group Matters in CMS Energy's Note 2 included and incorporated by reference herein.

ARTHUR ANDERSEN LLP

Report of Independent Public Accountants

To CMS Energy Corporation:

We have reviewed the accompanying balance sheets of CONSUMERS GAS GROUP (representing a business unit of Consumers Energy Company and its wholly-owned subsidiary, Michigan Gas Storage Company) as of March 31, 1999 and 1998, and the related statements of income, common stockholders' equity and cash flows for the three-month and twelve-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Consumers Gas Group as of December 31, 1998, and the related statements of income, common stockholders' equity and cash flows for the year then ended (not presented herein), and, in our report dated January 26, 1999, we expressed an unqualified opinion on those statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 1998, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ Arthur Andersen LLP

Detroit, Michigan,
May 11, 1999.