UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED

SEPTEMBER 30, 2004

COMMISSION FILE NO. 1-2921

PANHANDLE EASTERN PIPE LINE COMPANY, LP
(Exact name of registrant as specified in its charter)

DELAWARE	44-0382470
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5444 WESTHEIMER ROAD HOUSTON, TEXAS	77056-5306
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 989-7000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange in which registered
PEPL 08	New York Stock Exchange
PEPL 13	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes [ ] No [X]

PANHANDLE EASTERN PIPE LINE COMPANY, LP
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PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2003
OPERATING REVENUE		
Transportation and storage of natural gas	$ 91,800	$ 96,370
LNG terminalling revenue	15,004	15,577
Other revenue	2,514	2,271
Total operating revenue	109,318	114,218
OPERATING EXPENSES		
Operation, maintenance and general	49,125	52,933
Depreciation and amortization	15,178	16,348
Taxes, other than on income	7,044	7,018
Total operating expenses	71,347	76,299
OPERATING INCOME	37,971	37,919
OTHER INCOME (EXPENSE)		
Interest (expense), net	(12,030)	(11,274)
Other, net	446	6,607
Total other income (expense)	(11,584)	(4,667)
EARNINGS BEFORE INCOME TAXES	26,387	33,252
INCOME TAXES	10,331	13,131
NET EARNINGS	$ 16,056	$ 20,121

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS)

	POST-ACQUISITION		PRE-ACQUISITION
	NINE MONTHS ENDED SEPTEMBER 30, 2004	JUNE 12 - SEPTEMBER 30, 2003	JANUARY 1 - JUNE 11, 2003
OPERATING REVENUE			
Transportation and storage of natural gas	$ 305,564	$ 116,971	$ 196,408
LNG terminalling revenue	42,847	18,821	26,750
Other revenue	7,427	2,955	11,112
Total operating revenue	355,838	138,747	234,270
OPERATING EXPENSES			
Operation, maintenance and general	151,434	63,069	90,800
Depreciation and amortization	45,201	19,512	23,110
Taxes, other than on income	21,244	8,613	12,478
Total operating expenses	217,879	91,194	126,388
OPERATING INCOME	137,959	47,553	107,882
OTHER INCOME (EXPENSE)			
Interest (expense), net	(36,209)	(13,404)	(35,416)
Other, net	1,686	6,672	6,077
Total other income (expense)	(34,523)	(6,732)	(29,339)
EARNINGS BEFORE INCOME TAXES	103,436	40,821	78,543
INCOME TAXES	40,179	16,088	30,532
EARNINGS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	63,257	24,733	48,011
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX:			
Asset retirement obligations, SFAS 143	-	-	2,003
NET EARNINGS	$ 63,257	$ 24,733	$ 50,014

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS)

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Plant in service	$1,931,643	$1,893,960
Construction work-in-progress	152,823	90,556
	2,084,466	1,984,516
Less accumulated depreciation and amortization	68,824	32,114
Net property, plant and equipment	2,015,642	1,952,402
INVESTMENT IN AFFILIATE	1,374	1,394
CURRENT ASSETS		
Cash and cash equivalents	23,372	16,810
Accounts receivable, less allowances of $1,405 and $1,464, respectively	39,915	56,315
Accounts receivable - related parties	731	816
Gas imbalances - receivable	24,068	26,974
System gas and operating supplies	73,690	60,937
Deferred income taxes, net	10,935	7,731
Note receivable - Southern Union	98,870	87,350
Other	10,508	8,271
Total current assets	282,089	265,204
Intangibles, net	8,601	30,698
Restricted cash	1,500	1,500
Debt issuance cost, net	4,737	4,699
Non-current system gas	29,972	23,938
Other	2,358	1,708
TOTAL ASSETS	$2,346,273	$2,281,543

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS)

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
OWNER'S EQUITY AND LIABILITIES		
OWNER'S EQUITY		
Partners' capital	$ 777,730	$ -
Member's capital	-	679,465
Accumulated other comprehensive income	545	1,372
Retained earnings	-	51,452
Tax sharing note receivable - Southern Union	(90,938)	(85,471)
Total owner's equity	687,337	646,818
Long-term debt	1,178,267	995,773
Total capitalization	1,865,604	1,642,591
CURRENT LIABILITIES		
Current portion of long-term debt	12,021	209,671
Accounts payable	3,466	1,452
Accounts payable - overdrafts	10,730	6,607
Accounts payable - related parties	14,947	9,039
Gas imbalances - payable	60,501	66,049
Accrued taxes	19,250	9,979
Accrued interest	8,923	21,017
Other	72,703	65,230
Total current liabilities	202,541	389,044
Deferred income taxes, net	173,802	131,991
Post-retirement benefits	31,201	33,473
Other	73,125	84,444
Commitments and contingencies		
TOTAL OWNER'S EQUITY AND LIABILITIES	$ 2,346,273	$ 2,281,543

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED STATEMENTS OF OWNER'S EQUITY
(UNAUDITED)
(IN THOUSANDS)

	Partners' Capital	Common Stock	Accumulated Other Comprehensive Income (Loss)	Other Paid-in Capital	Member's Capital
Balance January 1, 2003 (Pre-acquisition)	$ -	$ 1,000	$ (39,179)	$ 1,280,794	$ -
Comprehensive income:					
Net earnings	-	-	-	-	-
Unrealized loss related to interest rate swaps, net of tax	-	-	(3,180)	-	-
Comprehensive income	-	-	(3,180)	-	-
Return of capital - Centennial	-	-	-	(40,000)	-
Return of capital - Guardian equity investment	-	-	-	(27,781)	-
Capital contribution from CMS Gas Transmission	-	-	-	15,149	-
Other	-	-	-	194	-
Balance June 11, 2003 (Acquisition date)	$ -	$ 1,000	$ (42,359)	$ 1,228,356	$ -
Acquisition adjustments to eliminate original balances	-	(1,000)	42,359	(1,228,356)	-
Pushdown of purchase price and related costs	-	-	-	-	679,465
Tax sharing note receivable - Southern Union	-	-	-	-	-
Balance June 12, 2003 (Post-acquisition)	-	-	-	-	679,465
Comprehensive Income					
Comprehensive income:					
Net earnings	-	-	-	-	-
Unrealized gain related to interest rate swaps, net of tax	-	-	1,372	-	-
Comprehensive income	-	-	1,372	-	-
Balance December 31, 2003 (Post-acquisition)	$ -	$ -	$ 1,372	$ -	$ 679,465
Adjustment to pushdown of purchase price and related costs	-	-	-	-	(16,444)
Tax sharing note receivable - Southern Union	-	-	-	-	-
Comprehensive income:					
Net earnings	-	-	-	-	-
Unrealized gain related to interest rate swaps, net of tax	-	-	405	-	-
Comprehensive income prior to change in legal ownership structure (see Note I)	-	-	405	-	-
Change in legal ownership structure	761,674	-	-	-	(663,021)
Comprehensive income:					
Net earnings	16,056	-	-	-	-
Unrealized loss related to interest rate swaps, net of tax	-	-	(1,232)	-	-
Comprehensive income	16,056	-	(1,232)	-	-
Balance September 30, 2004 (Post-acquisition)	$ 777,730	$ -	$ 545	$ -	$ -

	Retained Earnings (Deficit)	Note Receivable-CMS Capital	Tax Sharing Note Southern Union	Total
Balance January 1, 2003 (Pre-acquisition)	$ (340,031)	$ (150,000)	$ -	$ 752,584
Comprehensive income:				
Net earnings	50,014	-	-	50,014
Unrealized loss related to interest rate swaps, net of tax	-	-	-	(3,180)
Comprehensive income	50,014	-	-	46,834
Return of capital - Centennial	-	-	-	(40,000)
Return of capital - Guardian equity investment	-	-	-	(27,781)
Capital contribution from CMS Gas Transmission	-	-	-	15,149
Other	-	-	-	194
Balance June 11, 2003 (Acquisition date)	$ (290,017)	$ (150,000)	$ -	$ 746,980
Acquisition adjustments to eliminate original balances	290,017	150,000	-	(746,980)
Pushdown of purchase price and related costs	-	-	-	679,465
Tax sharing note receivable - Southern Union	-	-	(85,471)	(85,471)
Balance June 12, 2003 (Post-acquisition)	-	-	(85,471)	593,994
Comprehensive Income				
Comprehensive income:				
Net earnings	51,452	-	-	51,452
Unrealized gain related to interest rate swaps, net of tax	-	-	-	1,372
Comprehensive income	51,452	-	-	52,824

Balance December 31, 2003 (Post-acquisition)	$ 51,452	$ -	$ (85,471)	$ 646,818
Adjustment to pushdown of purchase price and related costs	-	-	-	(16,444)
Tax sharing note receivable - Southern Union	-	-	(5,467)	(5,467)
Comprehensive income:				
Net earnings	47,201	-	-	47,201
Unrealized gain related to interest rate swaps, net of tax	-	-	-	405
Comprehensive income prior to change in legal ownership structure	47,201	-	-	47,606
Change in legal ownership structure (see Note I)	(98,653)	-	-	-
Comprehensive income:				
Net earnings	-	-	-	16,056
Unrealized loss related to interest rate swaps, net of tax	-	-	-	(1,232)
Comprehensive income	-	-	-	14,824
Balance September 30, 2004 (Post-acquisition)	$ -	$ -	$ (90,938)	$ 687,337

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	POST-ACQUISITION		PRE-ACQUISITION
	NINE MONTHS ENDED SEPTEMBER 30, 2004	JUNE 12 - SEPTEMBER 30, 2003	JANUARY 1 - JUNE 11, 2003
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net earnings	$ 63,257	$ 24,733	$ 50,014
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	45,201	19,512	23,110
Cumulative effect of change in accounting principle	-	-	(2,003)
Gain on extinguishment of debt	(231)	(6,123)	-
Deferred income taxes, net	29,159	16,088	30,532
Debt premium amortization, net	(4,429)	(5,771)	(201)
Changes in operating assets and liabilities:			
Accounts receivable	16,485	10,465	219
Inventory	(7,133)	(21,457)	2,520
Gas imbalances - receivable	2,906	30,149	(30,952)
Other assets	(7,243)	2,295	11,955
Payables	7,922	4,788	2,883
Accrued taxes	9,271	6,419	6,673
Interest accrued	(12,094)	(11,341)	(4,768)
Gas imbalances - payable	(5,548)	(12,120)	27,527
Other liabilities	(5,837)	(6,056)	(6,915)
Net cash flows from operating activities	131,686	51,581	110,594
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Net increase in current Note receivable - Southern Union	(11,520)	(74,204)	-
Net increase in current Note receivable - CMS Capital	-	-	(62,570)
Capital and investment expenditures	(109,509)	(26,221)	(29,339)
Sale (purchase) of system gas,net	-	490	(2,724)
Sale of Centennial	-	-	40,000
Retirements and other	(264)	496	(886)
Net cash flows used in investing activities	(121,293)	(99,439)	(55,519)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Change in bank overdrafts	4,123	319	219
Debt issuance	200,000	550,000	10,000
Debt retirements	(206,904)	(542,129)	(45,852)
Debt issuance costs	(1,050)	(3,995)	-
Debt retirement costs	-	(1,595)	
Return of capital	-	-	(40,000)
Net cash flows from (used in) financing activities	(3,831)	2,600	(75,633)
Change in cash and cash equivalents	6,562	(45,258)	(20,558)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16,810	59,987	80,545
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 23,372	$ 14,729	$ 59,987
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
CASH PAID DURING THE PERIOD FOR:			
Interest (net of amounts capitalized)	$ 63,405	$ 32,815	$ 38,187
Income taxes (net of refunds)	76	-	83
OTHER NONCASH INVESTING AND FINANCING ACTIVITIES WERE:			
Return of capital - Guardian equity investment	$ -	$ -	$ (27,781)
Property contributions received	-	-	15,149

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ITEM 1. FINANCIAL STATEMENTS

These interim financial statements should be read in conjunction with the financial statements and notes thereto contained in the Form 10-K of Panhandle Eastern Pipe Line Company, LLC (now Panhandle Eastern Pipe Line Company, LP), a Delaware limited partnership, including all of its subsidiaries (collectively, Panhandle), for the year ended December 31, 2003. All dollar amounts in the tables herein are stated in thousands, unless otherwise indicated. Certain prior period amounts have been reclassified to conform with the current period presentation, which includes a reclassification on the Consolidated Statements of Cash Flows of $62,570,000 and $74,204,000 of net increases in current Notes receivable from affiliates for the 2003 periods from January 1-June 11 and June 12-September 30, respectively, from Financing Activities to Investing Activities.

These interim financial statements are unaudited, but in management's opinion, reflect all adjustments necessary (including both normal recurring as well as non-recurring) for a fair presentation of financial position, results of operations and cash flows for the periods presented. Because of the seasonal nature of the operations of Panhandle, the results as presented for any interim period are not necessarily indicative of results to be achieved for the fiscal year.

I CORPORATE STRUCTURE

Panhandle became an indirect wholly-owned subsidiary of Southern Union Company (Southern Union Company and together with its subsidiaries, Southern Union) upon Southern Union's June 11, 2003 acquisition of Panhandle (Panhandle Acquisition) from CMS Gas Transmission Company (CMS Gas Transmission), a subsidiary of CMS Energy Corporation (together with CMS Gas Transmission, CMS). Panhandle is primarily engaged in the interstate transportation and storage of natural gas and also provides liquefied natural gas (LNG) terminalling and regasification services and is subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC). The Panhandle entities include Panhandle Eastern Pipe Line Company, LP (Panhandle Eastern Pipe Line), Trunkline Gas Company, LLC (Trunkline) a wholly-owned subsidiary of Panhandle Eastern Pipe Line, Sea Robin Pipeline Company (Sea Robin), a Louisiana joint venture and an indirect wholly-owned subsidiary of Panhandle Eastern Pipe Line, Trunkline LNG Company, LLC (Trunkline LNG) which is a wholly-owned subsidiary of Trunkline LNG Holdings, LLC (LNG Holdings), an indirect wholly-owned subsidiary of Panhandle Eastern Pipe Line and Pan Gas Storage, LLC (d.b.a. Southwest Gas Storage), a wholly-owned subsidiary of Panhandle Eastern Pipe Line. Collectively, the pipeline assets include more than 10,000 miles of interstate pipelines that transport natural gas from the Gulf of Mexico, South Texas and the Panhandle regions of Texas and Oklahoma to major U.S. markets in the Midwest and Great Lakes region. The pipelines have a combined peak day delivery capacity of 5.4 billion cubic feet (Bcf) per day and 72 Bcf of owned underground storage capacity. Trunkline LNG, located on Louisiana's Gulf Coast, operates one of the largest LNG import terminals in North America, based on current send out capacity, and has 6.3 Bcf of above ground LNG storage capacity.

On June 11, 2003, Southern Union acquired Panhandle from CMS for approximately $581,729,000 in cash and 3,000,000 shares of Southern Union common stock (before adjustment for subsequent stock dividends) valued at approximately $48,900,000 based on market prices at closing of the Panhandle Acquisition and in connection therewith incurred transaction costs of approximately $31,922,000. At the time of the acquisition, Panhandle had approximately $1,157,228,000 of debt principal outstanding that it retained. Southern Union funded the cash portion of the acquisition with approximately $437,000,000 in cash proceeds it received for the January 1, 2003 sale of its Texas operations, approximately $121,250,000 of the net proceeds it received from concurrent common stock and equity units offerings and with working capital available to Southern Union. Southern Union structured the Panhandle Acquisition and the sale of its Texas operations to qualify as a like-kind exchange of property under Section 1031 of the Internal Revenue Code of 1986, as amended. Panhandle Eastern Pipe Line and five of its subsidiaries, as well as the Southern Union subsidiary that became Panhandle's direct parent upon the acquisition, converted from Delaware corporations to Delaware limited liability companies in June 2003. On June 29, 2004, Panhandle Eastern Pipe Line filed with the state of Delaware and converted from a limited liability company to a limited partnership. Pursuant to the conversion, all rights and liabilities of Panhandle Eastern Pipe Line vested in Panhandle Eastern Pipe Line Company, LP, a Delaware limited partnership, together with its subsidiaries. As a result of the conversion, retained earnings and member's capital were reclassified as partners' capital. There was no effect on Panhandle's results of operations (including income taxes), cash flows or financial position as a result of this conversion. Southern Union Panhandle, LLC serves as the general partner of Panhandle and owns a one percent general partner interest. Southern Union Company holds a ninety-nine percent limited partner interest in Panhandle.

Under the terms of the Panhandle sale agreement, CMS retained Panhandle's ownership interests in and obligations associated with the Centennial Pipeline, LLC (Centennial) and Guardian Pipeline, LLC (Guardian) pipeline projects, as well as certain of Panhandle's net deferred tax assets of $28,124,000, all tax liabilities of $17,405,000, net pension liabilities recorded of $42,965,000, certain other net postretirement liabilities recorded of $16,351,000 and other net liabilities of $2,214,000. CMS also retained financial responsibility for all existing stock options. Panhandle disposed of its interest in Centennial and Guardian and certain cash collateral related to Guardian was transferred to CMS. Such disposition to CMS via sale to its partners was recorded at Panhandle's net book value with no gain or loss recognized (See Note IV -- Related Party Transactions). The Note receivable from CMS Capital Corp. (CMS Capital), a subsidiary of CMS was eliminated in the sale as the purchase by Southern Union from CMS included the offsetting Note payable of CMS Capital and thus the note was eliminated in pushdown accounting and subsequently extinguished (see Note IV - -- Related Party Transactions). On March 1, 2003, certain assets previously held by CMS with a net book value of $15,149,000 were contributed to Panhandle by CMS and were included in the Southern Union purchase.

The Panhandle Acquisition was accounted for using the purchase method of accounting in accordance with accounting principles generally accepted in the United States of America with Panhandle allocating the purchase price paid by Southern Union to Panhandle's net assets as of the acquisition date. The Panhandle assets acquired and liabilities assumed have been recorded based on their estimated fair value as of the acquisition date based on the results of outside appraisals. Accordingly, the post-acquisition financial statements reflect a new basis of accounting and pre-acquisition period and post-acquisition period financial results (separated by a heavy black line) are presented but are not comparable. During the six month period ended June 30, 2004, Southern Union's estimated deferred state income tax liability incurred as a result of the Panhandle Acquisition was reduced by $17,918,000, which resulted in corresponding reductions in Partners' capital, Intangibles, net, and Deferred income taxes, net totaling $17,918,000, $22,066,000 and $4,148,000, respectively. Partners' capital was increased by $1,474,000 due to additional transaction costs recorded which also increased Plant in service. Based on the final valuation, certain contingent liabilities were reduced by $9,930,000 with a corresponding decrease to Plant in service.

The following table summarizes the final adjusted purchase accounting-based changes in owner's equity associated with the acquisition as of June 11, 2003 including details of the fair value adjustments to the pre-acquisition carrying amounts of the net assets acquired.

Owner's Equity, pre-acquisition		$ 746,980
Fair value adjustments to pre-acquisition net assets:		
Current assets, excluding system gas	1,177	
System gas	14,055	
Property, plant and equipment	230,065	
Intangibles	9,503	
Goodwill	(112,582)	
Deferred debt costs	(14,469)	
Other assets	(352)	
Current liabilities	(863)	
Long-term debt	(63,764)	
Deferred credits and other liabilities	(12,614)	
Net fair value adjustments		50,156
Net liabilities retained by CMS		50,811
Elimination of CMS Capital note receivable		(184,926)
Subtotal		663,021
Tax sharing note receivable		(90,938)
Adjusted Owner's Equity, post-acquisition		$ 572,083

II ACCOUNTING STANDARDS

FASB INTERPRETATION NO. 46R, "CONSOLIDATION OF VARIABLE INTEREST ENTITIES" (FIN NO. 46R): Issued by the Financial Accounting Standards Board (FASB) in December 2003, the interpretation identifies a variable interest entity as an entity whose equity owners do not have sufficient equity at risk and do not have substantive voting rights. The interpretation is effective for special-purpose entities for periods ending after December 15, 2003 and for all other types of variable interest entities for periods ending after March 15, 2004. This standard requires a company to consolidate a variable interest entity if it is allocated a majority of the entity's losses and/or returns, including fees paid by the entity. Panhandle has not identified any material variable interest entities or interests in variable interest entities for which the provisions of FIN No. 46R would require a change in Panhandle's current accounting for such interests.

EITF 01-8, "DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE" (EITF 01-8): In May 2003, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on EITF 01-8 that outlines certain criteria for determining when a contract or portion thereof should be accounted for as a lease within the scope of SFAS No. 13, "Accounting for Leases". Because of certain contractual changes entered into during January 2004 between Trunkline LNG and BG LNG Services, Inc., a subsidiary of BG Group of the United Kingdom (BG LNG Services), regarding LNG services at the Lake Charles facility, the BG LNG Services contract was required to be reassessed under the provisions of EITF 01-8 and was determined to contain an operating lease. The impact of this accounting treatment did not have an impact on Panhandle's financial condition or results of operations.

FASB STATEMENT NO.132R "EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFITS - AN AMENDMENT OF FASB STATEMENTS NO. 87, 88, AND 106": Issued by the FASB in December 2003, the Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It retains the disclosure requirements contained in FASB Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which it replaces, and requires additional disclosure about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The Statement does not change the measurement or recognition of those plans required by FASB Statements No. 87, "Employers' Accounting for Pensions", No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The Statement is effective for fiscal years ending after December 15, 2003. The interim-period disclosures required by the Statement are effective for interim periods beginning after December 15, 2003 (see Note VII -- Employee Benefits).

III REGULATORY MATTERS

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 were to be made in compliance with prescribed FERC requirements. In June 2001, Panhandle filed a proposed settlement of these proceedings which all the customers and most of the producers supported. The settlement provided for the producers to refund and the customers to accept a reduction from the amounts originally billed to the producers. In September 2001, the FERC approved the settlement without modification and the settlement became effective on October 15, 2001. Settlements were reached with all of the non-settling producers in November 2003, except for Pioneer Natural Resources, Inc. (Pioneer). A FERC hearing to resolve the outstanding issues with Pioneer was conducted on October 16, 2003. FERC orders which established Pioneer's refund amount were issued on June 2, 2004 and October 12, 2004. On January 29, 2004 and February 13, 2004, the Commission approved settlements with the remaining non-settling producers. At September 30, 2004 and December 31, 2003, accounts receivable included $266,000 and $3,017,000, respectively, for Kansas ad valorem tax collections due from natural gas producers. At September 30, 2004 and December 31, 2003, other current liabilities included $472,000 and $8,556,000, respectively, for Kansas ad valorem tax collections due to customers.

In December 2002, FERC approved a Trunkline LNG certificate application to expand the Lake Charles facility to approximately 1.2 Bcf per day of sustainable send out capacity versus the current sustainable send out capacity of .63 Bcf per day and increase terminal storage capacity to 9 Bcf from the current 6.3 Bcf. BG LNG Services has contract rights for the .57 Bcf per day of additional capacity. Construction on the Trunkline LNG expansion project (Phase I) commenced in September 2003 and is expected to be completed at an estimated cost totaling $137 million, plus capitalized interest, by the end of 2005. On September 17, 2004, as modified on September 23, 2004, FERC approved Trunkline LNG's further incremental LNG expansion project (Phase II). Phase II is estimated to cost approximately $77 million, plus capitalized interest, and would increase the LNG terminal sustainable send out capacity to 1.8 Bcf per day. Phase II has an expected in-service date of mid-2006. BG LNG Services has contracted for all the proposed additional capacity, subject to Trunkline LNG achieving certain construction milestones at this facility. Approximately $107 million of costs are included in the line item Construction work-in-progress for the expansion projects through September 30, 2004.

In February 2004, Trunkline filed an application with the FERC to request approval of a 30-inch diameter, approximately 23-mile natural gas pipeline loop from the LNG terminal. Trunkline's filing was approved on September 17, 2004, as modified on September 23, 2004. The estimated cost of this pipeline expansion is approximately $41 million, plus capitalized interest. The pipeline creates additional transport capacity in association with the Trunkline LNG expansion and also includes new and expanded delivery points with major interstate pipelines. Approximately $5 million of costs are included in the line item Construction work-in-progress for this project through September 30, 2004.

IV RELATED PARTY TRANSACTIONS

Panhandle had a number of significant transactions with former related parties during the pre-acquisition period. Revenue transactions, primarily for the transportation of natural gas for Consumers Energy Company and other CMS affiliates which were related parties until June 12, 2003, were based on regulated prices, market prices or competitive bidding. Panhandle will continue transporting gas for these former related parties under the contracts currently in effect, and thereafter if contracts are renewed. Panhandle has transportation and storage revenues with Missouri Gas Energy, a Southern Union division, which account for less than one percent of annual consolidated revenues. These deliveries are at previously contracted rates.

	POST-ACQUISITION		POST-ACQUISITION		PRE-ACQUISITION
	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	JUNE 12 - SEPTEMBER 30,	JANUARY 1- JUNE 11,
RELATED PARTY TRANSACTIONS	2004	2003	2004	2003	2003
Transportation and storage of natural gas	$ 974	$ 1,091	$ 2,906	$ 1,293	$28,094
Other operating revenues	54	54	154	67	410
Operation and maintenance					
Management & royalty fees	2,732	2,939	8,973	2,939	-
Other expenses (a)	4,948	4,171	13,586	4,872	9,727
Other income (expense), net	468	54	1,166	54	6,162

(a) Includes corporate allocations and insurance paid by parent for 2004 and 2003. Benefit plan costs are included in the pre-acquisition period of 2003.

Prior to June 12, 2003, related party expenses included payments for services provided by former affiliates, as well as allocated CMS benefit plan costs. Panhandle, through CMS, provided retirement benefits under a number of different plans, including certain health care and life insurance under a postretirement benefit plan other than pensions (OPEB), benefits to certain management employees under a supplemental executive retirement plan, and benefits to substantially all its employees under a trusteed, non-contributory, defined benefit pension plan and a defined contribution 401(k) plan. Effective January 1, 2003, and until the sale of Panhandle on June 11, 2003, CMS ceased charging Panhandle management and royalty fees. Subsequent to June 11, 2003, related party expenses primarily include payments for services provided by Southern Union, including management and royalty fees implemented by Southern Union.

Included in Other income (expense), net, is interest income of $6,204,000 for the period January 1 through June 11, 2003 related to interest on the Note receivable - CMS Capital. The Note receivable - CMS Capital of $184,926,000 as of the acquisition date was eliminated with the acquisition of Panhandle by Southern Union (see Note I -- Corporate Structure). The $150,000,000 portion of the note classified as a reduction to equity as of the acquisition date was also eliminated.

Pursuant to a demand note with Southern Union under a cash management program, Panhandle has loaned excess cash, net of repayments, totaling $98,870,000 to Southern Union since the Panhandle Acquisition; net repayments of $87,015,000 and net loans of $11,520,000 were recorded during the three and nine month periods ended September 30, 2004, respectively. Panhandle is credited with interest on the note at a one month London InterBank Offered Rate (LIBOR). Included in Other income (expense), net is interest income of $468,000 for the three month period ended September 30, 2004 and $1,166,000 for the nine month period ended September 30, 2004 related to interest on the Note receivable - Southern Union. Panhandle expects to draw down on the note over the next twelve months to fund capital expenditures in excess of operating cash flows and has thus reflected the note receivable from Southern Union as a current asset.

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

RELATED PARTY BALANCES	SEPTEMBER 30, 2004	DECEMBER 31, 2003
Note receivable - Southern Union	$ 98,870	$ 87,350
Accounts receivable	731	816
Accounts payable	(14,947)	(9,039)
Owner's equity - Tax sharing note receivable - Southern Union	90,938	85,471
Deferred tax - receivable	-	8,684

The Panhandle Acquisition by Southern Union was treated as an asset acquisition for tax purposes pursuant to a Section 338(h)(10) election of the Internal Revenue Code of 1986, as amended, which eliminated Panhandle's deferred tax assets and liabilities and gave rise to a new tax basis in Panhandle's assets equal to their purchase price. The Panhandle assets acquired and liabilities assumed have been recorded based on their estimated fair value as of the acquisition date based on the results of outside appraisals. Southern Union structured the Panhandle Acquisition in a manner intended to qualify as a like-kind exchange of property under Section 1031 of the Internal Revenue Code of 1986, as amended. For tax purposes, the Panhandle assets that were part of the exchange were recorded at the tax basis of the Southern Union assets for which they were exchanged. The resulting transaction generated a deferred tax liability originally estimated at $85 million, with a final calculated amount of approximately $91 million at the acquisition date and a corresponding note receivable from Southern Union reflected as a reduction to owner's equity on Panhandle's Consolidated Balance Sheet. Repayment of the note receivable from Southern Union is limited to actual tax liabilities otherwise payable by Panhandle pursuant to the tax sharing agreement with Southern Union.

V ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

Panhandle follows SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, to account for derivative and hedging activities. Panhandle utilizes interest-rate related derivative instruments to manage its exposure on its debt instruments and does not enter into derivative instruments for any purpose other than hedging purposes. All derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, Panhandle designates the derivative as either: (i) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) or (ii) a hedge of a forecasted transaction or the variability of cash flows to be received or paid in conjunction with a recognized asset or liability (cash flow hedge).

Interest rate swaps are used to reduce interest rate risks and to manage interest expense. By entering into these agreements, Panhandle converts floating-rate debt into fixed-rate debt or converts fixed-rate debt to floating. Interest differentials paid or received under the swap agreements are reflected as an adjustment to interest expense. These interest rate swaps are financial derivative instruments that qualify for hedge treatment. For derivatives treated as hedges of future cash flows, the effective portion of changes in fair value is recorded in other comprehensive income until the related hedge items impact earnings. Any ineffective portion of a hedge is reported in earnings immediately. For derivatives treated as a hedge of the fair value of a debt instrument, the effective portion of changes in fair value are recorded as an adjustment to the hedged debt. The ineffective portion of a fair value hedge is recognized in earnings if the short cut method of assessing effectiveness is not used. Upon termination of a fair value hedge of a debt instrument, the resulting gain or loss is amortized to income through the maturity date of the debt instrument.

Panhandle's subsidiary LNG Holdings is party to interest rate swap agreements with an aggregate notional amount of $195,902,000 as of September 30, 2004 that fix the interest rate applicable to floating rate long-term debt and which qualify for hedge accounting. For the nine month periods ended September 30, 2004 and 2003, the amount of swap ineffectiveness was not significant. As of September 30, 2004, floating rate LIBOR based interest payments were exchanged for weighted average fixed rate interest payments of 5.88%, which does not include the spread on the underlying variable debt rate of 1.625%. As such, payments or receipts on interest rate swap agreements, in excess of the liability recorded, are recognized as adjustments to interest expense. As of September 30, 2004 and December 31, 2003, the fair value liability position of the swaps was $14,299,000 and $19,806,000, respectively. Current market pricing models were used to estimate fair values of interest rate swap agreements.

In March 2004, Panhandle entered into interest rate swaps to hedge the risk associated with the fair value of its $200 million 2.75% Senior Notes (see Note VI -- Debt). These swaps are designated as fair value hedges and qualify for the short cut method under SFAS No. 133. Under the swap agreements Panhandle will receive fixed interest payments at a rate of 2.75% and will make floating interest payments based on the six-month LIBOR. No ineffectiveness is assumed in the hedging relationship between the debt instrument and the interest rate swap. As of September 30, 2004, these swaps have an average interest rate of 2.07%.

VI DEBT

LONG-TERM DEBT	YEAR DUE	SEPTEMBER 30, 2004	DECEMBER 31, 2003
6.125% Senior Notes	2004	$ -	$ 146,080
7.875% Senior Notes	2004	-	52,455
6.50% Senior Notes	2009	60,623	60,623
8.25% Senior Notes	2010	40,500	40,500
7.00% Senior Notes	2029	66,305	66,305
4.80% Senior Notes	2008	300,000	300,000
6.05% Senior Notes	2013	250,000	250,000
2.75% Senior Notes	2007	200,000	-
LNG bank loans (floating rate)	2007	261,200	269,570
Total debt outstanding		1,178,628	1,185,533
Current portion of long-term debt		(12,021)	(209,671)
Interest rate swaps (2.75% Senior Notes)		(3,633)	-
Unamortized debt premium, net		15,293	19,911
Total long-term debt		$ 1,178,267	$ 995,773

Panhandle has $1,190,288,000 of debt recorded at September 30, 2004, of which $12,021,000 is current. Debt of $929,088,000, including net premiums of $15,293,000 and unamortized interest rate swaps of $3,633,000, is at fixed rates ranging from 2.75 percent to 8.25 percent, with $261,200,000 of variable rate bank loans having an average rate of 3.1 percent and 2.9 percent for the three and nine month periods ended September 30, 2004, respectively. The variable rate loans are secured by the Trunkline LNG facilities. See Note V -- Accounting for Derivatives and Hedging Activities for discussion of interest rate swap agreements associated with outstanding debt.

Panhandle's notes are subject to certain requirements such as the maintenance of a fixed charge coverage ratio and a leverage ratio which restrict certain payments if not maintained, and limitations on liens. At September 30, 2004, Panhandle, based on the currently most restrictive debt covenant requirements, was subject to a $294,450,000 limitation on additional restricted payments including dividends and loans to affiliates, and a limitation of $321,362,000 of additional secured indebtedness or other defined liens based on a limitation on liens covenant.

At September 30, 2004, Panhandle had scheduled debt payments of $2,767,000, $12,548,000, $13,969,000, $431,916,000, $300,000,000 and $417,428,000 for the remainder of 2004 and for the years 2005 through 2008 and thereafter, respectively.

On March 12, 2004, Panhandle issued $200,000,000 of 2.75% Senior Notes due 2007, Series A in reliance on an exemption from the registration requirements of the Securities Act of 1933 for offers and sales of securities not involving a public offering or sale, in order to refinance Panhandle's maturing debt. Panhandle used a portion of the net proceeds to retire $146,080,000 of 6.125% Senior Notes which matured on March 15, 2004, as well as for other general corporate purposes. A portion of the remaining net proceeds was also used to pay off the $52,455,000 of 7.875% Senior Note which matured on August 15, 2004. Panhandle filed a registration statement on May 12, 2004 to initiate an exchange of the unregistered 2.75% Senior Notes due 2007, Series A for substantially identical securities registered under the Securities Act of 1933. Such exchange was completed June 25, 2004.

VII EMPLOYEE BENEFITS

COMPONENTS OF NET PERIODIC BENEFIT COST

Net periodic benefit costs for the three and nine month periods ended September 30, 2004 for OPEB includes the following components:

OPEB	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2004
Service cost	$ 641	$ 633	$ 1,761
Interest cost	784	692	2,153
Expected return on plan assets	(175)	-	(327)
Amortization of prior service cost	-	-	-
Amortization of transition obligation	-	-	-
Recognized actuarial gain (loss)	-	-	-
Settlement recognition	-	-	-
Net periodic benefit cost	$ 1,250	$ 1,325	$ 3,587

For the three and nine month periods ended September 30, 2004, approximately $1,953,000 and $5,859,000 in contributions have been made to the OPEB plan, respectively. Panhandle presently anticipates contributing an additional $1,953,000 to fund the OPEB plan during the remainder of 2004 for a total of $7,812,000 for the calendar year.

The OPEB plan information for periods prior to June 12, 2003, which has been previously disclosed, is not presented because the plan is for CMS and its affiliates (including Panhandle) of which Panhandle received an allocation, and the assets and costs for Panhandle are not distinguishable from the OPEB plan information, therefore, the presentation would not be meaningful. For the period January 1 through June 11, 2003, Panhandle contributions to the CMS OPEB plan totaled $3,498,000.

Following the June 11, 2003 acquisition by Southern Union, Panhandle continues to provide certain retiree benefits through employer contributions to a qualified defined contribution plan, which contributions range from four to six percent of the participating employee's salary based on the participating employee's age and years of service. During the three and nine month periods ended September 30, 2004 approximately $1 million and $3 million, respectively, was recorded as expense associated with Panhandle contributions to the qualified defined contribution plan. Approximately $1 million was recorded as expense for the three month period ended September 30, 2003. Panhandle, through its former parent company, participated in the CMS pension plan, a defined benefit plan. The total pension plan expenses, which were allocated to Panhandle by CMS, were approximately $3 million for the period January 1 through June 11, 2003. There were no contributions made by Panhandle to CMS on behalf of the CMS pension plan for these periods.

VIII COMPREHENSIVE INCOME

The table below provides an overview of comprehensive income for the periods indicated.

	POST-ACQUISITION		POST-ACQUISITION		PRE-ACQUISITION
	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2004	JUNE 12 - SEPTEMBER 30, 2003	JANUARY 1 - JUNE 11, 2003
Net earnings	$ 16,056	$ 20,121	$ 63,257	$ 24,733	$ 50,014
Unrealized gain (loss) related to interest rate swaps, net of tax	(1,232)	789	(827)	1,795	(3,180)
Total comprehensive income	$ 14,824	$ 20,910	$ 62,430	$ 26,528	$ 46,834

Accumulated other comprehensive income reflected in the Consolidated Balance Sheet at September 30, 2004, includes unrealized gains related to interest rate swaps.

IX COMMITMENTS AND CONTINGENCIES

LITIGATION. Panhandle is involved in 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 No. 5 in order to provide for such matters. Management believes the final disposition of these proceedings will not have a material adverse effect on Panhandle's consolidated results of operations or financial position.

Hope Land Mineral Corporation contends that it owns the storage rights to property that contains a portion of Panhandle's Howell storage field. During June 2003, the Michigan Court of Appeals reversed the trial court's previous order, which had granted summary judgment in favor of Panhandle and dismissed the case. Panhandle filed an appeal of the Court of Appeals order with the Michigan Supreme Court which was denied in December of 2003. The trial has been transferred back to the trial court for a trial on the merits. The case is presently expected to begin in 2005. Panhandle does not believe the outcome of this case will have a material adverse effect on Panhandle's consolidated results of operations or financial position.

ENVIRONMENTAL MATTERS. Panhandle's interstate natural gas transportation operations are subject to federal, state and local regulations regarding water quality, hazardous and solid waste disposal and other environmental matters. Panhandle has identified environmental contamination at certain sites on its gas transmission systems and has undertaken cleanup programs at these sites. The contamination resulted from the past use of lubricants containing polychlorinated bi-phenyls (PCBs) in compressed air systems; the past use of paints containing PCBs; and the prior use of wastewater collection facilities and other on-site disposal areas. Panhandle has developed and is implementing a program to remediate such contamination in accordance with federal, state and local regulations. Some remediation is being performed by former Panhandle affiliates in accordance with indemnity agreements that also indemnify against certain future environmental litigation and claims.

As part of the cleanup program resulting from contamination due to the use of lubricants containing PCBs in compressed air systems, Panhandle Eastern Pipe Line and Trunkline have identified PCB levels above acceptable levels inside the auxiliary buildings that house the air compressor equipment at thirty-three compressor station sites. Panhandle has developed and is implementing a United States Environmental Protection Agency (EPA) approved process to remediate this PCB contamination in accordance with federal, state and local regulations. Thirteen sites have been decontaminated per the EPA approved process as prescribed in the EPA regulations.

At some locations, PCBs have been identified in paint that was applied many years ago. In accordance with EPA regulations, Panhandle has implemented a program to remediate sites where such issues are identified during painting activities. If PCBs are identified above acceptable levels, the paint is removed and disposed of in an EPA approved manner.

The Illinois Environmental Protection Agency (Illinois EPA) notified Panhandle Eastern Pipe Line and Trunkline, together with other non-affiliated parties, of contamination at three former waste oil disposal sites in Illinois. Panhandle Eastern Pipe Line's and Trunkline's estimated share for the costs of assessment and remediation of the sites, based on the volume of waste sent to the facilities, is approximately 17 percent. Panhandle and 21 other non-affiliated parties conducted an initial voluntary investigation of the Pierce Oil Springfield site, one of the three sites. Based on the information found during the initial investigation, Panhandle and the 21 other non-affiliated parties have decided to further delineate the extent of contamination by authorizing a Phase II investigation at this site. Once data from the Phase II investigation is evaluated, Panhandle and the 21 other non-affiliated parties will determine what additional actions will be taken. In addition, Illinois EPA has informally indicated that it has referred the Pierce Oil Springfield site to the EPA so that environmental contamination present at the site can be addressed through the federal Superfund program. No formal notice has yet been received from either agency concerning the referral. However, the EPA is expected to issue special notice letters in 2004 and has begun the process of listing the site on the National Priority List. Panhandle and three of the other non-affiliated parties associated with the Pierce Oil Springfield site met with the EPA and Illinois EPA regarding this issue. Panhandle was given no indication as to when the listing process was to be completed.

Panhandle expects these cleanup programs for all of the above matters to continue for several years and has estimated its share of remaining cleanup costs to range from $8,835,000 to $16,795,000. At September 30, 2004, Panhandle has related accruals totaling approximately $13,507,000, of which $3,474,000 is included in Other current liabilities for the estimated current amounts and $10,033,000 is included in Other non-current liabilities on the Consolidated Balance Sheet. At December 31, 2003, Panhandle had $2,933,000 included in Other current liabilities and $11,644,000 included in Other non-current liabilities.

AIR QUALITY CONTROL. In 1998, the EPA issued a final rule on regional ozone control that requires Panhandle to place controls on certain large internal combustion engines in five midwestern states. The part of the rule that affects Panhandle was challenged in court by various states, industry and other interests, including Interstate Natural Gas Association of America (INGAA), an industry group to which Panhandle belongs. In March 2000, the court upheld most aspects of the EPA's rule, but agreed with INGAA's position and remanded to the EPA the sections of the rule that affected Panhandle. The final rule was promulgated by US EPA in April 2004. The five midwestern states have one year to promulgate state laws and regulations to address the requirements of this rule. Based on an EPA guidance document negotiated with gas industry representatives in 2002, it is believed that Panhandle will be required under state rules to reduce nitrogen oxide (NOx) emissions by 82% on the identified large internal combustion engines and will be able to trade off engines within the company and within each of the five Midwestern states affected by the rule in an effort to create a cost effective NOx reduction solution. The final implementation date is May 2007. The rule impacts 20 large internal combustion engines on the Panhandle system in Illinois and Indiana at an approximate cost of $17 million for capital improvements through 2007, based on current projections.

In 2002, the Texas Commission on Environmental Quality enacted the Houston/Galveston SIP regulations requiring reductions in NOx emissions in an eight-county area surrounding Houston. Trunkline's Cypress compressor station is affected and may require the installation of emission controls. New regulations also require certain grandfathered facilities in Texas to enter into the new source permit program which may require the installation of emission controls at five additional facilities. These rules affect six company facilities in Texas at an estimated cost of approximately $12 million for capital improvements through March 2007, based on current projections.

The EPA promulgated various Maximum Achievable Control Technology (MACT) rules in February 2004. The rules require that Panhandle Eastern Pipe Line and Trunkline control Hazardous Air Pollutants (HAPs) emitted from certain internal combustion engines at major HAPs sources. Most of Panhandle Eastern Pipe Line and Trunkline compressor stations are major HAPs sources. The HAPs pollutant of concern for Panhandle Eastern

Pipe Line and Trunkline is formaldehyde. As promulgated, the rule seeks to reduce formaldehyde emissions by 76% from these engines. Catalytic controls will be required to reduce emissions under these rules with a final implementation date of May 2007. Panhandle Eastern Pipe Line and Trunkline have 22 internal combustion engines subject to the rules. It is expected that compliance with these regulations will cost an estimated $5 million for capital improvements, based on current projections.

OTHER COMMITMENTS AND CONTINGENCIES. In 1993, the U.S. Department of the Interior announced its intention to seek, through its Mineral Management Service, additional royalties from gas producers as a result of payments received by such producers in connection with past take-or-pay settlements, buyouts and buydowns of gas sales contracts with natural gas pipelines. Panhandle Eastern Pipe Line and Trunkline, 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 Eastern Pipe Line and Trunkline may file with FERC to recover these costs from pipeline customers. Management believes these commitments and contingencies will not have a material adverse effect on Panhandle's business, financial condition or results of operations.

CONTROLLED GROUP PENSION LIABILITIES. Southern Union (including certain of its divisions) sponsors a number of defined benefit pension plans for employees. Under applicable pension and tax laws, upon being acquired by Southern Union, Panhandle became a member of Southern Union's "controlled group" with respect to those plans, and, along with Southern Union and any other members of that group, is jointly and severally liable for any failure by Southern Union (along with any other persons that may be or become a sponsor of any such plan) to fund any and all of these pension plans or to pay any unfunded liabilities that these plans may have if they are ever terminated. In addition, if any of the obligations of any of these pension plans is not paid when due, a lien in favor of that plan or the Pension Benefit Guaranty Corporation may be created against the assets of each member of Southern Union's controlled group, including Panhandle and each of its subsidiaries. Based on the latest actuarial information available as of June 30, 2004, the aggregate amount of the projected benefit obligations of these pension plans was approximately $363,486,000 and the estimated fair value of all of the assets of these plans was approximately $276,155,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's Discussion and Analysis of Financial Condition and Results of Operations is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of Panhandle's financial condition, changes in financial condition and results of operations. The following section includes an overview of Panhandle's business as well as recent developments that Panhandle believes are important in understanding its results of operations, and to anticipate future trends in those operations. Subsequent sections include an analysis of Panhandle's results of operations on a consolidated basis and information relating to Panhandle's liquidity and capital resources, quantitative and qualitative disclosures about market risk, an outlook perspective for Panhandle, and other matters. All dollar amounts in the tables herein are stated in thousands.

OVERVIEW

Panhandle became an indirect wholly-owned subsidiary of Southern Union Company (Southern Union Company and together with its subsidiaries, Southern Union) upon Southern Union's June 11, 2003 acquisition of Panhandle (Panhandle Acquisition) from CMS Gas Transmission Company (CMS Gas Transmission), a subsidiary of CMS Energy Corporation (together, CMS). Panhandle is primarily engaged in the interstate transportation and storage of natural gas and also provides liquefied natural gas (LNG) terminalling and regasification services. The Panhandle entities include Panhandle Eastern Pipe Line Company, LP (Panhandle Eastern Pipe Line), Trunkline Gas Company, LLC (Trunkline) a wholly-owned subsidiary of Panhandle Eastern Pipe Line, Sea Robin Pipeline Company (Sea Robin), a Louisiana unincorporated joint venture and an indirect wholly-owned subsidiary of Panhandle Eastern Pipe Line, Trunkline LNG Company, LLC (Trunkline LNG) which is a wholly-owned subsidiary of Trunkline LNG Holdings, LLC (LNG Holdings), an indirect wholly-owned subsidiary of Panhandle Eastern Pipe Line and Pan Gas Storage, LLC (d.b.a. Southwest Gas Storage), a wholly-owned subsidiary of Panhandle Eastern Pipe Line. Collectively, the pipeline assets include more than 10,000 miles of interstate pipelines that transport natural gas from the Gulf of Mexico, South Texas and the Panhandle regions of Texas and Oklahoma to major U.S. markets in the Midwest and Great Lakes region. The pipelines have a combined peak day delivery capacity of 5.4 Bcf per day, 72 Bcf of owned underground storage capacity and 6.3 Bcf of above ground LNG storage capacity. Trunkline LNG, located on Louisiana's Gulf Coast, operates one of the largest LNG import terminals in North America, based on current send out capacity.

On June 11, 2003, Southern Union acquired Panhandle from CMS for approximately $581,729,000 in cash and 3,000,000 shares of Southern Union common stock (before adjustment for subsequent stock dividends) valued at approximately $48,900,000 based on market prices at closing of the Panhandle Acquisition and in connection therewith incurred transaction costs of approximately $31,922,000. At the time of the acquisition, Panhandle had $1,157,228,000 principal amount of debt outstanding that it retained. Southern Union funded the cash portion of the acquisition with approximately $437,000,000 in cash proceeds it received for the January 1, 2003 sale of its Texas operations, approximately $121,250,000 of the net proceeds it received from concurrent common stock and equity units offerings and with working capital available to Southern Union. Southern Union structured the Panhandle Acquisition and the sale of its Texas operations to qualify as a like-kind exchange of property under Section 1031 of the Internal Revenue Code of 1986, as amended. Panhandle Eastern Pipe Line and five of its subsidiaries, as well as the Southern Union subsidiary that became Panhandle's direct parent upon the acquisition, converted from Delaware corporations to Delaware limited liability companies in June 2003. On June 29, 2004, Panhandle Eastern Pipe Line filed with the state of Delaware and converted from a limited liability company to a limited partnership. Pursuant to the conversion, all rights and liabilities of Panhandle Eastern Pipe Line vested in Panhandle Eastern Pipe Line Company, LP, a Delaware limited partnership, together with its subsidiaries. As a result of the conversion, retained earnings and member's capital were reclassified as partners' capital. There was no effect on Panhandle's results of operations (including income taxes), cash flows or financial position as a result of this conversion. Southern Union Panhandle, LLC serves as the general partner of Panhandle and owns a one percent general partner interest. Southern Union Company holds a ninety-nine percent limited partner interest in Panhandle.

Under the terms of the Panhandle sale agreement, CMS retained Panhandle's ownership interests in and obligations associated with the Centennial and Guardian pipeline projects, as well as certain of Panhandle's net deferred tax assets, all tax liabilities, and pension and certain other postretirement assets and liabilities. In accordance with the sale agreement, Panhandle disposed of its interest in Centennial via sale to its partners and Guardian and certain cash collateral related to Guardian was transferred to CMS. The Note receivable from CMS Capital was included in the sale to Southern Union but was eliminated under pushdown accounting (see Note IV -- Related Party Transactions). On March 1, 2003, certain assets previously held by CMS with a net book value of $15,149,000 were contributed to Panhandle by CMS and were included in the Southern Union purchase.

The Panhandle Acquisition was accounted for in accordance with accounting principles generally accepted within the United States by allocating the purchase price and acquisition costs incurred by Southern Union to Panhandle's net assets as of the acquisition date. The Panhandle assets acquired and liabilities assumed have been recorded at their estimated fair value as of the acquisition date based on the results of outside appraisals. Accordingly, the post-acquisition financial statements reflect a new basis of accounting and pre-acquisition period and post-acquisition period financial results (separated by a heavy black line) are presented but are not comparable. However, since results for the matching prior year stub periods are not available, the results of operations below are being presented on a combined pre-acquisition and post-acquisition basis. The most significant impacts of the new basis of accounting going forward are expected to be higher depreciation expense due to the step-up of depreciable assets, assignment of purchase price to certain amortizable intangible assets, and lower interest costs (though not cash payments) for the remaining life of pre-acquisition debt due to its revaluation and related debt premium amortization.

A majority of Panhandle's total operating revenue comes from long-term service agreements with local distribution company customers and their affiliates. Panhandle also provides firm transportation services under contract to gas marketers, producers, other pipelines, electric power generators, and a variety of end-users. In addition, Panhandle's pipelines offer both firm and interruptible transportation to customers on a short-term or seasonal basis. Demand for gas transmission on Panhandle's pipeline systems is seasonal, with the highest throughput and a higher portion of annual total operating revenues and net earnings occurring in the traditional winter heating season in the first and fourth calendar quarters. For the years 1999 to 2003, Panhandle's combined throughput was 1,139 trillion British thermal units (TBtu), 1,374 TBtu, 1,335 TBtu, 1,259 TBtu and 1,380 TBtu, respectively. For the nine month periods ended September 30, 2004 and September 30, 2003, Panhandle's combined throughput was 957 TBtu and 1,039 TBtu, respectively. Beginning in March 2000, the combined throughput includes Sea Robin's throughput.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following is a comparison of consolidated net earnings for the three month periods ended September 30, 2004 and 2003.

	POST-ACQUISITION THREE MONTHS ENDED SEPTEMBER 30, 2004	2003	THREE MONTHS CHANGE
Operating revenue:			
Reservation revenue	$ 77,081	$ 80,232	$ (3,151)
LNG terminalling revenue	15,004	15,577	(573)
Commodity revenue	14,719	16,138	(1,419)
Other revenue	2,514	2,271	243
Total operating revenue	109,318	114,218	(4,900)
Operating expenses:			
Operation, maintenance and general	49,125	52,933	(3,808)
Depreciation and amortization	15,178	16,348	(1,170)
Taxes, other than on income and revenues	7,044	7,018	26
Total operating expenses	71,347	76,299	(4,952)
Operating income	37,971	37,919	52
Other income (expense):			
Interest (expense), net	(12,030)	(11,274)	(756)
Other, net	446	6,607	(6,161)
Total other expense, net	(11,584)	(4,667)	(6,917)
Earnings before income taxes	26,387	33,252	(6,865)
Income taxes	10,331	13,131	(2,800)
Net earnings	$ 16,056	$ 20,121	$ (4,065)

OPERATING REVENUE. For the three months ended September 30, 2004, operating revenue decreased $4,900,000 versus the same time period during 2003. Such decrease is primarily due to lower reservation revenues of $3,151,000 primarily due to replacement of contract expirations on Trunkline during 2004 at lower average reservation rates than were in effect in 2003. Commodity revenues were down $1,419,000 primarily due to a reduction in throughput volumes of seven percent resulting from lower storage refills and lower parking revenue activity in 2004. Commodity revenues are dependent upon a number of variable factors, including weather, storage levels, and customer demand for firm, interruptible and parking services. In addition, LNG terminalling revenues were down $573,000 primarily due to reduced volumes received in 2004.

OPERATION, MAINTENANCE AND GENERAL. Operation, maintenance and general expenses decreased $3,808,000 for the three months ended September 30, 2004, versus the same time period during 2003, primarily due to the net overrecovery of approximately $1,790,000 in 2004 of previously underrecovered fuel volumes versus a net underrecovery of approximately $1,481,000 of fuel volumes in 2003 and a $968,000 reduction in contract storage expenses due to a reduction in contracted storage capacity beginning March 2004.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased $1,170,000 for the three months ended September 30, 2004 versus the same time period during 2003 primarily due to preliminary estimated purchase price allocations used in the third quarter of 2003 which were revised in the fourth quarter of 2003.

Depreciation and amortization expense is expected to be slightly higher in the last quarter of 2004 as compared to the corresponding period in 2003 primarily due to approximately $2 million of reduced depreciation expense resulting from purchase accounting adjustments recorded in the fourth quarter of 2003 associated with the Panhandle Acquisition.

INTEREST, NET. Interest expense increased $756,000 for the three months ended September 30, 2004 versus the same time period during 2003, primarily due to lower debt premium amortization partially offset by lower interest expense as a result of refinancing and increased capitalized interest on the LNG expansion projects.

Debt premium amortization is expected to be lower for the next three months than during the same period of 2003 due to post-acquisition debt retirements, resulting in higher interest expense. However, cash interest should be lower during the next three months of 2004 versus 2003 and partially offset the reduced premium amortization. For further discussion of Panhandle's long-term debt, see Note VI -- Debt.

OTHER INCOME, NET. Other income, net for the three months ended September 30, 2004 decreased $6,161,000 versus the same time period during 2003, primarily due to a non-recurring $6,123,000 gain on debt extinguishment during the third quarter of 2003.

INCOME TAXES. Income taxes during the three months ended September 30, 2004, versus the same time period during 2003, decreased $2,800,000, primarily due to decreases in pretax income.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a comparison of consolidated net earnings for the nine month periods ended September 30, 2004 and 2003.

	POST-ACQUISITION		PRE-ACQUISITION		
	JANUARY 1 - SEPTEMBER 30, 2004	JUNE 12 - SEPTEMBER 30, 2003	JANUARY 1 JUNE 11, 2003	COMBINED NINE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS CHANGE
Operating revenue:					
Reservation revenue	$ 256,156	$ 97,349	$ 160,030	$ 257,379	$ (1,223)
LNG terminalling revenue	42,847	18,821	26,750	45,571	(2,724)
Commodity revenue	49,408	19,622	36,378	56,000	(6,592)
Other revenue	7,427	2,955	11,112	14,067	(6,640)
Total operating revenue	355,838	138,747	234,270	373,017	(17,179)
Operating expenses:					
Operation, maintenance and general	151,434	63,069	90,800	153,869	(2,435)
Depreciation and amortization	45,201	19,512	23,110	42,622	2,579
Taxes, other than on income and revenues	21,244	8,613	12,478	21,091	153
Total operating expenses	217,879	91,194	126,388	217,582	297
Operating income	137,959	47,553	107,882	155,435	(17,476)
Other income (expense):					
Interest (expense), net	(36,209)	(13,404)	(35,416)	(48,820)	12,611
Other, net	1,686	6,672	6,077	12,749	(11,063)
Total other expense, net	(34,523)	(6,732)	(29,339)	(36,071)	1,548
Earnings before income taxes	103,436	40,821	78,543	119,364	(15,928)
Income taxes	40,179	16,088	30,532	46,620	(6,441)
Net earnings from continuing operations	63,257	24,733	48,011	72,744	(9,487)
Cumulative effect of change in accounting principles, net of tax	--	--	2,003	2,003	(2,003)
Net earnings	$ 63,257	$ 24,733	$ 50,014	$ 74,747	$ (11,490)

OPERATING REVENUE. For the nine months ended September 30, 2004, operating revenue decreased $17,179,000 versus the same time period during 2003. Such decrease includes the impact of lower commodity revenues of $6,592,000 primarily due to an eight percent reduction in throughput volumes resulting from a cooler winter during 2003 versus 2004, lower storage refills and lower parking revenue activity in 2004. Commodity revenues are dependent upon a number of variable factors, including weather, storage levels, and customer demand for firm, interruptible and parking services. The decrease in revenues in 2004 was also affected by non-recurring imbalance cash out net gains of approximately $5,505,000 realized during 2003, lower LNG terminalling revenues of $2,724,000 primarily due to reduced volumes received in 2004 and lower reservation revenues of $1,223,000 during 2004 versus 2003 primarily due to lower storage capacity sold and certain contract expirations on Trunkline during 2004 at lower average reservation rates than were in effect in 2003, partially offset by higher average reservation rates on Panhandle Eastern Pipe Line's capacity.

OPERATION, MAINTENANCE AND GENERAL. Operation, maintenance and general expenses decreased $2,435,000 for the nine months ended September 30, 2004, versus the same time period during 2003, primarily due to the net overrecovery of approximately $6,067,000 in 2004 of previously underrecovered fuel volumes versus a net underrecovery of approximately $3,638,000 of fuel volumes in 2003 and decreased benefit costs of $2,439,000 associated with the change in benefit plans subsequent to the acquisition of Panhandle by Southern Union. Such decreases were partially offset by higher corporate charges of $9,389,000. Prior to the acquisition of Panhandle by Southern Union, corporate charges were temporarily reduced during the first half of 2003 by CMS due to Panhandle being a discontinued operation.

DEPRECIATION AND AMORTIZATION. For the nine months ended September 30, 2004, depreciation and amortization increased $2,579,000 versus the same time period during 2003, primarily due to the step-up of depreciable assets and assignment of purchase price to certain shorter-lived amortizable intangible assets related to the Panhandle Acquisition.

INTEREST, NET. Interest expense, net for the nine months ended September 30, 2004 was reduced by $12,611,000 versus the same time period during 2003 primarily due to amortization of debt premiums established in purchase accounting related to the Panhandle Acquisition by Southern Union, reduced cash interest charges as a result of Panhandle's debt refinancing during the third quarter of 2003 and the refinancing of the debt which matured in March 2004 and August 2004.

OTHER INCOME, NET. Other income, net for the nine months ended September 30, 2004 decreased $11,063,000 versus the same time period during 2003, primarily due to a non-recurring $6,123,000 gain on debt extinguishment during the third quarter of 2003. In addition, related party interest income decreased by $5,050,000 versus the same time period during 2003 due to lower average rates and balances in 2004. For further discussion of Panhandle's related party interest income, see Note IV -- Related Party Transactions.

INCOME TAXES. Income taxes during the nine months ended September 30, 2004, versus the same time period during 2003, decreased $6,441,000 primarily due to decreases in pretax income.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. Based on Panhandle's current level of operations, management believes that cash flow from operations, available existing cash, and other sources, including liquid working capital and new borrowings, will be adequate to meet Panhandle's short-term cash needs and long-term cash needs for the next several years, although no assurances can be given as to the sufficiency of cash flows or the ability to refinance existing obligations.

Cash flows from operating activities for the nine months ended September 30, 2004 were $132 million versus $162 million for the same time period during 2003. Changes in operating assets and liabilities used cash of $2 million for the nine months ended September 30, 2004 and $12 million for the same time period during 2003. The decrease in cash flows from operating activities for the nine months ended September 30, 2004 versus the same time period during 2003 was primarily attributable to the timing of payments and cash receipts related to Panhandle's working capital accounts and by a decrease in net income.

INVESTING ACTIVITIES. Historically, Panhandle's capital requirements have generally been satisfied through operating cash flow, except that Panhandle may utilize access to capital markets for extraordinary capital expenditures. Panhandle estimates expenditures associated with the Phase I and Phase II LNG terminal expansions and the Trunkline 30-inch diameter natural gas pipeline loop from the LNG terminal, excluding capitalized interest, to be approximately $117 million in 2004, $28 million of which was incurred in the third quarter of 2004; $88 million and $7 million is expected to be incurred in 2005 and 2006, respectively. These estimates were developed for budget planning purposes and are subject to revision.

Cash flows used in investing activities for the nine month period ended September 30, 2004 decreased by approximately $34 million versus the same time period in 2003 primarily due to a $125 million decrease in loans made to affiliated companies during 2004, partially offset by proceeds from the sale of Centennial in the first quarter of 2003 of $40 million and an increase in capital expenditures of approximately $54 million during 2004 primarily related to the LNG expansion.

FINANCING ACTIVITIES. Panhandle's note provisions are subject to requirements such as the maintenance of a fixed charge coverage ratio and a leverage ratio which restrict certain payments if not maintained, and limitations on liens. At September 30, 2004, Panhandle, based on the currently most restrictive debt covenant requirements, was subject to a $294,450,000 limitation on additional restricted payments including dividends and loans to affiliates, and a limitation of $321,362,000 of additional secured indebtedness or other defined liens based on a limitations on liens covenant.

At September 30, 2004, Panhandle had scheduled debt principal payments of $2,767,000, $12,548,000, $13,969,000, $431,916,000, $300,000,000 and $417,428,000 for the remainder of 2004 and for the years 2005 through 2008 and thereafter, respectively.

On March 12, 2004, Panhandle issued $200,000,000 of 2.75% Senior Notes due 2007, Series A in reliance on an exemption from the registration requirements of the Securities Act of 1933 for offers and sales of securities not involving a public offering or sale, in order to refinance Panhandle's maturing debt. Panhandle used a portion of the net proceeds to retire $146,080,000 of 6.125% Senior Notes which matured on March 15, 2004, as well as for other general corporate purposes. A portion of the remaining net proceeds was also used to pay off the $52,455,000 of 7.875% Senior Note which matured August 15, 2004. Panhandle filed a registration statement on May 12, 2004 to initiate an exchange of the unregistered 2.75% Senior Notes due 2007, Series A for substantially identical securities registered under the Securities Act of 1933. Such exchange was completed June 25, 2004.

Cash flows used in financing activities for the nine months ended September 30, 2004 decreased by approximately $69 million versus the same time period in 2003 primarily due to the transfer of the Centennial sale proceeds to CMS of $40 million during 2003, a decrease in net debt retirements and related net issuance costs of $26 million during 2003 and an increase in bank overdrafts of $3 million. Panhandle may enter into a credit facility or utilize other available sources of capital to cover any potential short-term financing needs during the period of higher than normal capital expenditures through 2005, primarily related to the LNG expansions.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OUTLOOK

Panhandle is a leading United States interstate natural gas pipeline system and also owns one of the largest operating LNG regasification terminals in North America, based on current send out capacity, and intends to optimize results through expansion and better utilization of its existing facilities and construction of new facilities. This involves providing additional transportation, storage and other value-added services to customers such as gas-fueled power plants, local distribution companies, industrial end-users, marketers and others. Panhandle conducts operations primarily in the central, gulf coast, midwest, great lakes, and southwest regions of the United States. Pipeline revenues are generally higher in the first and fourth quarters of each year primarily due to higher contract rates and the increase in customer demand levels for gas due to the colder weather during these periods.

Trunkline LNG entered into a 22-year contract with BG LNG Services beginning January 2002, for all the uncommitted capacity at the Lake Charles, Louisiana facility. Trunkline LNG announced the planned expansion of the Lake Charles facility to approximately 1.2 Bcf per day of send out capacity, up from its current send out capacity of .63 Bcf per day and in December 2002, FERC approved the expansion of the LNG regasification terminal storage capacity to 9 Bcf from the current storage capacity of 6.3 Bcf. The expanded facility is currently expected to be in operation by the end of 2005. On September 17, 2004, as modified on September 23, 2004, FERC approved Trunkline LNG's further incremental LNG expansion project. This expansion will increase the LNG terminal's sustainable send out capacity to 1.8 Bcf per day by mid-2006. BG LNG Services has contracted for all the proposed additional capacity subject to Trunkline LNG achieving certain construction milestones at this facility.

Panhandle previously owned a one-third interest in Guardian, which constructed a 141-mile, 36-inch pipeline from Illinois to southeastern Wisconsin for the transportation of natural gas and began operations in December 2002. On March 10, 2003, Panhandle's ownership interest in Guardian was transferred to CMS Gas Transmission. Trunkline was the operator of the Guardian pipeline until June 30, 2004 when the current agreement with Guardian expired. This is not expected to have a material impact on Panhandle's results of operations.

OTHER MATTERS

CUSTOMER CONCENTRATION. Panhandle provides LNG terminalling and regasification services and a comprehensive array of transportation and storage services to approximately five hundred customers. Such customers are principally located in the midwest and southwest regions of the United States. The following is a comparison of the percent of operating revenue by customer for the nine month periods ended September 30, 2004 and 2003.

CUSTOMER	PERCENT OF OPERATING REVENUE FOR NINE MONTHS ENDED SEPTEMBER 30, 2004	2003
ProLiance	17	16
BG LNG Services	16	16
CMS Energy subsidiaries (1)	10	13
Other Top 10 customers	27	26
Remaining customers	30	29
Total percentage	100%	100%

(1) Primarily Consumers Energy

REGULATION. Panhandle is subject to regulation by various federal, state and local governmental agencies, including those specifically described below.

FERC has comprehensive jurisdiction over Panhandle Eastern Pipe Line, Trunkline, Sea Robin, Trunkline LNG, and Southwest Gas Storage as natural gas companies within the meaning of the Natural Gas Act of 1938. FERC jurisdiction relates, among other things, to the acquisition, operation and disposal of assets and facilities and to the service provided and rates charged.

FERC has authority to regulate rates and charges for both transportation and storage of natural gas in interstate commerce. FERC also has authority over the construction and operation of pipeline and related facilities utilized in the transportation and sale of natural gas in interstate commerce, including the extension, enlargement or abandonment of service using such facilities. Panhandle, Trunkline, Sea Robin, Trunkline LNG, and Southwest Gas Storage hold certificates of public convenience and necessity issued by the FERC, authorizing them to construct and operate the pipelines, facilities and properties now in operation for which such certificates are required, and to transport and store natural gas in interstate commerce.

The Secretary of Energy regulates the import and export of natural gas and has delegated various aspects of this jurisdiction to FERC and the Department of Energy's Office of Fossil Fuels.

Panhandle is also subject to the Natural Gas Pipeline Safety Act of 1968 and the Pipeline Safety Improvement Act of 2002, which regulate the safety of gas pipelines. In addition, Panhandle is subject to the Hazardous Liquid Pipeline Safety Act of 1979, which regulates oil and petroleum pipelines.

COMPETITION. Panhandle's interstate pipelines compete with other interstate and intrastate pipeline companies in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, term of service and flexibility and reliability of service. Panhandle's primary competitors include Alliance Pipeline LP, ANR Pipeline Company, Natural Gas Pipeline Company of America, Northern Border Pipeline Company, Texas Gas Transmission Corporation, Northern Natural Gas Company and Vector Pipeline.

Natural gas competes with other forms of energy available to Panhandle's customers and end-users, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability or price of natural gas and other forms of energy, the level of business activity, conservation, legislation and governmental regulations, the capability to convert to alternate fuels, and other factors, including weather and natural gas storage levels, affect the demand for transportation services in the areas served by Panhandle.

ENVIRONMENTAL MATTERS. Panhandle's interstate natural gas transportation operations are subject to federal, state and local regulations regarding water quality, hazardous and solid waste disposal and other environmental matters. Panhandle has identified environmental contamination at certain sites on its gas transmission systems and has undertaken cleanup programs at these sites. The contamination resulted from the past use of lubricants containing PCBs in compressed air systems; the past use of paints containing PCBs; and the prior use of wastewater collection facilities and other on-site disposal areas. Panhandle has developed and is implementing a program to remediate such contamination in accordance with federal, state and local regulations. Some remediation is being performed by former Panhandle affiliates in accordance with indemnity agreements that also indemnify against certain future environmental litigation and claims. Panhandle is also subject to various federal, state and local laws and regulations relating to air quality control. These regulations include rules relating to regional ozone control and hazardous air pollutants. The regional ozone control rules are known as SIP and are designed to control the release of NOx compounds. The rules related to hazardous air pollutants are known as MACT rules and are the result of the 1990 Clean Air Act Amendments that regulate the emission of hazardous air pollutants from internal combustion engines and turbines.

PCB Assessment and Clean-up Programs -- Panhandle previously identified environmental contamination at certain sites on its systems and undertook clean-up programs at these sites. The contamination resulted from the past use of lubricants containing PCBs in compressed air systems and the prior use of wastewater collection facilities and other on-site disposal areas. Panhandle is also taking actions regarding PCBs in paints at various locations (see Note IX - -- Commitments and Contingencies - Environmental Matters).

Air Quality Control -- In 1998, the EPA issued a final rule on regional ozone control that requires revised SIPs for 22 states, including five states in which Panhandle operates. Panhandle has completed installation of NOx controls on four engines and anticipates placing NOx controls on engines at a total of six compressor station locations. This program is expected to be completed by May 2007.

In 2004, final rules were promulgated by the EPA regarding control of hazardous air pollutants. Twenty engines owned by Panhandle are affected. In 2002, the Texas Commission on Environmental Quality enacted the Houston/Galveston SIP regulations requiring reductions in NOx emissions in an eight-county area surrounding Houston. Trunkline's Cypress compressor station is affected and may require the installation of emission controls. New regulations also require certain grandfathered facilities to enter into the new source permit program which may require the installation of emission controls at five additional facilities. These rules affect six company facilities in Texas. Panhandle expects controls to be installed by March 2007 (see Note IX -- Commitments and Contingencies - Environmental Matters).

Management believes that disposition of the environmental contingencies described herein will not have a material adverse affect on consolidated results of operations, cash flows, or financial position.

ENERGY AFFILIATE RULEMAKING. In response to changes in the structure of the energy industry, the FERC adopted Order No. 2004 on November 25, 2003 that established standards of conduct for energy affiliates of FERC-regulated entities. The final rule revises and conforms the current gas and electric standards by broadening the definition of an energy affiliate covered by the standards of conduct to include, in addition to current marketers or merchant affiliates, gathering, processing, intrastate pipelines and certain local distribution companies. On February 9, 2004, Panhandle Eastern Pipe Line, Trunkline, Trunkline LNG, Sea Robin and LNG Holdings submitted an informational filing describing the measures needed to comply with the standards of conduct. Southern Union has complied with Order No. 2004.

PIPELINE SAFETY NOTICE OF PROPOSED RULEMAKING. On December 12, 2003, the U.S. Department of Transportation issued a final rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in "high consequence areas." The final rule took effect on January 14, 2004 and incorporates requirements of the Pipeline Safety Improvement Act enacted in December 2002. Although Panhandle cannot predict the actual costs of compliance with this rule, it does not expect the order to have a material incremental effect on Panhandle's business, financial condition or results of operations because such required activities were already being undertaken.

GUARDIAN. As of December 31, 2002, Panhandle owned a one-third interest in Guardian, which constructed a 141-mile, 36-inch pipeline from Illinois to southeastern Wisconsin for the transportation of natural gas and began operations in December 2002. On March 10, 2003, Panhandle's ownership interest in Guardian was transferred to CMS Gas Transmission. Trunkline was the operator of the Guardian pipeline until June 30, 2004 when the current agreement with Guardian expired. This is not expected to have a material impact on Panhandle's results of operations.

CONTROLLED GROUP PENSION LIABILITIES. Southern Union (including certain of its divisions) sponsors a number of defined benefit pension plans arising from its (including any of its present or former divisions) or its predecessor's businesses when Southern Union acquired Panhandle. Under applicable pension and tax laws, upon being acquired by Southern Union, Panhandle became a member of Southern Union's "controlled group" with respect to those plans, and, along with Southern Union and any other members of that group, is jointly and severally liable for any failure by Southern Union (along with any other persons that may be or become a sponsor of any such plan) to fund any and all of these pension plans or to pay any unfunded liabilities that these plans may have if they are ever terminated. In addition, if any of the obligations of any of these pension plans is not paid when due, a lien in favor of that plan or the Pension Benefit Guaranty Corporation may be created against the assets of each member of Southern Union's controlled group, including Panhandle and each of its subsidiaries. Based on the latest actuarial information available as of June 30, 2004, the aggregate amount of the projected benefit obligations of these pension plans was approximately $363,486,000 and the estimated fair value of all of the assets of these plans was approximately $276,155,000.

PENDING SOUTHERN UNION ACQUISITION. Pursuant to a purchase agreement dated as of June 24, 2004 and amended as of September 1, 2004, CCE Holdings, LLC (CCE), a joint venture between Southern Union and its 50% equity partner GE Commercial Finance Energy Financial Services, agreed to acquire 100% of the equity interests of CrossCountry Energy, LLC (CrossCountry) from Enron Corp. and its affiliates (collectively, Enron) for $2,450,000,000 in cash including the assumption of certain consolidated debt (the Transaction). The closing of the Transaction is subject to approval by certain state and federal regulatory bodies, in addition to satisfaction of customary closing conditions, and is expected to occur on or before December 17, 2004. It is currently contemplated that CCE will be operated by Southern Union, including the involvement of Panhandle management personnel.

ACCOUNTING STANDARDS

FASB INTERPRETATION NO. 46R, "CONSOLIDATION OF VARIABLE INTEREST ENTITIES" (FIN NO. 46R): Issued by the Financial Accounting Standards Board (FASB) in December 2003, the interpretation identifies a variable interest entity as an entity whose equity owners do not have sufficient equity at risk and do not have substantive voting rights. The interpretation is effective for special-purpose entities for periods ending after December 15, 2003 and for all other types of variable interest entities for periods ending after March 15, 2004. This standard requires a company to consolidate a variable interest entity if it is allocated a majority of the entity's losses and/or returns, including fees paid by the entity. Panhandle has not identified any material variable interest entities or interests in variable interest entities for which the provisions of FIN No. 46R would require a change in Panhandle's current accounting for such interests.

EITF 01-8, "DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE" (EITF 01-8): In May 2003, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on EITF 01-8 that outlines certain criteria for determining when a contract or portion thereof should be accounted for as a lease within the scope of SFAS No. 13, "Accounting for Leases". Because of certain contractual changes entered into during January 2004 between Trunkline LNG and BG LNG Services, Inc., a subsidiary of BG Group of the United Kingdom (BG LNG Services), regarding LNG services at the Lake Charles facility, the BG LNG Services contract was required to be reassessed under the provisions of EITF 01-8 and was determined to contain an operating lease. The impact of this accounting treatment did not have an impact on Panhandle's financial condition or results of operations.

FASB STATEMENT NO.132R "EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFITS - AN AMENDMENT OF FASB STATEMENTS NO. 87, 88, AND 106": Issued by the FASB in December 2003, the Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It retains the disclosure requirements contained in FASB Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which it replaces, and requires additional disclosure about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The Statement does not change the measurement or recognition of those plans required by FASB Statements No. 87, "Employers' Accounting for Pensions", No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The Statement is effective for fiscal years ending after December 15, 2003. The interim-period disclosures required by the Statement are effective for interim periods beginning after December 15, 2003 (see Note VII -- Employee Benefits).

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION. The Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements constitute forward-looking statements that are based on current expectations, estimates and projections about the industry in which Panhandle operates and management's beliefs and assumptions. These forward-looking statements are not historical facts, but rather reflect current expectations concerning future results and events. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe objectives, plans or goals are or may be forward-looking statements.

These statements are not guarantees of future performance and involve various risks, uncertainties and assumptions, which are difficult to predict and many of which are outside Panhandle's control. Therefore, actual results, performance and achievements may differ materially from what is expressed or forecasted in such forward-looking statements. Prospective investors may review Panhandle's reports filed in the future with the Commission for more current descriptions of developments that could cause actual results to differ materially from such forward-looking statements. However, prospective investors should not place undue reliance on forward-looking statements, which speak only as of the date of this Form 10-Q, or, in the case of documents incorporated by reference, the date of those documents.

Factors that could cause actual results to differ materially from those expressed in the forward-looking statements include, but are not limited to, the following: customer growth; gas throughput volumes and available sources of natural gas; discounting of transportation rates due to competition, abnormal weather conditions in Panhandle's service territories; new legislation and government regulations affecting or involving Panhandle; Panhandle's ability to comply with or to challenge successfully existing or new environmental regulations; the outcome of pending and future litigation; the impact of relations with labor unions of bargaining-unit union employees; the impact of future rate cases or regulatory rulings; Panhandle's ability to control costs successfully and achieve operating efficiencies, including the purchase and implementation of new technologies for achieving such efficiencies; the nature and impact of any extraordinary transactions, such as any acquisition or divestiture of a business unit or any assets; the economic climate and growth in Panhandle's industry and service territories and competitive conditions of energy markets in general; inflationary trends; changes in gas or other energy market commodity prices and interest rates; the current market conditions causing more customer contracts to be of shorter duration, which may increase revenue volatility; exposure to customer concentration with a significant portion of revenues realized from a relatively small number of customers and any credit risks associated with the financial position of those customers; Panhandle or its parent's debt securities ratings; factors affecting operations such as maintenance or repairs, environmental incidents or gas pipeline system constraints; the possibility of war or terrorist attacks; and other risks and unforeseen events.

In light of these risks, uncertainties and assumptions, the results reflected in the forward-looking statements contained or incorporated by reference in this Form 10-Q might not occur. In addition, Panhandle could be affected by general industry and market conditions, and general economic conditions, including interest rate fluctuations, federal, state and local laws and regulations affecting the retail gas industry or the energy industry generally.

Panhandle does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to Panhandle or persons acting on Panhandle's behalf are expressly qualified in their entirety by the cautionary statements contained throughout this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

There are no material changes in market risks faced by Panhandle from those reported in Panhandle's Annual Report on Form 10-K for the year ended December 31, 2003.

The information in Item 3 updates, and should be read in conjunction with, information set forth in Part II, Item 7 and Item 7A in Panhandle's Annual Report on Form 10-K for the year ended December 31, 2003, in addition to the interim consolidated financial statements, accompanying notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations presented in Items 1 and 2 of this Quarterly Report on Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Panhandle performed an evaluation under the supervision and with the participation of its management, including its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), and with the participation of personnel from its Legal, Internal Audit and Financial Reporting Departments, of the effectiveness of the design and operation of Panhandle's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, Panhandle's CEO and CFO concluded that its disclosure controls and procedures were effective as of September 30, 2004 and have communicated that determination to the Board of Managers and Southern Union's Audit Committee, which also serves as our Audit Committee.

CHANGES IN INTERNAL CONTROLS

There has not been any change in Panhandle's internal controls over financial reporting identified in connection with our evaluation thereof that occurred during the quarter ended September 30, 2004 that materially affected, or is reasonably likely to materially affect, Panhandle's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Panhandle and certain of its affiliates are occasionally parties to lawsuits and administrative proceedings incidental to their businesses involving, for example, claims for personal injury and property damage, contractual matters, various tax matters, and rates and licensing. Reference is made to ITEM 1. Financial Statements, Note IX -- Commitments and Contingencies - Litigation, Environmental Matters, and Air Quality Control, as well as to ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I. Financial Information for additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other legal matters.

ENVIRONMENTAL MATTERS - Panhandle and its affiliates are subject to various federal, state and local laws and regulations relating to the environment. Several of these companies have been named parties to various actions involving environmental issues. Based on our present knowledge and subject to future legal and factual developments, Panhandle's management believes that it is unlikely that these actions, individually or in the aggregate, will have a material adverse effect on its financial condition. See ITEM 1. Financial Statements, Note IX -- Commitments and Contingencies - Environmental Matters and Air Quality Control and ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I. Financial Information.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS.

EXHIBIT NO.	DESCRIPTION
31.1	Rule 13a - 14(a)/15d - 14(a) Certification of Chief Executive Officer
31.2	Rule 13a - 14(a)/15d - 14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification
32.2	Section 1350 Certification

(b) REPORTS ON FORM 8-K:

None

PANHANDLE EASTERN PIPE LINE COMPANY, LP

Pursuant to the requirements of the Securities Exchange Act of 1934, Panhandle Eastern Pipe Line Company, LP has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
(Registrant)

Date: November 9, 2004

By: /s/ THOMAS F. KARAM

Thomas F. Karam
Chief Executive Officer

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
31.1	Rule 13a - 14(a)/15d - 14(a) Certification of Chief Executive Officer.
31.2	Rule 13a - 14(a)/15d - 14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification.
32.2	Section 1350 Certification.

EXHIBIT 31.1

CERTIFICATIONS

I, Thomas F. Karam, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Panhandle Eastern Pipe Line Company, LP;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2004

/s/ THOMAS F. KARAM

Name: Thomas F. Karam
Title: Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, David J. Kvapil, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Panhandle Eastern Pipe Line Company, LP;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2004

/s/ DAVID J. KVAPIL

Name: David J. Kvapil

Title: Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Panhandle Eastern Pipe Line Company, LP (the "Company") for the quarter ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas F. Karam, as President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ THOMAS F. KARAM
- --------------------------------
Name: Thomas F. Karam
Title: Chief Executive Officer
Date: November 9, 2004

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906, or other documents authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Panhandle Eastern Pipe Line Company, LP (the "Company") for the quarter ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Kvapil, as Executive Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID J. KVAPIL
- ------------------------
Name: David J. Kvapil
Title: Executive Vice President and Chief Financial Officer
Date: November 9, 2004

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906, or other documents authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.