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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

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 (I.R.S. Employer
incorporation or organization) Identification No.)

5444 WESTHEIMER ROAD 77056-5306
HOUSTON, TEXAS (Zip Code)
(Address of principal executive offices)

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 on which registered
4.80% Senior Notes due 2008, Series B	New York Stock Exchange
6.05% Senior Notes due 2013, Series B	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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an Accelerated Filer (as defined in Exchange Act Rule 12D-2).

Yes No

Panhandle Eastern Pipe Line Company, LP meets the conditions set forth in General Instructions I(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format. Items 1, 2 and 7 have been reduced and Items 4, 6, 10, 11, 12 and 13 have been omitted in accordance with Instruction I.

PART I

ITEM 1. BUSINESS

OUR BUSINESS

INTRODUCTION

Panhandle Eastern Pipe Line Company, LP (Panhandle Eastern Pipe Line) (formerly Panhandle Eastern Pipe Line Company, LLC), a Delaware limited partnership (together with its subsidiaries, Panhandle), is an indirect wholly-owned subsidiary of Southern Union Company (Southern Union Company and, together with its subsidiaries, Southern Union) since 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 (CMS Energy and, together with CMS Gas Transmission, CMS). See ITEM 8. Financial Statements and Supplementary Data, Note I -- Corporate Structure. Panhandle is primarily engaged in the interstate transportation and storage of natural gas and also provides liquefied natural gas (LNG) terminalling and regasification services. Panhandle is subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC). The Panhandle entities include Panhandle Eastern Pipe Line, Trunkline Gas Company, LLC (Trunkline), a wholly-owned subsidiary of Panhandle Eastern Pipe Line, Sea Robin Pipeline Company, LLC (Sea Robin), 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 and has 6.3 bcf of above ground LNG storage capacity.

ACQUISITION OF PANHANDLE. On June 11, 2003, Southern Union acquired Panhandle from CMS Gas Transmission 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 outstanding that it retained. Southern Union funded the cash portion of the acquisition with approximately \$437,000,000 in cash proceeds it received from the January 1, 2003 sale of its Texas operations, approximately \$121,250,000 in cash 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 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.

Panhandle Eastern Pipe Line and five of its subsidiaries, as well as Southern Union Panhandle, LLC, converted from Delaware corporations to Delaware limited liability companies in June 2003. On June 29, 2004, Panhandle Eastern Pipe Line was converted from a Delaware limited liability company to a limited partnership. Pursuant to the conversion, all rights and liabilities of Panhandle Eastern Pipe Line Company, LLC vested in Panhandle Eastern Pipe Line Company, LP. 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 Eastern Pipe Line and owns a one percent general partner interest in Panhandle Eastern Pipe Line. Southern Union Company owns a ninety-nine percent limited partner interest in Panhandle Eastern Pipe Line.

Under the terms of the Panhandle sale agreement, CMS retained ownership of and all obligations associated with 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 post-retirement 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 V -- 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 purchase accounting and subsequently extinguished. See Note V -- 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 within the United States of America with Panhandle allocating (pushdown) the purchase price paid by Southern Union to Panhandle's net assets as of the acquisition date. The Panhandle assets acquired and liabilities assumed were 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. See Note I -- Corporate Structure.

CUSTOMERS

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 2000 to 2004, Panhandle's combined throughput was 1,374 trillion British thermal units (Tbtu), 1,335 Tbtu, 1,259 Tbtu, 1,380 Tbtu and 1,284 Tbtu, respectively. Beginning in March 2000, the combined throughput includes Sea Robin's throughput.

Panhandle's customers may change throughout the year as a result of capacity release provisions that allow them to release all or part of their capacity, either permanently for the full term of the contract or temporarily. Under the terms of Panhandle's tariff, a temporary capacity release does not relieve the original customer from its payment obligations if the replacement customer fails to pay.

The following table shows the relative contribution to Panhandle's total operating revenue of each of the major services provided by Panhandle for the years ended December 31, 2004, 2003 and 2002.

PERCENT OF OPERATING REVENUE FOR TWELVE MONTHS ENDED DECEMBER 31,

TYPE OF SERVICE	2004	2003	2002
Transportation	78%	77%	77%
LNG terminalling	12%	12%	12%
Storage	8%	8%	8%
Other	2%	3%	3%
Total percentage	100%	100%	100%

For additional information, see ITEM 7. Management's Discussion and Analysis of Results of Operations and Financial Condition -- Results of Operations.

REGULATION

Panhandle is subject to regulation by various federal, state and local governmental agencies, including those specifically described below. See ITEM 1. Business - Environmental.

FERC has comprehensive jurisdiction over Panhandle Eastern Pipe Line, Southwest Gas Storage, Trunkline, Trunkline LNG and Sea Robin 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 transportation or 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 Eastern Pipe Line, 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 importation and exportation 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 natural gas pipelines. Panhandle is also subject to the Hazardous Liquid Pipeline Safety Act of 1979, which regulates oil and petroleum pipelines.

For a discussion of the effect of certain FERC orders on Panhandle, see ITEM 7. Panhandle's Management's Discussion and Analysis -- Other Matters and Note III - -- Regulatory Matters.

PROPERTY

Panhandle's interstate transmission and storage operations have more than 10,000 miles of pipeline in the United States. With approximately 6,500 miles of pipeline, Panhandle Eastern Pipe Line's natural gas transmission system consists of four large diameter pipelines extending approximately 1,300 miles from producing areas in the Anadarko Basin of Texas, Oklahoma and Kansas through the states of Missouri, Illinois, Indiana, Ohio and into Michigan. Trunkline's transmission system consists of two large diameter pipelines of approximately 3,500 miles of pipeline which extend approximately 1,400 miles from the Gulf Coast areas of Texas and Louisiana through the states of Arkansas, Mississippi, Tennessee, Kentucky, Illinois and Indiana to a point on the Indiana-Michigan border. Sea Robin's transmission system consists of two offshore Louisiana natural gas supply systems and is comprised of approximately 400 miles of pipeline extending approximately 81 miles into the Gulf of Mexico.

In connection with its gas transmission and storage systems, Panhandle owns and operates 48 compressor stations and has five gas storage fields located in Illinois, Kansas, Louisiana, Michigan and Oklahoma with an aggregate storage capacity of 72 bcf. Panhandle also has contracts with third parties for approximately 15 bcf of storage for a total of approximately 87 bcf of total storage capacity.

Trunkline LNG owns a liquefied natural gas (LNG) terminal in Lake Charles, Louisiana. The LNG terminal has a sustainable send out capacity of approximately .63 bcf per day and is one of the largest operating LNG terminals in North America, based on current send out capacity. Trunkline LNG is currently in the process of an approximately \$137 million, plus capitalized interest, expansion (Phase I) of the LNG terminal, which would increase sustainable send out capacity to 1.2 bcf per day by the end of 2005. On September 17, 2004, as modified on September 23, 2004, FERC approved Trunkline LNG's incremental 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. In September 2004, Trunkline received approval from the FERC of a 30-inch diameter, 23-mile natural gas pipeline loop from the LNG terminal. 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. On November 5, 2004, Trunkline filed an amended application with the FERC to change the size of the pipeline from 30-inch diameter to 36-inch diameter to better position Trunkline to provide transportation service for expected future LNG volumes and increase operational flexibility. The amendment was approved by FERC on February 11, 2005. The Trunkline natural gas pipeline loop associated with the LNG terminal is estimated to cost \$50 million, plus capitalized interest.

ENVIRONMENTAL

Panhandle is subject to extensive federal, state and local laws and regulations relating to the protection of the environment. These evolving laws and regulations require expenditures in connection with construction of new facilities, the operation of existing facilities, and for remediation at various operating sites over a long period of time to address environmental impacts. Panhandle has established programs and procedures for the ongoing evaluation of its operations to identify potential environmental issues and address compliance with regulatory requirements.

Panhandle's gas transmission operations are subject to federal, state and local regulations regarding water quality, hazardous and solid waste management, air quality control and other environmental matters. Panhandle has previously 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 implemented a program to remediate such contamination in accordance with federal, state and local regulations. Air quality control regulations include rules relating to regional ozone control and hazardous air pollutants. The regional ozone control rules, known as the nitrogen oxide (NOx) State Implementation Plans (SIP Call), are designed to control the release of NOx compounds. The rules related to hazardous air pollutants, known as Maximum Achievable Control Technology (MACT) rules, are the result of the 1990 Clean Air Act amendments that regulate the emission of hazardous air pollutants from internal combustion engines and turbines.

See ITEM 7. Management's Discussion and Analysis of Results of Operations and Financial Condition - Cautionary Statement Regarding Forward-Looking Information and Note XIV -- Commitments and Contingencies in the Notes to the Consolidated Financial Statements.

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, terms of service and flexibility and reliability of service. Panhandle's direct 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 alternative fuels, and other factors, including weather and natural gas storage levels, affect the demand for natural gas in the areas served by Panhandle.

INSURANCE

Panhandle maintains insurance coverage provided under its policies or policies of Southern Union similar to other comparable companies in the same lines of business. The insurance policies are subject to terms, conditions, limitations and exclusions that do not fully compensate Panhandle for all losses. Furthermore, as Panhandle renews its policies, it is possible that full insurance coverage may not be obtainable on commercially reasonable terms due to the recent more restrictive insurance markets.

EMPLOYEES

At December 31, 2004, Panhandle had 1,026 full-time equivalent employees. Of these employees, 230 were represented by the Paper, Allied-Industrial Chemical and Energy Workers International Union, AFL-CIO, CLC. In June 2003, Panhandle entered into a new agreement with this union that expires in May 2006. The new agreement caps wage increases at three percent annually.

In conjunction with its acquisition by Southern Union, Panhandle initiated a plan to reduce its workforce by approximately five percent. The workforce reduction initiative was an involuntary plan with a voluntary component, and was fully implemented by the end of the third quarter of 2003. Total workforce reduction initiative costs of approximately \$10,000,000 are included in the \$31,922,000 of transaction costs incurred in connection with the Panhandle Acquisition. See Item 1. Business - Acquisition of Panhandle.

In conjunction with Southern Union's investment in CCE Holdings, LLC (CCE) and CCE's acquisition of Cross Country Energy, LLC (CrossCountry) from Enron Corp. and certain subsidiaries of Enron, Panhandle initiated an additional workforce reduction plan designed to reduce the workforce by approximately an additional six percent. Certain of the approximately \$7.7 million of the resulting severance and related costs are reimbursable by CCE pursuant to agreements between the parties involved, with the reimbursable portion totaling approximately \$6 million.

AVAILABLE INFORMATION

Panhandle Eastern Pipe Line files annual, quarterly and special reports and other information with the Securities and Exchange Commission (SEC). Any document Panhandle Eastern Pipe Line files with the SEC may be read or copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. Panhandle Eastern Pipe Line's SEC filings are also available at the SEC's website at <http://www.sec.gov>.

ITEM 2. PROPERTIES

A description of Panhandle's properties is contained in ITEM 1. Business -- Property.

ITEM 3. LEGAL PROCEEDINGS

Panhandle and certain of its affiliates are parties to routine 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. Business -- Regulation, as well as to ITEM 7. Management's Discussion and Analysis of Results of Operations and Financial Condition and ITEM 8. Financial Statements and Supplementary Data -- Notes to Consolidated Financial Statements included herein 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 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 7. Management's Discussion and Analysis of Results of Operations and Financial Condition and ITEM 8. Financial Statements and Supplementary Data -- Notes to Consolidated Financial Statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Item 4. Submission of Matters to a Vote of Security Holders has been omitted from this report pursuant to the reduced disclosure format permitted by General Instruction I to Form 10-K.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

All of Panhandle Eastern Pipe Line's partnership interests are privately held by Southern Union Panhandle, LLC and Southern Union. See Note I -- Corporate Structure.

ITEM 6. SELECTED FINANCIAL DATA

ITEM 6. Selected Financial Data has been omitted from this report pursuant to the reduced disclosure format permitted by General Instruction I to Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Management's Discussion and Analysis of Results of Operations and Financial Condition is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of Panhandle's financial condition, results of operations and changes in financial condition. 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 in anticipating 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. The information required by this Item is presented in a reduced disclosure format pursuant to General Instruction I to Form 10-K. The Notes to Consolidated Financial Statements contain information that is pertinent to the analysis of Panhandle's financial condition and its results of operations, including a discussion of Panhandle's significant accounting policies.

OVERVIEW

Panhandle is primarily engaged in the interstate transportation and storage of natural gas and also provides LNG terminalling and regasification services. The Panhandle entities include Panhandle Eastern Pipe Line, Trunkline, Sea Robin, Trunkline LNG and Southwest Gas Storage. 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.

On June 11, 2003, Southern Union acquired Panhandle from CMS Gas Transmission 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. The Panhandle Acquisition was accounted for using the purchase method of accounting in accordance with accounting principles generally accepted within the United States of America with Panhandle allocating the purchase price paid by Southern Union 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 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. 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. Panhandle's management views this presentation as meaningful in discussing its operating results due to the continuity during both periods of its ongoing operations. 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 debt due to its revaluation and related debt premium amortization. See Item 1. Business -- Acquisition of Panhandle.

MAJOR BUSINESS DRIVERS AND RISKS. Long-term supply for each of Panhandle's pipelines is critical. Revenues generated by Panhandle's transmission contracts ultimately depend on the volume of natural gas transported. As the reserves available through the supply basins connected to Panhandle's systems are naturally declining, a decrease in development or production activities could cause a decrease in the volume of reserves available for transmission. Investments by third parties in the development of new natural gas reserves connected to Panhandle's facilities depend on energy prices. If there are reductions in the average volume of natural gas Panhandle transports, its business, results of operations and financial condition could be materially adversely affected.

Long-term demand in the natural gas markets that Panhandle's pipelines serve is also critical. Federal and state regulation of natural gas interstate pipelines has changed dramatically in the last two decades and could continue to change. These regulatory changes have resulted and may continue to result in increased competition in the pipeline business. In order to meet competitive challenges, Panhandle will need to adapt its marketing strategies, the type of transportation and storage services it offers to its customers and its pricing and rate responses to competitive forces. Panhandle will also need to respond to changes in state regulations in their market areas that

allow direct sales to all retail end-user customers or, at least, broader customer classes than now allowed. Panhandle is not able to predict the financial consequences of these changes at this time, but they could have a material adverse effect on its business, results of operations and financial condition.

Panhandle's transportation fees are primarily fixed and based on the reserved capacity for each customer. It is critical that Panhandle is able to contract with customers to reserve capacity made available as existing contracts expire. The weighted average remaining life of firm transportation contracts at December 31, 2004 for Panhandle Eastern Pipe Line and Trunkline are three years and ten years, respectively. Firm transportation contracts for Sea Robin represent only approximately three percent of annual flow and have a one year remaining life but are evergreen and tied to the life of the reserves.

The weighted average remaining life of firm storage contracts at December 31, 2004 for Panhandle Eastern Pipe Line and Trunkline are three years.

Beginning January 2002, Trunkline LNG entered into a twenty-two year contract with BG LNG Services for all the uncommitted capacity at the Lake Charles, Louisiana facility.

Panhandle Eastern Pipe Line and/or one or more of its subsidiaries have contracts with four significant customers, Proliance, BG LNG Services, CMS Energy and Ameren Corp, which contributed fifty-four percent of consolidated operating revenues in 2004. Contracts with Proliance were extended in 2003 and have an average remaining term of five years. BG LNG Service's contracts will expand with the completion of Phase I in late 2005 and Phase II in mid-2006, and are expected to increase annual gross reservation revenues by approximately \$39 million and \$22 million, respectively, as these projects are completed. See Note III -- Regulatory Matters. BG LNG Service's transportation contract with Trunkline will increase in volume proportionally with the Phase I and Phase II expansions and is expected to increase reservation revenues by \$11 million and \$5 million, respectively, from 2004 firm transport levels. Panhandle has recently amended and extended through 2008 certain contracts with Consumers Energy, a subsidiary of CMS Energy, that were originally set to expire in late 2005. These contracts will result in a reduction in CMS Energy's revenue contribution to Panhandle in calendar year 2006, the first full year of effectiveness. It is expected that the reduction in revenue will be such that, if the new contract had been in effect for the year ended 2004, total consolidated operating revenue and CMS Energy's percent of operating revenue would have been approximately two percent lower. The majority of Panhandle Eastern Pipe Line and Trunkline contracts with Ameren Corp subsidiaries Union Electric, Central Illinois Light Company, Illinois Power and Central Illinois Public Service expire in 2006.

RESULTS OF OPERATIONS

	POST-ACQUISITION		PRE-ACQUISITION	COMBINED YEAR ENDED	TWELVE MONTHS CHANGE
	JANUARY 1 - DECEMBER 31, 2004	JUNE 12 - DECEMBER 31, 2003	JANUARY 1 - JUNE 11, 2003	DECEMBER 31, 2003	
Operating revenue:					
Reservation revenue	\$ 350,699	\$ 193,385	\$ 160,030	\$ 353,415	\$ (2,716)
LNG terminalling revenue	56,537	33,389	26,750	60,139	(3,602)
Commodity revenue	72,312	37,207	36,378	73,585	(1,273)
Other revenue	9,832	5,110	11,112	16,222	(6,390)
Total operating revenue	489,380	269,091	234,270	503,361	(13,981)
Operating expenses:					
Operation, maintenance and general	212,106	117,930	90,800	208,730	3,376
Depreciation and amortization	60,182	33,129	23,110	56,239	3,943
Taxes, other than on income and revenues	26,867	14,684	12,478	27,162	(295)
Total operating expenses	299,155	165,743	126,388	292,131	7,024
Operating income	190,225	103,348	107,882	211,230	(21,005)
Other income (expense):					
Interest (expense), net	(48,429)	(25,537)	(35,416)	(60,953)	12,524
Other, net	2,193	6,962	6,077	13,039	(10,846)
Total other expense, net	(46,236)	(18,575)	(29,339)	(47,914)	1,678
Earnings before income taxes	143,989	84,773	78,543	163,316	(19,327)
Income taxes	56,056	33,321	30,532	63,853	(7,797)
Net earnings from continuing operations	87,933	51,452	48,011	99,463	(11,530)
Cumulative effect of change in accounting principles, net of tax	-	-	2,003	2,003	(2,003)
Net earnings	\$ 87,933	\$ 51,452	\$ 50,014	\$ 101,466	\$ (13,533)

OPERATING REVENUE. For the twelve months ended December 31, 2004, operating revenue decreased \$13,981,000 versus the same time period during 2003. The decrease was affected by non-recurring imbalance cash out net gains of approximately \$5,505,000 realized during 2003 and lower LNG terminalling revenues of \$3,602,000 primarily due to reduced LNG volumes received in 2004. Additionally, reservation revenues decreased \$2,716,000 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. Commodity revenues were also lower by \$1,273,000 primarily due to a reduction in commodity throughput volumes of seven percent, associated with a six percent decrease of heating degree days resulting from a cooler winter during 2003 versus 2004 and lower subsequent storage refills, partially offset by higher 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.

OPERATING EXPENSES. Operating expenses for the twelve months ended December 31, 2004 increased \$7,024,000 versus 2003, primarily due to an increase of \$3,943,000 in depreciation and amortization expense resulting from the step-up of depreciable assets and assignment of purchase price to certain shorter-lived amortizable intangible assets related to the Panhandle Acquisition. Operation, maintenance and general expenses increased \$3,376,000 primarily due to an increase in corporate charges of \$9,201,000 caused by a

reduction during the first half of 2003 by CMS due to Panhandle being a discontinued operation, an increase in insurance of \$3,832,000 due to higher premiums and payments on property claims, an increase in other operating expenses of approximately \$3,000,000 primarily due to maintenance projects delayed during 2003 due to higher throughput loads, and \$1,700,000 of severance-related costs incurred in conjunction with the integration of CrossCountry. These increases were partially offset by the net overrecovery of approximately \$5,600,000 in 2004 of previously underrecovered fuel volumes versus a net underrecovery of approximately \$2,784,000 of fuel volumes in 2003, a decrease in power costs of \$2,174,000 due to lower LNG volumes received in 2004, a decrease in contract storage of \$2,090,000 associated with a reduction in contracted storage capacity beginning March 2004, and a decrease in benefit costs of \$1,671,000 associated with the change in benefit plans subsequent to the acquisition of Panhandle by Southern Union.

INTEREST EXPENSE, NET. Interest expense, net, for the twelve months ended December 31, 2004, versus the same time period during 2003, was reduced by \$12,524,000 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 that matured in March 2004 and August 2004. For further discussion of Panhandle's long-term debt, see Note XII -- Debt.

OTHER, NET. Other income, net, for the twelve months ended December 31, 2004 decreased \$10,846,000 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 \$4,869,000 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 V -- Related Party Transactions.

INCOME TAXES. Income taxes during the twelve months ended December 31, 2004, versus the same time period during 2003, decreased \$7,797,000 due to decreases in pretax income, which reflects an effective tax rate of approximately 38.9, 39.3 and 38.9 percent for the post-acquisition year ended December 31, 2004 and for the period from June 12, 2003 to December 31, 2003, and the pre-acquisition period from January 1, 2003 to June 11, 2003, respectively.

LIQUIDITY AND CAPITAL RESOURCES

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 liquidity 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.

OPERATING ACTIVITIES. Cash flows from operating activities for the twelve months ended December 31, 2004 were \$183 million versus \$223 million for the same time period during 2003. Changes in operating assets and liabilities provided cash of \$1 million for the twelve months ended December 31, 2004 and \$18 million for the same time period during 2003. The decrease in cash flows from operating activities for the twelve months ended December 31, 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.

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 remaining expenditures associated with Phase I and Phase II LNG terminal expansion and the Trunkline 36-inch diameter, 23-mile natural gas pipeline loop from the LNG terminal to be approximately \$107 million in 2005 and approximately \$8 million in 2006. These estimates were developed for budget planning purposes and are subject to revision.

Cash flows used in investing activities for the twelve months ended December 31, 2004 decreased by approximately \$32 million versus the same time period in 2003 primarily due to a \$147 million decrease in loans made to affiliated companies during 2004 and a decrease in purchases of system gas of approximately \$7 million, partially offset by an increase in capital expenditures of approximately \$79 million during 2004 primarily related to the LNG expansion and by proceeds from the sale of Centennial in the first quarter of 2003 of \$40 million.

FINANCING ACTIVITIES. As of December 31, 2004, Panhandle's debt is rated BBB by Fitch Ratings, Inc. and Standard & Poor's and Baa3 by Moody's. Panhandle's note provisions are subject to the maintenance of a fixed charge coverage ratio and a leverage ratio which restrict certain payments if not maintained, and limitations on

liens. At December 31, 2004, Panhandle was subject to a \$344,226,000 limitation on additional restricted payments, including dividends and loans to affiliates, based on the current most restrictive covenant, and a limitation of \$327,373,000 of additional secured indebtedness based on a limitation on liens covenant. If Panhandle's debt ratings were to fall below Baa3 by Moody's and below BBB- by Standard and Poor's, then the allowable restricted payments would be reduced to \$294,152,000. At December 31, 2004, Panhandle was in compliance with all covenants.

At December 31, 2004, Panhandle had scheduled debt principal payments of \$12,548,000, \$13,969,000, \$431,916,000, \$300,000,000, \$60,623,000 and \$356,805,000 for the years 2005 through 2009 and in total thereafter, respectively.

On March 12, 2004, Panhandle issued \$200,000,000 of 2.75 percent 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 percent 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 percent Senior Notes which matured August 15, 2004. On June 25, 2004, Panhandle completed an exchange of the unregistered 2.75 percent Senior Notes due 2007, Series A, for substantially identical securities registered under the Securities Act of 1933.

In July 2003, Panhandle announced a tender offer for any and all of the \$747,370,000 outstanding principal amount of five of its series of senior notes outstanding at that point in time (the Panhandle Tender Offer) and also called for the redemption of all of the outstanding \$134,500,000 principal amount of its two series of debentures that were outstanding. Panhandle repurchased approximately \$378,257,000 of the principal amount of its outstanding debt through the Panhandle Tender Offer for total consideration of approximately \$396,445,000 plus accrued interest through the purchase date. Panhandle also redeemed its approximately \$134,500,000 of debentures for total consideration of \$139,411,000 including the specified call premium, plus accrued interest through the redemption dates. As a result of these transactions, Panhandle has recorded a pre-tax gain on the extinguishment of debt of approximately \$6,123,000 (\$3,674,000, net of tax) in the third quarter of 2003 due to increases in interest rates subsequent to the acquisition date, which has been classified as Other, net, pursuant to the requirements of SFAS No. 145. During 2004, Panhandle recorded an additional pre-tax gain on the extinguishment of debt of approximately \$231,000 (\$139,000, net of tax), which is classified as Other, net. In August 2003, Panhandle issued \$550,000,000 of senior notes, of which \$300,000,000 is a new series of five year senior notes at 4.8 percent and \$250,000,000 is a new series of ten year senior notes at 6.05 percent, principally to refinance the repurchased notes and redeemed debentures. The issuance of the \$550,000,000 of senior notes resulted in a debt discount recorded of \$2,573,000. Also in August and September 2003, Panhandle repurchased \$3,150,000 principal amount of its senior notes on the open market through two transactions for total consideration of \$3,398,000, plus accrued interest through the repurchase date and which also resulted in \$270,000 of retired premium.

Cash flows from financing activities for the twelve months ended December 2004 increased by approximately \$80 million versus the same 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 approximately \$26 million and an increase in bank overdrafts of approximately \$14 million.

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. Panhandle's business strategy is 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 Panhandle's customers, which include 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. The expanded facility is currently expected to be in operation by the end of 2005. In September 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.

On February 11, 2005, Trunkline received approval from the FERC of a 36-inch diameter, 23-mile natural gas pipeline loop from the LNG terminal. 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.

OTHER MATTERS

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 importation and exportation 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. Panhandle is also subject to the Hazardous Liquid Pipeline Safety Act of 1979, which regulates oil and petroleum pipelines.

In 1993, the U.S. Department of the Interior announced its intention to seek, through its Mineral Management Service (MMS), additional royalties from gas producers as a result of payments received by such producers in connection with past take-or-pay settlements and buyouts and buydowns of gas sales contracts with natural gas pipelines. Panhandle 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.

On November 22, 2004, FERC issued a Notice of Inquiry (NOI) in "Policy for Selective Discounting By Natural Gas Pipelines," Docket No. RM05-2, et al. In the NOI, FERC requested comments from the industry on whether the selective discounting policy should continue (including its policy in rate cases to allow pipelines to downward adjust volumes flowing at a discounted rate, for the purpose of determining rates), be modified, or eliminated entirely. On March 2, 2005, numerous industry comments were filed on the NOI. Because it is unclear what action the FERC will take, Panhandle cannot predict what effect the outcome of this proceeding will have on its business, financial condition or results of operations.

Pursuant to a FERC NOI issued December 2, 2004, the FERC is reconsidering the availability of a tax allowance in ratemaking for entities that do not pay federal income tax, such as partnerships and limited liability companies that elect to be treated as partnerships for federal income tax purposes. Panhandle's FERC-regulated companies have income tax allowances currently embedded in their rates and could be potentially affected in the future by a change in FERC policy on tax allowances.

In November 2004, the FERC issued an industry-wide Proposed Accounting Release which, if enacted as written, would require pipeline companies to expense rather than capitalize certain costs related to mandated pipeline integrity programs. The accounting release is proposed to be effective January 2005 following a period of public comment on the release. Panhandle is currently reviewing the release and has not determined what impact this release will have on its consolidated financial statements or results of operations.

ENVIRONMENTAL MATTERS. Panhandle's gas transmission operations are subject to federal, state and local regulations regarding water quality, hazardous and solid waste management, air quality control and other environmental matters. Panhandle has previously 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 implemented a program to remediate such contamination in accordance with federal, state and local regulations. Air quality control regulations include rules relating to regional ozone control and hazardous air pollutants. The regional ozone control rules, known as SIP Call, are designed to control the release of NOx compounds. The rules related to hazardous air pollutants, known as MACT rules, 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. For further information, see Note XIV -- 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 twenty-two 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-two Panhandle engines require controls. MACT controls must be installed by June 2007. 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 requires 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. The rule affects six company facilities in Texas. Panhandle expects controls to be installed by March 2007. For further information, see Note XIV -- Commitments and Contingencies - Environmental Matters.

OFF-BALANCE SHEET ARRANGEMENTS AND AGGREGATE CONTRACTUAL OBLIGATIONS. Panhandle Eastern Pipe Line provided a guarantee related to the bridge financing entered into by Southern Union on November 17, 2004 of \$407,000,000 to fund a portion of Southern Union's equity investment in CCE (the Bridge Loan). The Bridge Loan was subject to standard terms and conditions and was due and payable on May 17, 2005. The Bridge Loan was repaid in February 2005 and Panhandle Eastern Pipe Line has been released from all related obligations.

On September 10, 2003, Panhandle Eastern Pipe Line provided a guarantee to CB&I Constructors, Inc. for the full performance by Trunkline LNG, its subsidiary, of the engineering, procurement and construction contract between Trunkline LNG and CB&I Constructors, Inc. Under the terms of the guarantee, Panhandle Eastern Pipe Line would be required to perform should Trunkline LNG be in default of its payment obligations regarding services already rendered. There are no amounts being carried as liabilities for Panhandle Eastern Pipe Line's obligations under these guarantees. See Note XIV -- Commitments and Contingencies.

CONTRACTUAL COMMITMENTS. Panhandle has contractual obligations with regard to future payments of operating leases, debt and natural gas storage service. The following table summarizes Panhandle's expected contractual obligations and commitments at December 31, 2004.

	2005	2006	2007	2008	2009	IN TOTAL THEREAFTER
	-----	-----	-----	-----	-----	-----
Operating Leases (1)	\$ 12,768	\$ 11,914	\$ 9,576	\$ 5,661	\$ 1,929	\$ 3,508
Total long term debt (2)	12,548	13,969	431,916	300,000	60,623	356,805
Interest payments on debt (3)	56,623	56,114	43,335	36,048	25,242	146,363
Firm capacity payments (4)	9,985	9,841	7,816	7,131	7,131	31,106
	-----	-----	-----	-----	-----	-----
Total	\$ 91,924	\$ 91,838	\$ 492,643	\$ 348,840	\$ 94,925	\$ 537,782
	=====	=====	=====	=====	=====	=====

(1) Lease of various assets utilized for operations

(2) Debt principal obligations

(3) Interest payments at stated rate

(4) Lease of third party storage capacity

CAPITAL EXPENDITURES. Panhandle estimates expenditures associated with Phase I and Phase II LNG terminal expansion and the Trunkline 36-inch diameter, 23-mile natural gas pipeline loop from the LNG terminal to be approximately \$107 million in 2005 and approximately \$8 million in 2006, plus capitalized interest. These estimates were developed for budget planning purposes and are subject to revision.

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. In April, August, and December 2004, the FERC issued orders clarifying and modifying the standards. The rule, as modified, 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. In February 2004, Panhandle Eastern Pipe Line, Trunkline, Trunkline LNG, Southwest Gas Storage and Sea Robin each submitted an informational filing describing the measures needed to comply with the rule. In addition, in compliance with the rule, in September 2004 each of Panhandle Eastern Pipe Line, Trunkline, Trunkline LNG, Southwest Gas Storage and Sea Robin posted on their respective websites procedures describing compliance with the standards and other information required by the rule.

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.

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 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. As of December 31, 2004, the aggregate

amount of the projected benefit obligations of these pension plans was approximately \$398,516,000 and the estimated fair value of all of the assets of these plans was approximately \$276,836,000.

CCE HOLDINGS ACQUISITION OF CROSSCOUNTRY ENERGY. On November 17, 2004, CCE Holdings, LLC (CCE), a joint venture in which Southern Union owns a 50 percent interest, acquired 100 percent of the equity interests of CrossCountry Energy, LLC (CrossCountry) from Enron Corp. and certain of its subsidiaries for approximately \$2,450,000,000 in cash, including the assumption of certain consolidated debt. On November 5, 2004, CCE entered into an Administrative Services Agreement (the Management Agreement) with SU Pipeline Management LP (Manager), a Delaware limited partnership and wholly-owned subsidiary of Southern Union, and Panhandle. Under the terms of the Management Agreement, Panhandle covenants, to the extent permitted by applicable law, to cause Manager to perform the duties and obligations of Manager. Manager has assembled an integrated pipeline management team, which includes employees of Panhandle and CrossCountry. Pursuant to the Management Agreement, Manager is responsible for the operations and administrative functions of CCE and its subsidiaries. CCE and Manager will share certain operations of Manager and its affiliates, and CCE will be obligated to bear its share of costs of the Manager and its affiliates, as well as certain transition costs and, under certain conditions, pay annual management fees to Manager. Transition costs are non-recurring costs of establishing the shared services, including but not limited to severance costs, professional fees, certain transaction costs, and the costs of relocating offices and personnel, pursuant to the Management Agreement.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION. The Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Form 10-K 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 of 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 Eastern Pipe Line'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-K, 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-K 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 us or persons acting on Panhandle's behalf are expressly qualified in their entirety by the cautionary statements contained throughout this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Panhandle has long-term debt which subjects Panhandle to the risk of loss associated with movements in market interest rates.

At December 31, 2004, Panhandle had issued fixed-rate long-term debt of \$917,428,000 in principal amount (excluding net premiums on debt of \$14,688,000) and having a fair value of \$956,673,000. These debt instruments are fixed-rate and, therefore, do not expose Panhandle to the risk of earnings loss due to changes in market interest rates. However, the fair value of these instruments would increase by approximately \$21,362,000 if interest rates were to decline by ten percent from their levels at December 31, 2004. In general, such an increase in fair value would impact earnings and cash flows only if Panhandle were to reacquire all or a portion of these instruments in the open market prior to its maturity. See Note XII -- Debt.

Panhandle's floating-rate obligations which relate to the Trunkline LNG facility aggregated \$258,433,000 at December 31, 2004. The floating rate notes, to the extent not hedged, expose Panhandle to the risk of increased interest expense in the event of increases in short-term interest rates. If the floating rates were to increase by ten percent from December 31, 2004 levels, Panhandle's consolidated interest expense would increase by approximately \$81,000 each month in which such increase were sustained. This amount has been determined by considering the impact of the hypothetical interest rates on the variable rate borrowings outstanding as of December 31, 2004.

Panhandle is party to interest rate swap agreements related to the Trunkline LNG facility with an aggregate notional amount of \$193,827,000 as of December 31, 2004 that fix the interest rate applicable to floating rate long-term debt and which qualify for hedge accounting. For the twelve-month period ending December 31, 2004, the swap ineffectiveness was not significant. As of December 31, 2004, floating rate London InterBank Offered Rate (LIBOR) based interest payments were exchanged for weighted fixed rate interest payments of 5.88 percent, which does not include the spread on the underlying variable debt rate of 1.63 percent. As such, payments, in excess of the liability recorded, or receipts on interest rate swap agreements are recognized as adjustments to interest expense. As of December 31, 2004, December 31, 2003, and June 11, 2003 (the acquisition date), the fair value liability position of the swaps was \$11,053,000, \$19,806,000 and \$26,850,000, respectively. Current market pricing models were used to estimate fair values of interest rate swap agreements. See Note VI -- Accounting for Derivatives and Hedging Activities.

In March 2004, Panhandle entered into interest rate swaps to hedge the risk associated with the fair value of its \$200 million 2.75 percent Senior Notes. See Note XII -- Debt. These swaps are designated as fair value hedges and qualify for the short cut method under SFAS No. 133. As of December 31, 2004 the fair value position of the swaps was a liability of \$3,936,000, recorded as a reduction to long-term debt. Under the swap agreements, Panhandle will receive fixed interest payments at a rate of 2.75 percent 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 December 31, 2004, these swaps have an average interest rate of 2.52 percent.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required here is included in the report as set forth in the Index to Consolidated Financial Statements on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

As first reported in Panhandle's Form 10-K for the year ended December 31, 2003, in July 2003, Panhandle's board of managers dismissed Ernst & Young LLP as Panhandle's certifying accountant and retained PricewaterhouseCoopers LLP for 2003, including for the 2003 and 2004 year end audits. Ernst & Young LLP's report on the Panhandle financial statements for 2002 did not contain an adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope, or accounting principles. For the year ended December 31, 2002 and the interim period from January 1, 2003 through June 11, 2003 (effective upon the closing of the Southern Union acquisition of Panhandle), there were no disagreements or "reportable events" as described in Items 304(a)(1)(iv) and (v) of Regulation S-K between Panhandle and Ernst & Young.

ITEM 9A. 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) 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 December 31, 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

Management is not aware of any change in Panhandle's internal control over financial reporting that occurred during the quarter ended December 31, 2004 that has materially affected or is reasonably likely to materially affect Panhandle's internal controls over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Item 10, Directors and Executive Officers of the Registrant, has been omitted from this report pursuant to the reduced disclosure format permitted by General Instruction I to Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION.

Item 11, Executive Compensation, has been omitted from this report pursuant to the reduced disclosure format permitted by General Instruction I to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS & MANAGEMENT.

Item 12, Security Ownership of Certain Beneficial Owners & Management, has been omitted from this report pursuant to the reduced disclosure format permitted by General Instruction I to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Item 13, Certain Relationships and Related Transactions, has been omitted from this report pursuant to the reduced disclosure format permitted by General Instruction I to Form 10-K.

PART III

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Below is a summary of fees billed to Panhandle by its principal audit firms for the years ended December 31, 2004 and 2003. See ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure for related information.

FEE CATEGORY	2004	2003
-----	-----	-----
	(IN THOUSANDS)	
Audit Fees		
PricewaterhouseCoopers LLP	\$ 703	\$ 149
Ernst & Young LLP	-	438
Audit-Related Fees		
PricewaterhouseCoopers LLP	409	217
Ernst & Young LLP	166	317
All Other Fees	-	-
	-----	-----
Total Fees	\$ 1,278	\$ 1,121
	=====	=====

Audit Fees. Consists of fees billed for professional services rendered in connection with the audit of the annual financial statements and review of the quarterly financial statements.

Audit-Related Fees. Consists of fees billed for accounting research and professional services rendered in connection with debt offerings and registration statements, state and federal regulatory audits, and review of internal controls.

All Other Fees. Consists of fees associated with consulting services.

The Audit Committee has considered whether the provision of the non-audit services described above is compatible with maintaining the independence of PricewaterhouseCoopers LLP. The Audit Committee has adopted a policy requiring pre-approval of all auditing and non-audit services (including the fees and terms thereof) to be provided to the Company by its independent auditor, other than non-audit services not recognized to be non-audit services at the time of the engagement that meet the de minimis exceptions described in Section 10A(i)(1)(B)(i) of the Securities Exchange Act of 1934, as amended; provided that, they are approved by the Audit Committee prior to the completion of the audit.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)(1) and (2) Financial Statements and Financial Statement Schedules. See Index to Consolidated Financial Statements set forth on page F-1.

(a)(3) EXHIBITS.

EXHIBIT NO. -----	DESCRIPTION -----
3(a)	Certificate of Formation of Panhandle Eastern Pipe Line Company, LP.
3(b)	Limited Partnership Agreement of Panhandle Eastern Pipe Line Company, LP, dated as of June 29, 2004, between Southern Union Company and Southern Union Panhandle LLC.
4(a)	Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee (Filed as Exhibit 4(a) to the Form 10-Q for the quarter ended March 31, 1999, and incorporated herein by reference).
4(b)	1st Supplemental Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee, including a form of Guarantee by Panhandle Eastern Pipe Line Company of the obligations of CMS Panhandle Holding Company (Filed as Exhibit 4(b) to the Form 10-Q for the quarter ended March 31, 1999, and incorporated herein by reference).
4(c)	2nd Supplemental Indenture dated as of March 27, 2000, between Panhandle, as Issuer and Bank One Trust Company, National Association, as Trustee (filed as Exhibit 4(e) to the Form S-4 filed on June 22, 2000, and incorporated herein by reference).
4(d)	3rd Supplemental Indenture dated as of August 18, 2003, between Panhandle, as Issuer and Bank One Trust Company, National Association, as Trustee (Filed as Exhibit 4(d) to the Form 10-Q for the quarter ended September 30, 2003, and incorporated herein by reference).
4(e)	4th Supplemental Indenture dated as of March 12, 2004, between Panhandle, as Issuer and J.P. Morgan Trust Company, National Association, as Trustee.
4(f)	Indenture dated as of February 1, 1993, between Panhandle and Morgan Guaranty Trust Company effective January 1, 1982, as amended December 3, 1999 (Filed as Exhibit 4 to the Form S-3 filed February 19, 1993, and incorporated herein by reference).
12	Computation of Consolidated Ratio of Earnings to Fixed Charges (Filed as Exhibit 12 to the Form S-4/A filed on May 18, 2004, and incorporated herein by reference).
24	Power of Attorney
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.

Panhandle Eastern Pipe Line filed the following Current Report on Form 8-K during the quarter ended December 31, 2004:

Date Filed	Description of Filing
11/22/04	Filing under Item 2.03, Panhandle Eastern Pipe Line provided a guarantee related to the bridge financing entered into by Southern Union on November 17, 2004 of \$407,000,000 to fund a portion of Southern Union's equity investment in CCE Holdings, LLC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Panhandle Eastern Pipe Line Company, LP has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on the 16th day of March 2005.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

By: /s/ THOMAS F. KARAM

Thomas F. Karam
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of Panhandle Eastern Pipe Line Company, LP and in the capacities and on the 16th day of March, 2005.

Signature	Title
-----	-----

(i) Principal executive officer:

/s/ THOMAS F. KARAM	

Thomas F. Karam	Chief Executive Officer and Manager

(ii) Principal financial officer:

/s/ DAVID J. KVAPIL	

David J. Kvapil	Executive Vice President and Chief Financial Officer

(iii) Principal accounting officer:

/s/ GARY W. LEFELAR	

Gary W. Lefelar	Senior Vice President

(iv) A majority of the Board of Managers including those named above:

/s/ GEORGE L. LINDEMANN	

George L. Lindemann	Manager

/s/ JOHN E. BRENNAN	

John E. Brennan	Manager

By: THOMAS F. KARAM

Thomas F. Karam
Attorney-in-fact

PANHANDLE EASTERN PIPE LINE COMPANY, LP
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All schedules are omitted as the required information is not applicable or the information is presented in the consolidated financial statements or related notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	POST-ACQUISITION		PRE-ACQUISITION	
	YEAR ENDED DECEMBER 31, 2004	JUNE 12 - DECEMBER 31, 2003	JANUARY 1 - JUNE 11, 2003	YEAR ENDED DECEMBER 31, 2002
OPERATING REVENUE				
Transportation and storage of natural gas	\$ 423,011	\$ 230,592	\$ 196,408	\$ 413,315
LNG terminalling revenue	56,537	33,389	26,750	57,879
Equity income (losses) from unconsolidated subsidiaries	216	136	411	(7,038)
Other revenue	9,616	4,974	10,701	19,517
Total operating revenue	489,380	269,091	234,270	483,673
OPERATING EXPENSES				
Operation, maintenance and general	212,106	117,930	90,800	201,181
Depreciation and amortization	60,182	33,129	23,110	51,184
Taxes, other than on income	26,867	14,684	12,478	21,907
Total operating expenses	299,155	165,743	126,388	274,272
OPERATING INCOME	190,225	103,348	107,882	209,401
OTHER INCOME (EXPENSE)				
Interest expense, net	(48,429)	(25,537)	(35,416)	(76,529)
Other, net	2,193	6,962	6,077	(13,436)
Minority interest	-	-	-	(3,527)
Total other income (expense)	(46,236)	(18,575)	(29,339)	(93,492)
EARNINGS BEFORE INCOME TAXES	143,989	84,773	78,543	115,909
Income taxes	56,056	33,321	30,532	46,401
Earnings before cumulative effect of change in accounting principles	87,933	51,452	48,011	69,508
Cumulative effect of change in accounting principles, net of tax:				
Goodwill, SFAS 142	-	-	-	(369,119)
Asset retirement obligations, SFAS 143	-	-	2,003	-
Net earnings (loss)	\$ 87,933	\$ 51,452	\$ 50,014	\$ (299,611)

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31, 2004	DECEMBER 31, 2003
	-----	-----
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Plant in service	\$ 1,947,524	\$ 1,893,960
Construction work-in-progress	203,094	90,556
	-----	-----
	2,150,618	1,984,516
Less accumulated depreciation and amortization	87,683	32,114
	-----	-----
Net property, plant and equipment	2,062,935	1,952,402
	-----	-----
INVESTMENT IN AFFILIATE	1,436	1,394
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	26,054	16,810
Accounts receivable, less allowances of \$1,289 and \$1,464, respectively	48,085	56,315
Accounts receivable - related parties	7,287	816
Gas imbalances - receivable	36,122	26,974
System gas and operating supplies	98,250	60,937
Deferred income taxes, net	10,698	7,731
Note receivable - Southern Union	90,745	87,350
Other	11,646	8,271
	-----	-----
Total current assets	328,887	265,204
	-----	-----
Intangibles, net	8,496	30,698
Restricted cash	1,500	1,500
Debt issuance cost	4,471	4,699
Non-current system gas	30,471	23,938
Other	1,964	1,708
	-----	-----
TOTAL ASSETS	\$ 2,440,160	\$ 2,281,543
	=====	=====

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31, 2004	DECEMBER 31, 2003
	-----	-----
OWNERS' EQUITY		
Partners' capital	\$ 802,406	\$ -
Member's capital	-	679,465
Accumulated other comprehensive income	1,231	1,372
Retained earnings	-	51,452
Tax sharing note receivable - Southern Union	(70,971)	(85,471)
	-----	-----
Total owners' equity	732,666	646,818
Long-term debt	1,174,065	995,773
	-----	-----
Total capitalization	1,906,731	1,642,591
	-----	-----
CURRENT LIABILITIES		
Current portion of long-term debt	12,548	209,671
Accounts payable	3,449	1,452
Accounts payable - overdrafts	20,103	6,607
Accounts payable - related parties	3,478	9,039
Gas imbalances - payable	102,567	66,049
Accrued taxes	10,750	9,979
Accrued interest	19,119	21,017
Other	85,239	65,230
	-----	-----
Total current liabilities	257,253	389,044
	-----	-----
Deferred income taxes, net	172,193	131,991
Post-retirement benefits	30,449	33,473
Other	73,534	84,444
Commitments and contingencies	-----	-----
TOTAL OWNERS' EQUITY AND LIABILITIES	\$ 2,440,160	\$ 2,281,543
	=====	=====

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	POST-ACQUISITION		PRE-ACQUISITION	
	YEAR ENDED DECEMBER 31, 2004	JUNE 12 - DECEMBER 31, 2003	JANUARY 1 - JUNE 11, 2003	YEAR ENDED DECEMBER 31, 2002
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings (loss)	\$ 87,933	\$ 51,452	\$ 50,014	\$(299,611)
Adjustments to reconcile net earnings to net cash from operating activities:				
Depreciation and amortization	60,182	33,129	23,110	51,184
Gain on extinguishment of debt	(231)	(6,123)	-	(920)
Deferred income taxes, net	39,574	33,321	30,532	29,762
Debt premium and discount amortization, net	(5,033)	(8,272)	(201)	1,047
Cumulative effect of change in accounting principle	-	-	(2,003)	369,119
Centennial write-down	-	-	-	26,281
Changes in operating assets and liabilities:				
Accounts receivable	1,759	4,212	219	57,678
Inventory	(31,693)	(24,625)	2,520	22,171
Gas imbalances - receivable	(9,148)	21,742	(30,952)	2,720
Other assets	(8,293)	7,173	11,955	(31,773)
Payables	(3,564)	(3,620)	2,883	989
Accrued taxes	8,490	9,979	6,673	2,579
Interest accrued	(1,898)	1,194	(4,768)	(1,584)
Gas imbalances - payable	36,518	(2,455)	27,527	(18,200)
Other liabilities	8,714	(5,088)	(6,915)	(35,104)
Net cash flows from operating activities	183,310	112,019	110,594	176,338
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Net increase in Note receivable - Southern Union	(3,395)	(87,350)	-	-
Net (increase) decrease in Note receivable - CMS Capital	-	-	(62,570)	213,912
Capital and investment expenditures	(173,047)	(64,270)	(29,339)	(113,354)
Purchase of system gas, net	-	(3,939)	(2,724)	(4,739)
Sale of Centennial	-	-	40,000	-
Sale of Atchafalaya	-	2,200	-	-
Retirements and other	(209)	237	(886)	(10,395)
Net cash flows used in investing activities	(176,651)	(153,122)	(55,519)	85,424
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Increase (decrease) in bank overdrafts	13,496	(1,001)	219	(3,279)
Debt issuance	200,000	550,000	10,000	30,000
Debt retirements	(209,671)	(545,044)	(45,852)	(137,775)
Premium on debt issuance	(190)	-	-	-
Debt issuance costs	(1,050)	(4,434)	-	(2,853)
Debt retirement costs	-	(1,595)	-	-
Gain on interest rate swap	-	-	-	2,562
Acquisition of LNG Holding's Minority Interest	-	-	-	(40,800)
Return of capital	-	-	(40,000)	(5,186)
Dividend	-	-	-	(27,204)
Net cash flows from (used in) financing activities	2,585	(2,074)	(75,633)	(184,535)
Net increase (decrease) in cash and cash equivalents	9,244	(43,177)	(20,558)	77,227
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16,810	59,987	80,545	3,318
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 26,054	\$ 16,810	\$ 59,987	\$ 80,545
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
CASH PAID DURING THE PERIOD FOR:				
Interest (net of interest rate swap and amounts capitalized)	\$ 68,250	\$ 37,846	\$ 38,187	\$ 83,513
Income taxes (net of refunds)	66	-	83	(26,943)
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

CONSOLIDATED STATEMENTS OF OWNERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(IN THOUSANDS)

	Partners' Capital	Common Stock	Accumulated Other Comprehensive Income (Loss)	Other Paid-in Capital	Members' Capital	Retained Earnings (Deficit)
Balance January 1, 2002 (Pre-acquisition)	\$ -	\$ 1,000	\$ -	\$ 1,285,622	\$ -	\$ (12,296)
Comprehensive income:						
Net loss	-	-	-	-	-	(299,611)
Increase in pension liability, net of tax	-	-	(25,770)	-	-	-
Unrealized loss related to interest rate swaps, net of tax	-	-	(13,409)	-	-	-
Comprehensive loss	-	-	(39,179)	-	-	(299,611)
Return of capital - CMS	-	-	-	(4,935)	-	-
Common stock dividends	-	-	-	-	-	(28,124)
Other	-	-	-	107	-	-
Balance December 31, 2002 (Pre-acquisition)	\$ -	\$ 1,000	\$ (39,179)	\$ 1,280,794	\$ -	\$ (340,031)
Comprehensive income:						
Net earnings	-	-	-	-	-	50,014
Unrealized loss related to interest rate swaps, net of tax	-	-	(3,180)	-	-	-
Comprehensive income	-	-	(3,180)	-	-	50,014
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	\$ -	\$ (290,017)
Balance June 12, 2003 (Post-acquisition)	\$ -	\$ 1,000	\$ (42,359)	\$ 1,228,356	\$ -	\$ (290,017)
Acquisition adjustments to eliminate original balances	-	(1,000)	42,359	(1,228,356)	-	290,017
Pushdown of purchase price and related costs	-	-	-	-	679,465	-
Tax sharing receivable - Southern Union	-	-	-	-	-	-
Subtotal	-	-	-	-	679,465	-
Comprehensive income:						
Net earnings	-	-	-	-	-	51,452
Unrealized gain related to interest rate swaps, net of tax	-	-	1,372	-	-	-
Comprehensive income	-	-	1,372	-	-	51,452
Balance December 31, 2003 (Post-acquisition)	\$ -	\$ -	\$ 1,372	\$ -	\$ 679,465	\$ 51,452
Adjustment to pushdown of purchase price and related costs	-	-	-	-	(16,444)	-
Tax sharing receivable - Southern Union	-	-	-	-	-	-
Comprehensive income:						
Net earnings	-	-	-	-	-	47,201
Unrealized gain related to interest rate swaps, net of tax	-	-	405	-	-	-
Comprehensive income prior to change in legal ownership structure	-	-	405	-	-	47,201
Change in legal ownership structure (See Note I)	761,674	-	-	-	(663,021)	(98,653)
Tax sharing receivable - Southern Union (See Note V)	-	-	-	-	-	-
Comprehensive income:						
Net earnings	40,732	-	-	-	-	-
Unrealized loss related to interest rate swaps, net of tax	-	-	(546)	-	-	-
Comprehensive income	40,732	-	(546)	-	-	-
Balance December 31, 2004 (Post-acquisition)	\$ 802,406	\$ -	\$ 1,231	\$ -	\$ -	\$ -

Note Receivable Tax Sharing
Note Receivable-

	CMS Capital	Southern Union	Total
	-----	-----	-----
Balance January 1, 2002 (Pre-acquisition)	\$ (150,000)	\$ -	\$ 1,124,326
Comprehensive income:			
Net loss	-	-	(299,611)
Increase in pension liability, net of tax	-	-	(25,770)
Unrealized loss related to interest rate swaps, net of tax	-	-	(13,409)
	-----	-----	-----
Comprehensive loss	-	-	(338,790)
	-----	-----	-----
Return of capital - CMS	-	-	(4,935)
Common stock dividends	-	-	(28,124)
Other	-	-	107
	-----	-----	-----
Balance December 31, 2002 (Pre-acquisition)	\$ (150,000)	\$ -	\$ 752,584
Comprehensive income:			
Net earnings	-	-	50,014
Unrealized loss related to interest rate swaps, net of tax	-	-	(3,180)
	-----	-----	-----
Comprehensive income	-	-	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)	\$ (150,000)	\$ -	\$ 746,980
Balance June 12, 2003 (Post-acquisition)	\$ (150,000)	\$ -	\$ 746,980
Acquisition adjustments to eliminate original balances	150,000	-	(746,980)
Pushdown of purchase price and related costs	-	-	679,465
Tax sharing receivable - Southern Union	-	(85,471)	(85,471)
	-----	-----	-----
Subtotal	-	(85,471)	593,994
Comprehensive income:			
Net earnings	-	-	51,452
Unrealized gain related to interest rate swaps, net of tax	-	-	1,372
	-----	-----	-----
Comprehensive income	-	-	52,824
	-----	-----	-----
Balance December 31, 2003 (Post-acquisition)	\$ -	\$ (85,471)	\$ 646,818
Adjustment to pushdown of purchase price and related costs	-	-	(16,444)
Tax sharing receivable - Southern Union	-	(5,467)	(5,467)
Comprehensive income:			
Net earnings	-	-	47,201
Unrealized gain related to interest rate swaps, net of tax	-	-	405
	-----	-----	-----
Comprehensive income prior to change in legal ownership structure	-	-	47,606
	-----	-----	-----
Change in legal ownership structure (See Note I)	-	-	-
Tax sharing receivable - Southern Union (See Note V)	-	19,967	19,967
Comprehensive income:			
Net earnings	-	-	40,732
Unrealized loss related to interest rate swaps, net of tax	-	-	(546)
	-----	-----	-----
Comprehensive income	-	-	40,186
	-----	-----	-----
Balance December 31, 2004 (Post-acquisition)	\$ -	\$ (70,971)	\$ 732,666
	=====	=====	=====

See accompanying notes.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I CORPORATE STRUCTURE

Panhandle Eastern Pipe Line Company, LP (Panhandle Eastern Pipe Line) 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 (CMS Energy and, 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. Panhandle is subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC). The Panhandle entities include Panhandle Eastern Pipe Line, Trunkline Gas Company, LLC (Trunkline), a wholly-owned subsidiary of Panhandle Eastern Pipe Line, Sea Robin Pipeline Company, LLC (Sea Robin), 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 Gas Transmission 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 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 in cash 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 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.

Panhandle Eastern Pipe Line and five of its subsidiaries, as well as Southern Union Panhandle, LLC, converted from Delaware corporations to Delaware limited liability companies in June 2003. On June 29, 2004, Panhandle Eastern Pipe Line was converted from a Delaware limited liability company to a limited partnership. Pursuant to the conversion, all rights and liabilities of Panhandle Eastern Pipe Line Company, LLC vested in Panhandle Eastern Pipe Line Company, LP. 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 Eastern Pipe Line and owns a one percent general partner interest in Panhandle Eastern Pipe Line. Southern Union Company owns a ninety-nine percent limited partner interest in Panhandle Eastern Pipe Line.

Under the terms of the Panhandle sale agreement, CMS retained ownership of and all obligations associated with 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 post-retirement 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 V -- 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 purchase accounting and subsequently extinguished. See Note V -- 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.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Panhandle Acquisition was accounted for using the purchase method of accounting in accordance with accounting principles generally accepted within the United States of America with Panhandle allocating (pushdown) 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.

The following table summarizes the final purchase accounting-based changes in owners' 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. All dollar amounts in the tables herein are stated in thousands.

Owners' 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 receivable		(90,938)

Owners' equity, post-acquisition		\$ 572,083
		=====

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of all majority-owned subsidiaries, after eliminating significant intercompany transactions and balances. Investments in businesses not controlled by Panhandle Eastern Pipe Line, but over which it has significant influence, are accounted for using the equity method. Investments that are variable interest entities are consolidated if Panhandle is allocated a majority of the entity's gains and/or losses, including fees paid by the entity. All significant inter company accounts and transactions are eliminated in consolidation.

REVISED CLASSIFICATION OF STATEMENT OF CASH FLOWS. During 2004, Panhandle revised its classification in its Consolidated Statements of Cash Flows of the change in current notes receivable from affiliates to a component of investing activities from a component of financing activities. This revision in classification had the effect of increasing the previously reported amount of cash flows from financing activities by \$62,570,000 and \$87,350,000 for the period from January 1 through June 11, 2003 and the period from June 12, 2003 through December 31, 2003, respectively, with corresponding decreases in the amount of cash flows from investing activities in the respective periods. This revision in classification also had the effect of decreasing the previously reported amount of cash flows from financing activities by \$213,912,000 for the year ended December 31, 2002, with a corresponding increase in cash flows from investing activities.

USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CASH AND CASH EQUIVALENTS. All liquid investments with maturities of three months or less at the date of purchase are considered cash equivalents. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of these investments.

SYSTEM GAS AND OPERATING SUPPLIES. System gas and operating supplies consist of gas held for operations and materials and supplies, carried at the lower of weighted average cost or market. The gas held for operations that is not expected to be consumed in operations in the next twelve months has been reflected in non-current assets. All system gas and materials and supplies purchased are recorded at the lower of cost or market, while net gas received from and owed back to customers is valued at market.

GAS IMBALANCES. Gas imbalances occur as a result of differences in volumes of gas received and delivered. Gas imbalance in-kind receivables and payables are valued at cost or market, based on whether net imbalances have reduced or increased system gas balances, respectively. Net imbalances which have reduced system gas are valued at the cost basis of the system gas, while net imbalances which have increased system gas and are owed back to customers are priced, along with the corresponding system gas, at market.

FUEL TRACKER. Liability accounts are maintained for net volumes of fuel gas owed to customers collectively. Whenever fuel is due from customers from prior underrecovery based on contractual and specific tariff provisions, Trunkline and Trunkline LNG record an asset. Panhandle's other companies that are subject to fuel tracker provisions record an expense when fuel is underrecovered. The pipelines' fuel reimbursement is in-kind and non-discountable.

PROPERTY, PLANT AND EQUIPMENT. On June 11, 2003, Panhandle was acquired by Southern Union. The acquisition was accounted for using the purchase method of accounting in accordance with generally accepted accounting principles. Panhandle's property, plant and equipment (PP&E) was adjusted to estimated fair market value on June 11, 2003 and depreciated based on the revised estimated remaining useful lives. Panhandle's accumulated depreciation and amortization provision balance at June 11, 2003 was eliminated pursuant to the purchase method of accounting. See Note I -- Corporate Structure.

Ongoing additions of PP&E are stated at cost. Panhandle capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. The cost of renewals and betterments that extend the useful life of PP&E is also capitalized. The cost of repairs and replacements of minor items of PP&E is charged to expense as incurred. Depreciation is generally computed using the straight-line method. The composite weighted-average depreciation rates were 3.1, 3.0 and 3.1 percent for 2004, 2003 and 2002, respectively.

When PP&E is retired, the original cost less salvage is charged to accumulated depreciation and amortization. When entire regulated operating units of property, plant and equipment are retired or sold or non-regulated properties are retired or sold, the property and related accumulated depreciation and amortization accounts are reduced, and any gain or loss is recorded in income.

Computer software, which is a component of PP&E, is stated at cost and is generally amortized on a straight-line basis over its useful life on a product-by-product basis. The amortization period for computer software is between 5 and 10 years.

ASSET IMPAIRMENT. Panhandle applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to account for impairments on long-lived assets. Impairment losses are recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the assets' carrying value. The amount of impairment is measured by comparing the fair value of the asset to its carrying amount.

RELATED PARTY TRANSACTIONS. Prior to its acquisition by Southern Union, Panhandle had a number of significant transactions with its former parent and its subsidiaries. These transactions included revenues for the transportation of natural gas for Consumers Energy Company (Consumers), and other CMS affiliated entities, which were based on regulated prices, market prices and/or competitive bidding. Related party expenses included payments for services provided by affiliates and payment of overhead costs and management and royalty fees to CMS, as well as allocated employee benefit plan costs. Subsequent to June 11, 2003, related party expenses primarily include payments for services provided by Southern Union. Other income was primarily

PANHANDLE EASTERN PIPE LINE COMPANY, LP
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related to interest income from the Note receivable - CMS Capital and Note receivable - Southern Union. See Note V -- Related Party Transactions.

A portion of Panhandle's revenues for the transportation of natural gas includes revenues from Missouri Gas Energy, a division of Southern Union that is a gas utility in Kansas City, Missouri and parts of western Missouri. Contracts for services were entered into before either the initial agreements between CMS and Southern Union or closing of the Panhandle Acquisition and were based on regulated prices, market prices and competitive bidding.

For periods commencing with the Panhandle Acquisition, Panhandle and certain of its subsidiaries are not treated as separate taxpayers for federal and certain state income tax purposes. Instead, Panhandle's income is taxable to Southern Union. Panhandle has entered into a tax sharing agreement with Southern Union pursuant to which Panhandle will be required to make payments to Southern Union in order to reimburse Southern Union for federal and state taxes that it pays on Panhandle's income, or to receive payments from Southern Union to the extent that tax losses generated by Panhandle are utilized by Southern Union. In addition, Panhandle's subsidiaries that are corporations will be included in consolidated and combined federal and state income tax returns filed by Southern Union. Panhandle's liability generally will be equal to the liability which Panhandle and its subsidiaries would have incurred based upon Panhandle's taxable income if Panhandle was a taxpayer filing separately from Southern Union, except that Panhandle will receive credit under an intercompany note for any increased liability resulting from its tax basis in its assets having been reduced as a result of the like-kind exchange under Section 1031 of the IRS Code. In addition, Southern Union has agreed to pay Panhandle any indemnification payments that it receives from CMS with respect to its tax liability for periods prior to the Panhandle Acquisition. The tax sharing agreement can be amended from time to time. Depending upon the terms of the tax sharing agreement, Panhandle's liability to Southern Union may be greater or less than the tax liability that Panhandle would have incurred if it was a corporation unaffiliated with Southern Union.

UNAMORTIZED DEBT PREMIUM, DISCOUNT AND EXPENSE. Panhandle amortizes premiums, discounts and expenses incurred in connection with the issuance of long-term debt consistent with the terms of the respective debt instrument.

ENVIRONMENTAL EXPENDITURES. Environmental expenditures that relate to an existing condition caused by past operations that do not contribute to current or future revenue generation are expensed. Environmental expenditures relating to current or future revenues are expensed or capitalized as appropriate. Liabilities are recorded when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated. Remediation obligations are not discounted.

REVENUES. Revenues on transportation, storage and terminalling of natural gas are recognized as service is provided. Receivables are subject to normal trade terms and are carried net of an allowance for doubtful accounts. Prior to final FERC approval of filed rates, Panhandle is exposed to risk that the FERC will ultimately approve the rates at a level lower than those requested. The difference is subject to refund and reserves are established, where required, for that purpose. See Note III -- Regulatory Matters.

SIGNIFICANT CUSTOMERS AND CREDIT RISK. Panhandle manages trade credit risks to minimize exposure to uncollectible trade receivables. Prospective and existing customers are reviewed for creditworthiness based upon pre-established standards. Customers that do not meet minimum standards are required to provide additional credit support. Panhandle utilizes the allowance method for recording its allowance for uncollectible accounts which is primarily based on the application of historical bad debt percentages applied against Panhandle's aged accounts receivable. Increases in the allowance are recorded as a component of operation expenses. Reductions in the allowance are recorded when receivables are written off. Panhandle has recorded an allowance for doubtful accounts totaling \$1,289,000 and \$1,464,000 at December 31, 2004 and 2003, respectively, relating to its trade receivables.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
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The following table shows the relative contribution to Panhandle's total operating revenue of each customer that comprised at least ten percent of our operating revenues for the years ended December 31, 2004, 2003 and 2002.

PERCENT OF OPERATING REVENUE FOR
TWELVE MONTHS ENDED
DECEMBER 31,

CUSTOMER	2004	2003	2002
ProLiance	17%	16%	16%
BG LNG Services	15	15	13
Ameren Corp	12	8	7
CMS Energy and affiliates (1)	10	12	12
Other top 10 customers	14	18	19
Remaining customers	32	31	33
	-----	-----	-----
Total percentage	100%	100%	100%
	=====	=====	=====

(1) Primarily Consumers Energy

INTEREST COST CAPITALIZED. Panhandle capitalizes a carrying cost on funds invested in its construction of long-lived assets that includes a return on the investment financed by debt, which is recorded as capitalized interest. The capitalized interest is calculated based on Panhandle's average cost of debt. Gross interest expense for the twelve months ended December 31, 2004, 2003 and 2002 was \$53,241,000, \$63,564,000 and \$79,537,000, respectively, of which \$4,812,000, \$2,611,000 and \$3,008,000 was capitalized for projects under construction during 2004, 2003 and 2002, respectively. The capitalized interest amounts are included as a reduction of interest expense. Capitalized carrying cost for debt is reflected as an increase in the cost of the asset on the balance sheet.

ACCOUNTING FOR RETIREMENT BENEFITS. Panhandle follows SFAS No. 87, "Employers' Accounting for Pensions", to account for pension costs. To account for other postretirement benefit costs, Panhandle follows SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", and SFAS No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits," as amended. For defined benefit plans, under certain circumstances, these statements require liabilities to be recorded on the balance sheet at the present value of these future obligations to employees net of any plan assets. The calculation of these liabilities and associated expenses requires the expertise of actuaries and is subject to many assumptions, including life expectancies, present value discount rates, expected long-term rate of return on plan assets, rate of compensation increase and anticipated health care costs. Any change in these assumptions can significantly change the liability and associated expenses recognized in any given year.

Prior to the acquisition of Panhandle, its employees participated in the CMS Pension Plan, a defined benefit retirement plan for employees of CMS and its affiliates. Upon the consummation of the Panhandle Acquisition in June 2003, the CMS Pension Plan assets and obligations associated with Panhandle employees, as well as obligations with respect to certain supplemental retirement benefits for management employees were retained by CMS. In addition, upon the closing of the Panhandle Acquisition, Panhandle employees became ineligible to accrue additional benefits under the CMS Pension Plan or other CMS plans. Following the Panhandle Acquisition, Panhandle does not maintain or participate in a defined benefit retirement plan for its employees, but instead provides benefits to substantially all employees under a defined contribution 401(k) plan. Under the 401(k) plan, Panhandle provides a matching contribution of 50 percent of the employee's contribution to the 401(k) plan that does not exceed 4 percent of the employee's eligible pay. In addition, Panhandle makes additional contributions to the 401(k) plan ranging from 4 to 6 percent of the employee's eligible pay, depending on the employee's age and years of service under a Retirement Power Account benefit. Panhandle has generally retained the same active employee health and life benefits that were offered prior to the Panhandle Acquisition.

In connection with the Panhandle Acquisition, CMS, or its affiliates, also retained liabilities with respect to the postretirement benefit plans other than pensions (OPEB) for Panhandle retirees and employees who were eligible to retire with such benefits as of the closing of the Panhandle Acquisition. CMS, or its affiliates, also retained all

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of the assets relating to OPEB, which were \$1,986,000 less than the liabilities retained. Following the Panhandle Acquisition, Panhandle continues to provide certain postretirement health and life benefits to eligible, active employees (Panhandle Plan). The accumulated postretirement benefit obligation with respect to such postretirement health and life benefits as of June 11, 2003 was estimated to be approximately \$42,752,000 and as of December 31, 2003 and December 31, 2004 the balance was approximately \$41,285,000 and \$38,260,000, respectively. Panhandle agreed to provide, or supplement, postretirement health benefits under the Panhandle Plan for certain employees eligible to receive retiree health benefits under the CMS plan, if the most valuable of the options under the CMS plan becomes less valuable than the most valuable option under the Panhandle Plan. Currently, no benefits are expected to be provided under the Panhandle Plan with respect to those eligible employees who elect to receive benefits as retirees under the CMS plan, and no liability is currently recognized for such employees. See Note XV -- Retirement Benefits.

ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES. Panhandle follows SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, to accrue for derivative and hedging activities. See Note VI -- Accounting for Derivatives and Hedging Activities.

ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS. Panhandle follows SFAS No. 143, "Accounting for Asset Retirement Obligations (ARO)", to account for its asset retirement obligations. Panhandle adopted the new rules on asset retirement obligations on January 1, 2003. Adoption of the new rule resulted in an increase in net property, plant and equipment associated with offshore lateral lines of \$5,026,000, recognition of an asset retirement obligation of \$6,024,000, and a cumulative effect of adoption that increased net income and owners' equity by \$2,003,000, net of tax.

The fair value of ARO liabilities has been calculated using an expected present value technique. This technique reflects assumptions, such as costs, inflation, and profit margin that third parties would consider in order to take on the settlement of the obligation. Fair value, to the extent possible, should include a market risk premium for unforeseeable circumstances. No market risk premium was included in Panhandle's ARO fair value estimate since a reasonable estimate could not be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, such as assets with an indeterminate life, the liability will be recognized when a reasonable estimate of fair value can be made. Generally, properties such as onshore transmission assets have an indeterminate life, retirement cash flows cannot be determined and there is a low probability in determining a retirement date. Therefore, no liability has been recorded for these assets. The initial measurement of the ARO liability for some of Panhandle's offshore lateral lines is based largely on cost estimates from third parties.

Panhandle's ARO asset was \$3,711,000 and \$5,026,000 at December 31, 2004 and December 31, 2003, respectively. Panhandle's ARO liability had an aggregate carrying amount of approximately \$5,657,000, \$7,479,000 and \$6,024,000 as of December 31, 2004, December 31, 2003 and January 1, 2003, respectively. During the year ended December 31, 2004, the change in the carrying amount of the ARO liability was attributable to \$543,000 of accretion expense offset by \$2,365,000 of liabilities settled and cash flow revisions. During the periods January 1 through June 11, 2003 and June 12 through December 31, 2003, Panhandle incurred accretion expense of \$282,000 and \$364,000, respectively, and a liability of \$809,000 during 2003.

During the second quarter of 2003, Panhandle reclassified \$27,286,000 of negative salvage previously included in accumulated depreciation to other non-current liabilities for amounts collected for asset retirement obligations on certain assets which are not recordable as SFAS No. 143 liabilities, but represent other legal obligations.

ACCOUNTING FOR GAINS AND LOSSES ON DEBT EXTINGUISHMENT. Panhandle follows SFAS No. 145, "Rescission of Financial Accounting Standards Board (FASB) Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," (SFAS No. 145) to account for gains and losses on debt extinguishment. SFAS No. 145 dictates that gains and losses on debt extinguished are no longer classified as extraordinary items. This provision is effective for transactions occurring and financial statements issued on or after May 15, 2002. Panhandle has adopted SFAS No. 145 and the implementation resulted in a reclassification of a \$920,000 gain (\$565,000, net of tax) related to debt retirements previously reflected as Extraordinary Item to Other, net for the twelve months ended December 31, 2002. During 2003, Panhandle recorded a pre-tax gain on the extinguishment of debt of approximately \$6,123,000 (\$3,674,000, net of tax) which is classified as Other, net. During 2004, Panhandle recorded an additional pre-tax gain on the extinguishment of debt of approximately \$231,000 (\$139,000, net of tax), which is classified as Other, net. See Note XII -- Debt.

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ACCOUNTING FOR TAXES. For federal and certain state income tax purposes, after converting to limited liability companies, Panhandle's subsidiaries are not treated as separate taxpayers. Instead, their income is directly taxable to Southern Union. Since its conversion to a limited partnership, Panhandle has been treated as a disregarded entity for federal income tax purposes. Panhandle's income is directly taxable to Southern Union. Pursuant to a tax sharing agreement with Southern Union, Panhandle will pay its share of taxes based on its taxable income, which will generally equal the liability which Panhandle would have incurred as a separate taxpayer. Panhandle will receive credit under an intercompany note from Southern Union for differences in tax depreciation resulting from the like-kind exchange over the taxable life of the related assets. See Note I -- Corporate Structure and Note II -- Summary of Significant Accounting Policies and Other Matters - Related Party Transactions.

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets, such as net operating loss carryforwards, may be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

STOCK BASED COMPENSATION. Following its acquisition by Southern Union on June 11, 2003 and in accordance with Southern Union's policy, Panhandle reports stock option grants using the intrinsic-value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related authoritative interpretations. Under the intrinsic-value method, because the exercise price of the Southern Union employee stock options is greater than or equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The following table illustrates the effect on net earnings and net earnings available for equity holders if Panhandle had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure," to stock-based employee compensation:

	YEAR ENDED DECEMBER 31, 2004 -----
Net earnings, as reported	\$ 87,933
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related taxes	207 -----
Pro forma net earnings	\$ 87,726 =====

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in the year ended December 31, 2004: dividend yield of nil; volatility of 36.75 percent; risk-free interest rate of 2.95 percent; and expected life outstanding of six years. The weighted average fair value of options granted with fair market value strike prices at their grant date during the year ended December 31, 2004 was \$7.35. There were no options granted with strike prices above fair market value at the grant date during the year ended December 31, 2004. No options were granted during the year ended December 31, 2003.

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NEW 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.

FSP NO. FAS 106-2, "ACCOUNTING AND DISCLOSURE REQUIREMENTS RELATED TO THE MEDICARE PRESCRIPTION DRUG, IMPROVEMENT AND MODERNIZATION ACT OF 2003" (THE MEDICARE PRESCRIPTION DRUG ACT): In accordance with FASB Staff Position (FSP) No. FAS 106-2, the benefit obligation and net periodic post-retirement cost in Panhandle's consolidated financial statements and accompanying notes do not reflect the effects of the Medicare Prescription Drug Act on Panhandle's post-retirement healthcare plan because Panhandle is unable to conclude whether benefits provided by the plan are actuarially equivalent to Medicare Part D under the Medicare Prescription Drug Act. The method of determining whether a sponsor's plan will qualify for actuarial equivalency was published January 21, 2005 by the Centers for Medicare & Medicaid Services. Once the determination of actuarial equivalence for current and future years is complete, if eligible, Panhandle will account for the subsidy as an actuarial gain, pursuant to the guidelines of this standard.

FASB STATEMENT NO. 123R, "SHARE-BASED PAYMENT (REVISED 2004)": Issued by the FASB in December 2004, the statement revises FASB Statement No. 123, "Accounting for Stock-Based Compensation," supersedes the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and amends the FASB Statement No. 95, "Statement of Cash Flows." The statement will be effective for Southern Union, Panhandle's parent company, in the first interim reporting period beginning after June 15, 2005 and will require Southern Union to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. Panhandle will be charged for its proportionate share of the expense recorded by Southern Union. In addition, the adoption of the statement will require additional accounting and disclosure related to the income tax and cash flow effects resulting from share-based payment arrangements. Panhandle is currently evaluating the impact of this statement on its consolidated financial statements or results of operations.

FSP NO. 109-1, "APPLICATION OF FASB STATEMENT NO. 109, 'ACCOUNTING FOR INCOME TAXES,' TO THE TAX DEDUCTION ON QUALIFIED PRODUCTION ACTIVITIES PROVIDED BY THE AMERICAN JOBS CREATION ACT OF 2004": On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was signed. The Act raises a number of issues with respect to accounting for income taxes. On December 21, 2004, the FASB issued a Staff Position regarding the accounting implications of the Act related to the deduction for qualified domestic production activities (FSP FAS 109-1) which is effective for periods subsequent to December 31, 2004. The guidance in the FSP otherwise applies to financial statements for periods ending after the date the Act was enacted. In FSP FAS 109-1, "Application of FASB Statement No. 109, 'Accounting for Income Taxes,' to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," the FASB decided that the deduction for qualified domestic production activities should be accounted for as a special deduction under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," and rejected an alternative view to treat it as a rate reduction. Accordingly, any benefit from the deduction should be reported in the period in which the deduction is claimed on the tax return. In most cases, a company's existing deferred tax balances will not be impacted at the date of enactment. For some companies, the deduction could have an impact on their effective tax rate and, therefore, should be considered when

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determining the estimated annual rate used for interim financial reporting. Panhandle is currently evaluating the impact, if any, of this FSP on its consolidated financial statements or results of operations.

FERC PROPOSED ACCOUNTING RELEASE: In November 2004, the FERC issued an industry-wide Proposed Accounting Release that, if enacted as written, would require pipeline companies to expense rather than capitalize certain costs related to mandated pipeline integrity programs. The accounting release is proposed to be effective January 2005 following a period of public comment on the release. Panhandle is currently reviewing the release and has not determined what impact this release will have on its consolidated financial statements or results of operations.

III REGULATORY MATTERS

In conjunction with a FERC Order issued in September 1997, certain natural gas producers were required to refund to interstate natural gas pipelines, including Panhandle Eastern Pipe Line, monies previously paid to producers as reimbursement of the producers Kansas Ad Valorem tax obligations. The FERC order required the affected pipelines to refund these amounts to their customers. In June 2001, Panhandle Eastern Pipe Line 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) and Burlington Resources Oil & Gas Company, LP (Burlington). On January 29, 2004 and February 13, 2004, the Commission approved settlements with these remaining non-settling producers. 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. As of December 31, 2004, all tax collections due from producers had been received. One producer, Burlington, is contesting the applicability of the FERC refund requirement due to a prior gas purchase contract settlement with Panhandle Eastern Pipe Line. On January 21, 2005, the United States Court of Appeals for the District of Columbia Circuit remanded this case back to the FERC for further explanation as to why Burlington should be required to make a refund to Panhandle Eastern Pipe Line. Management believes that this matter will not have a material adverse effect on Panhandle's consolidated results of operations or financial position. At December 31, 2003, accounts receivable included \$3,017,000 for tax collections due from natural gas producers. At December 31, 2004 and December 31, 2003, other current liabilities included \$206,000 and \$8,556,000, respectively, for 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 of \$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 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 \$127 million and \$43 million of costs are included in the line item Construction work-in-progress for the expansion projects through December 31, 2004 and December 31, 2003, respectively.

In February 2004, Trunkline filed an application with the FERC to request approval of a 30-inch diameter, 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 pipeline creates additional transport capacity in association with the Trunkline LNG expansion and also includes new and expanded delivery points with major interstate pipelines. On November 5, 2004, Trunkline filed a modified application with the FERC to change the size of the pipeline from 30-inch diameter to 36-inch diameter to better position Trunkline to provide transportation service for expected future LNG volumes and increase operational flexibility. The modification was approved by FERC on February 11, 2005. The Trunkline natural gas pipeline loop project associated with the LNG terminal is estimated to cost \$50 million, plus capitalized interest. Approximately \$21 million of costs are included in the line item Construction work-in-progress for this project through December 31, 2004.

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Panhandle Eastern Pipe Line previously sought refunds from the State of Kansas concerning certain corporate income tax issues for the years 1981 through 1984. On January 25, 2002, the Kansas Supreme Court entered an order affirming a previous Board of Tax Court finding that Panhandle Eastern Pipe Line was entitled to refunds, which, with interest, total approximately \$26,000,000. Pursuant to the provisions of the purchase agreement between CMS and a subsidiary of Duke Energy (Duke) associated with the March 1999 CMS acquisition of Panhandle, Duke retained the benefits of any tax refunds or liabilities for periods prior to the date of the sale of Panhandle to CMS, including these Kansas refunds.

In February 2002, Trunkline filed a settlement with customers on Order 637 matters to resolve issues including capacity release and imbalance penalties, among others. On July 5, 2002, FERC issued an order approving the settlement, with modifications. On October 18, 2002, Trunkline Gas filed tariff sheets with the FERC to implement Order 637 changes effective November 1, 2002. On February 12, 2003, FERC issued an order approving the settlement effective November 1, 2002. Management believes that this matter will not have a material adverse effect on Panhandle's consolidated results of operations or financial position.

IV GOODWILL

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Panhandle adopted the provisions of SFAS No. 142 as of January 1, 2002. Goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead is tested for impairment annually in accordance with the provisions of SFAS No. 142. SFAS No. 142's transitional goodwill impairment evaluation required Panhandle to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. Panhandle's goodwill, which resulted from its acquisition by CMS in March 1999, was tested for impairment as of January 1, 2002, based on valuations by outside appraisers. As defined in SFAS No. 142, Panhandle was considered a single reporting unit. The fair value of the reporting unit was determined using a combination of the income approach based on discounted cash flows and a market approach using public guideline companies and market transactions. The goodwill impairment amount was determined by comparing the fair value of goodwill to book value. The goodwill impairment test resulted in a \$601,108,000 pre-tax write-down (\$369,119,000 after-tax) and was recorded retroactive to the first quarter of 2002 as the cumulative effect of a change in accounting for goodwill, pursuant to the requirements of SFAS No. 142. Such adjustment resulted in a net loss of \$299,611,000 for the year ended December 31, 2002. If there had been no cumulative effect of change in accounting principle related to the goodwill impairment, Panhandle's net income would have been \$69,508,000. No goodwill amortization was reported for the periods subsequent to January 1, 2002.

On June 11, 2003, Southern Union completed its acquisition of Panhandle from CMS. Based on the results of an outside appraisal and the purchase price allocations, the acquisition resulted in no recognition of goodwill.

V 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 Eastern Pipe Line has transportation revenues with Missouri Gas Energy, a Southern Union division, which account for less than one percent of annual consolidated revenues. These deliveries are at contracted rates that pre-date the Panhandle Acquisition.

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RELATED PARTY TRANSACTIONS	POST-ACQUISITION		PRE-ACQUISITION	
	YEAR ENDED DECEMBER 31, 2004	JUNE 12 - DECEMBER 31, 2003	JANUARY 1- JUNE 11, 2003	YEAR ENDED DECEMBER 31, 2002
Transportation and storage of natural gas	\$ 3,902	\$ 2,251	\$ 28,094	\$ 56,516
LNG terminalling revenue	-	-	-	2,238
Other operating revenues	216	136	411	(4,796)
Operation and maintenance:				
Management & royalty fees	12,215	6,111	-	16,630
Other expenses (1)	24,607	9,900	9,727	23,010
Interest income, net	1,563	271	6,161	8,743

(1) Includes allocated benefit plan costs

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 OPEB, benefits to certain management employees under a supplemental executive retirement plan (SERP), and benefits to substantially all its employees under a trustee, non-contributory, deferred 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.

Other operating revenue for the twelve month period ended December 31, 2002 includes equity losses related to Centennial of \$7,924,000. On February 10, 2003, Panhandle sold its one-third interest in Centennial for \$40,000,000 to Centennial's two other unaffiliated partners. There was no income or loss related to Centennial in the first quarter of 2003. In March 2003, \$40,000,000 of cash from the sale of Centennial was distributed to CMS as a return of capital.

Net cash generated by Panhandle in excess of operating, investing or financing needs was previously loaned to CMS Capital. Panhandle was credited with interest on the note at the 30-day commercial paper rate plus 125 basis points through July 2002. In August of 2002, the interest rate was increased to a one-month LIBOR plus 300 basis points.

Included in Interest income, net, is interest income of \$6,204,000 and \$8,843,000 for the periods ended June 11, 2003 and December 31, 2002, respectively, for interest on the Note receivable - CMS Capital. The Note receivable - CMS Capital of \$184,926,000 as of the acquisition date has since been eliminated following 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 \$90,745,000 to Southern Union since the Panhandle Acquisition; net loans of \$3,395,000 were recorded during the twelve month period ended December 31, 2004. Panhandle is credited with interest on the note at a one month LIBOR rate. Included in Other, net in the accompanying Consolidated Statements of Operations is interest income of \$1,563,000 for the twelve month period ended December 31, 2004 and \$271,000 for the period June 12-December 31, 2003 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.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 TRANSACTIONS	DECEMBER 31, 2004	DECEMBER 31, 2003
Note receivable - Southern Union	\$ 90,745	\$ 87,350
Accounts receivable	7,287	816
Accounts payable	(3,478)	(9,039)
Owners' equity - Tax sharing note receivable - Southern Union	70,971	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 an estimated deferred tax liability originally estimated at \$85 million, with a final calculated amount of approximately \$91 million at the acquisition date and a corresponding receivable from Southern Union reflected as a reduction to owners' equity on Panhandle's Consolidated Balance Sheet. Repayment of the receivable from Southern Union is limited to actual tax liabilities otherwise payable by Panhandle pursuant to the tax sharing agreement with Southern Union. In December 2004, Panhandle recorded a \$7,720,000 income tax liability settlement against the Tax sharing note receivable. In the fourth quarter of 2004, Panhandle recorded a \$12,247,000 reduction in its deferred tax liability and the corresponding Tax sharing note receivable from Southern Union due to revised calculations in the amount of Panhandle's tax basis utilized by Southern Union in the like-kind exchange associated with the Panhandle Acquisition.

On November 17, 2004, CCE Holdings, LLC (CCE), a joint venture in which Southern Union owns a 50 percent interest, acquired 100 percent of the equity interests of CrossCountry Energy, LLC (CrossCountry) from Enron Corp. and certain of its subsidiaries for approximately \$2,450,000,000 in cash, including the assumption of certain consolidated debt. On November 5, 2004, CCE entered into an Administrative Services Agreement (the Management Agreement) with SU Pipeline Management LP (Manager), a Delaware limited partnership and a wholly owned subsidiary of Southern Union, and Panhandle. Under the terms of the Management Agreement, Panhandle covenants, to the extent permitted by applicable law, to cause Manager to perform the duties and obligations of Manager. Manager has assembled an integrated pipeline management team, which includes employees of Panhandle and CrossCountry. Pursuant to the Management Agreement, Manager is responsible for the operations and administrative functions of the enterprise. CCE and Manager will share certain operations of Manager and its affiliates, and CCE will be obligated to bear its share of costs of the Manager and its affiliates, as well as certain transition costs and, under certain conditions, pay annual management fees to Manager. Transition costs are non-recurring costs of establishing the shared services, including but not limited to severance costs, professional fees, certain transaction costs, and the costs of relocating offices and personnel, pursuant to the Management Agreement. At December 31, 2004, Panhandle recognized a liability of approximately \$6 million for severance related costs which is reimbursable from CCE for which an offsetting amount is reflected in Accounts receivable - related parties at December 31, 2004.

On March 10, 2003, Panhandle's ownership interest in Guardian was transferred to CMS as a return of capital at the book value of \$27,781,000 and Panhandle was released from its guarantee obligations associated with the Guardian non-recourse guaranty by the note holders. See Note XIV -- Commitments and Contingencies. As a result, the \$62,500,000 in special deposits which collateralized the guaranty and had been reflected as restricted cash in Panhandle's financial statements were advanced to CMS Capital as part of the demand Note receivable - CMS Capital and were then made available to CMS Gas Transmission.

On March 1, 2003, certain assets held by CMS with a net book value of \$15,149,000 were contributed to Panhandle by CMS and were included in Southern Union's acquisition of Panhandle.

VI 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 \$193,827,000 as of December 31, 2004 that fix the interest rate applicable to floating rate long-term debt and which qualify for hedge accounting. For the twelve month periods ended December 31, 2004 and 2003, the amount of swap ineffectiveness was not significant. As of December 31, 2004, floating rate LIBOR based interest payments were exchanged for weighted average fixed rate interest payments of 5.88 percent, which does not include the spread on the underlying variable debt rate of 1.63 percent. As such, payments, in excess of the liability recorded, or receipts on interest rate swap agreements are recognized as adjustments to interest expense. As of December 31, 2004 and December 31, 2003, the fair value liability position of the swaps was \$11,053,000 and \$19,806,000, respectively. For the twelve months ended December 31, 2002 and the period January 1 through June 11, 2003, an unrealized loss of \$22,424,000 (\$13,409,000, net of tax) and \$5,317,000 (\$3,180,000, net of tax), respectively, was included in accumulated other comprehensive income related to these swaps. As of December 31, 2003 and since the Panhandle Acquisition date, an unrealized gain of \$2,293,000 (\$1,372,000, net of tax) was included in accumulated other comprehensive income related to these swaps. For the twelve months ended December 31, 2004, an unrealized loss of \$236,000 (\$141,000, net of tax) was included in accumulated other comprehensive income related to these swaps. 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 percent Senior Notes. See Note XII -- Debt. These swaps are designated as fair value hedges and qualify for the short cut method under SFAS No. 133. As of December 31, 2004 the fair value position of the swaps was a liability of \$3,936,000, recorded as a reduction to long-term debt. Under the swap agreements, Panhandle will receive fixed interest payments at a rate of 2.75 percent 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 December 31, 2004, these swaps have an average interest rate of 2.52 percent.

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VII INCOME TAXES

The separate components of income tax expense for the periods presented consist of:

INCOME TAX EXPENSE	POST-ACQUISITION		PRE-ACQUISITION	
	YEAR ENDED DECEMBER 31, 2004	JUNE 12 - DECEMBER 31, 2003	JANUARY 1 - JUNE 11, 2003	YEAR ENDED DECEMBER 31, 2002
Current income taxes				
Federal	\$ 14,756	\$ -	\$ -	\$ 13,637
State	1,726	-	-	3,002
Total current income taxes	16,482	-	-	16,639
Deferred income taxes				
Federal	32,861	27,823	25,823	24,491
State	6,713	5,498	4,709	5,271
Total deferred income taxes	39,574	33,321	30,532	29,762
Total income tax expense	\$ 56,056	\$ 33,321	\$ 30,532	\$ 46,401

The actual income tax expense differs from the amount computed by applying the statutory federal tax rate to income before income taxes as follows:

INCOME TAX EXPENSE RECONCILIATION TO STATUTORY RATE	POST-ACQUISITION		PRE-ACQUISITION	
	YEAR ENDED DECEMBER 31, 2004	JUNE 12 - DECEMBER 31, 2003	JANUARY 1 - JUNE 11, 2003	YEAR ENDED DECEMBER 31, 2002
Income tax, computed at the statutory rate	\$ 50,396	\$ 29,671	\$ 27,490	\$ 40,570
Adjustments:				
State income tax, net of federal effect	5,485	3,574	3,061	5,377
Permanent differences and other	175	76	(19)	454
Total income tax expense	\$ 56,056	\$ 33,321	\$ 30,532	\$ 46,401
Effective tax rate	38.9%	39.3%	38.9%	40.0%

PANHANDLE EASTERN PIPE LINE COMPANY, LP
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The principal components of Panhandle's deferred tax assets (liabilities) recognized in the Consolidated Balance Sheets for the twelve month periods ended December 31, 2004 and 2003 are as follows:

NET DEFERRED INCOME TAX ASSET (LIABILITY) COMPONENTS -----	DECEMBER 31, 2004 ----	DECEMBER 31, 2003 ----
Property, plant and equipment	\$ (189,041)	\$ (178,663)
Investments	(116)	(1,028)
Deferred credits and other liabilities	26,534	38,740
Tax loss carryforward	-	8,090
Other assets	9,933	3,149
Purchase related costs	-	9,738
Interest rate swap	7,536	7,942
State deferred income taxes, net of federal tax effect	(16,341)	(12,228)
Net deferred income tax asset (liability)	\$ (161,495) =====	\$ (124,260) =====
Gross deferred tax liabilities	\$ (205,498)	\$ (192,048)
Gross deferred tax assets	44,003	67,788
Net deferred income tax asset (liability)	\$ (161,495) =====	\$ (124,260) =====
Non current deferred income tax asset (liability)	\$ (172,193)	\$ (131,991)
Current tax asset	10,698	7,731
Net deferred income tax asset (liability)	\$ (161,495) =====	\$ (124,260) =====

Under the terms of the Panhandle sale agreement, CMS retained all net deferred tax assets of \$28,124,000 and all tax liabilities of \$17,405,000 as of June 11, 2003, the acquisition date. Panhandle recognized a deferred tax liability of \$90,938,000, which resulted from the like-kind exchange of property under Section 1031 of the Internal Revenue Code of 1986, as amended. See Note V -- Related Party Transactions. In December 2004, Panhandle realized \$7,720,000 of the Tax sharing note receivable as an offset against its current income taxes payable, pursuant to the tax sharing agreement. In the fourth quarter of 2004, Panhandle recorded a \$12,247,000 reduction in its deferred tax liability and the corresponding Tax sharing note receivable from Southern Union due to revised calculations in the amount of Panhandle's tax basis utilized by Southern Union in the like-kind exchange associated with the Panhandle Acquisition.

Panhandle had a deferred income tax asset attributable to temporary differences reflecting tax loss carryforwards of \$8,090,000 as of December 31, 2003, which was fully utilized in 2004.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

VIII PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT -----	LIVES IN YEARS -----	DECEMBER 31, 2004 ----	DECEMBER 31, 2003 ----
Transmission	36-46	\$ 1,181,182	\$ 1,123,262
Gathering	26	46,074	49,016
Underground storage	36-46	274,337	316,802
General plant - LNG	40	388,703	387,866
General plant - other (1)	1-10	57,228	17,014
Construction work-in-progress		203,094	90,556
		-----	-----
Total property, plant and equipment		2,150,618	1,984,516
Less accumulated depreciation and amortization		87,683	32,114
		-----	-----
Net property, plant and equipment		\$ 2,062,935	\$ 1,952,402
		=====	=====
(1) Includes capitalized computer software costs totalling:			
Computer software cost		\$ 49,828	\$ 15,374
Less accumulated amortization		6,439	2,539
		-----	-----
Net computer software costs		\$ 43,389	\$ 12,835
		=====	=====

All of the assets of Trunkline LNG Holdings, an indirect subsidiary of Panhandle Eastern Pipe Line, are pledged as collateral for bank loans which it has outstanding. Post-acquisition figures reflect the impact of purchase accounting for the Southern Union acquisition. See Note I -- Corporate Structure.

Amortization expense of capitalized computer software costs for years 2004, 2003, 2002 was \$5,070,000, \$4,969,000 and \$7,523,000, respectively. During the quarter ended September 30, 2004, Panhandle commenced utilization of an upgraded internally developed computer application to manage its pipeline administration. Panhandle recorded in General plant - other costs of \$34,224,000 pursuant to SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," with related amortization expense during 2004 totaling \$1,141,000. The intangible asset will be amortized over a ten year life.

At December 31, 2004 and December 31, 2003, capitalized accruals to Property, plant and equipment of \$16,108,000 and \$5,451,000 are included in Other current liabilities on the Consolidated Balance Sheet.

IX INTANGIBLE ASSETS

Based on the purchase price allocations and outside appraisals, the Panhandle Acquisition resulted in the recognition of an intangible asset related to the BG LNG contract with Trunkline LNG with an initial estimated value of \$31,569,000. During 2004, Panhandle recorded a reduction in Intangibles, net of \$22,066,000, resulting in a final adjusted balance of \$9,503,000. Such adjustment was related to a reduction in Southern Union's estimated deferred state income tax liability incurred as a result of the Panhandle Acquisition, pursuant to the provisions of SFAS No. 109.

The intangible is amortized over a period of twenty years, the remaining life of the contract for which the value is associated. At December 31, 2004 and 2003, the carrying amount of these intangibles was approximately \$8,496,000 and \$30,698,000, respectively. Amortization expense on the customer contract for 2004 and 2003 was \$136,000 and \$871,000, respectively. Panhandle estimates the annual amortization expense for 2005, 2006, 2007, 2008 and 2009 will be \$475,000 per year.

Certain intangibles are included in Property, plant and equipment. See Note VIII -- Property, Plant and Equipment.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
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X INVESTMENT IN AFFILIATES

Panhandle owns a 29 percent interest in the Lee 8 partnership, which operates a 2 bcf natural gas storage facility in Michigan. Panhandle initially held a 40 percent interest in Lee 8. In July 2002, Panhandle entered into transactions with MG Ventures Storage Corporation and Proliance Energy which resulted in a reduction in equity ownership from 40 percent to the current 29 percent. The remaining interest in the Lee 8 partnership is currently owned by Proliance Energy (51 percent) and Howard Energy Company (20 percent).

XI FINANCIAL INSTRUMENTS

Panhandle's financial instruments include \$1,175,861,000 and \$1,185,533,000 of total debt outstanding, including the current portion of long-term debt, at December 31, 2004 and 2003, respectively, with an approximate fair value of \$1,215,107,000 and \$1,238,304,000 as of December 31, 2004 and 2003, respectively. Estimated fair value amounts of long-term debt were obtained from independent parties. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 2004 and 2003 are not necessarily indicative of the amounts Panhandle could have realized in current market exchanges.

The \$90,745,000 and \$87,350,000 Note Receivable from Southern Union at December 31, 2004 and December 31, 2003, respectively, is at fair value and the interest portion is calculated using an interest rate equal to the one month LIBOR rate. See Note V -- Related Party Transactions.

LNG Holdings is required by its credit agreement to have fixed interest rates on a portion of its bank notes for a period of five years. Accordingly, from time to time, LNG Holdings enters into interest rate swaps to effectively fix the rate of certain of its otherwise floating rate notes in order to conform to this requirement. On December 31, 2001 and March 22, 2002, interest rate swaps were entered into with respect to \$150,000,000 and \$67,000,000, respectively, of floating rate notes.

As of December 31, 2004 and December 31, 2003, the fair value liability position of the swaps was \$11,053,000 and \$19,806,000, respectively. As of December 31, 2003 and since the acquisition date, an unrealized gain of \$2,293,000 (\$1,372,000, net of tax) was included in accumulated other comprehensive income related to these swaps. For the twelve months ended December 31, 2004, an unrealized loss of \$236,000 (\$141,000, net of tax) was included in accumulated other comprehensive income related to these swaps. Current market pricing models were used to estimate fair values of interest rate swap agreements.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

XII DEBT

Long-term Debt	Year Due	DECEMBER 31, 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)	2005-2007	258,433	269,570
		-----	-----
Total debt outstanding		1,175,861	1,185,533
Current portion of long-term debt		(12,548)	(209,671)
Interest rate swaps (2.75% Senior Notes)		(3,936)	-
Unamortized debt premium, net		14,688	19,911
		-----	-----
Total long-term debt		\$ 1,174,065	\$ 995,773
		=====	=====

Panhandle has \$1,186,613,000 of debt recorded at December 31, 2004, of which \$12,548,000 is current. Debt of \$928,180,000, including net premiums of \$14,688,000 and unamortized interest rate swaps of \$3,936,000, is at fixed rates ranging from 2.75 percent to 8.25 percent, with an average interest rate for 2004 of 4.96 percent including debt premium, discount and issuance cost amortization and 5.48 percent excluding debt premium, discount and issuance cost amortization. The \$258,433,000 of variable rate bank loans have an average rate of 3.08 percent for the twelve month period ended December 31, 2004. The Trunkline LNG facilities are pledged as collateral for the variable rate loans. See Note VI -- 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 December 31, 2004, Panhandle, based on the currently most restrictive debt covenant requirements, was subject to a \$344,226,000 limitation on additional restricted payments including dividends and loans to affiliates, and a limitation of \$327,373,000 of additional secured indebtedness or other defined liens based on a limitation on liens covenant. At December 31, 2004, Panhandle was in compliance with all covenants.

At December 31, 2004, Panhandle had scheduled debt payments of \$12,548,000, \$13,969,000, \$431,916,000, \$300,000,000, \$60,623,000 and \$356,805,000 for the years 2005 through 2009 and in total thereafter, respectively.

On March 12, 2004, Panhandle issued \$200,000,000 of 2.75 percent 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 percent 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 percent Senior Notes which matured on August 15, 2004. Panhandle filed a registration statement on May 12, 2004 to initiate an exchange of the unregistered 2.75 percent Senior Notes due 2007, Series A, for substantially identical securities registered under the Securities Act of 1933. Such exchange was completed June 25, 2004.

In July 2003, Panhandle announced a tender offer for any and all of the \$747,370,000 outstanding principal amount of five of its series of senior notes outstanding at that point in time (the Panhandle Tender Offer) and also called for the redemption of all of the outstanding \$134,500,000 principal amount of its two series of debentures that were outstanding. Panhandle repurchased approximately \$378,257,000 of the principal amount of its

PANHANDLE EASTERN PIPE LINE COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

outstanding debt through the Panhandle Tender Offer for total consideration of approximately \$396,445,000 plus accrued interest through the purchase date. Panhandle also redeemed its approximately \$134,500,000 of debentures for total consideration of \$139,411,000 including the specified call premium, plus accrued interest through the redemption dates. As a result of these transactions, Panhandle has recorded a pre-tax gain on the extinguishment of debt of approximately \$6,123,000 (\$3,674,000, net of tax) in the third quarter of 2003 due to increases in interest rates subsequent to the acquisition date, which has been classified as Other, net, pursuant to the requirements of SFAS No. 145. During 2004, Panhandle recorded an additional pre-tax gain on the extinguishment of debt of approximately \$231,000 (\$139,000, net of tax), which is classified as Other, net. In August 2003, Panhandle issued \$550,000,000 of senior notes, of which \$300,000,000 is a new five year senior note at 4.8 percent and \$250,000,000 is a new ten year senior note at 6.05 percent, principally to refinance the repurchased notes and redeemed debentures. The issuance of the \$550,000,000 of senior notes resulted in a debt discount recorded of \$2,573,000. Also in August and September 2003, Panhandle repurchased \$3,150,000 principal amount of its senior notes on the open market through two transactions for total consideration of \$3,398,000, plus accrued interest through the repurchase date and which also resulted in \$270,000 of retired premium.

Panhandle Eastern Pipe Line provided a guarantee related to the bridge financing entered into by Southern Union on November 17, 2004 of \$407,000,000 to fund a portion of Southern Union's equity investment in CCE Holdings, LLC (the Bridge Loan). The Bridge Loan was subject to standard terms and conditions and was due and payable on May 17, 2005. The Bridge Loan was repaid in February 2005 and Panhandle Eastern Pipe Line has been released from all related obligations.

XIII COMPREHENSIVE INCOME

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

	YEAR ENDED DECEMBER 31, 2004 ----	JUNE 12 - DECEMBER 31, 2003 ----	JANUARY 1 - JUNE 11, 2003 ----	YEAR ENDED DECEMBER 31, 2002 ----
Net earnings (loss)	\$ 87,933	\$ 51,452	\$ 50,014	\$ (299,611)
Unrealized gain (loss) related to interest rate swaps	8,752	7,045	(5,317)	(22,424)
Realized (gains) losses in net income	(8,988)	(4,751)	-	-
Increase in minimum pension liability	-	-	-	(42,025)
Other comprehensive income (loss) before taxes	\$ 87,697	\$ 53,746	\$ 44,697	\$ (364,060)
Income tax benefit (loss)	95	(922)	2,137	25,270
Total comprehensive income (loss)	\$ 87,792 =====	\$ 52,824 =====	\$ 46,834 =====	\$ (338,790) =====

Accumulated other comprehensive income reflected in the Consolidated Balance Sheet at December 31, 2004 and December 31, 2003, includes unrealized gains related to interest rate swaps.

XIV COMMITMENTS AND CONTINGENCIES

LEASES. Panhandle utilizes assets under operating leases in several areas of operation. Consolidated rental expense amounted to \$13,358,000 in 2004, \$12,527,000 in 2003 and \$14,356,000 in 2002. Future minimum rental payments under Panhandle's various operating leases for the years 2005 through 2009 are \$12,768,000, \$11,914,000, \$9,576,000, \$5,661,000 and \$1,929,000, respectively, and \$3,508,000 in total thereafter.

CAPITAL EXPENDITURES. Panhandle estimates expenditures associated with Phase I and Phase II LNG terminal expansion and the Trunkline 36-inch diameter, 23-mile natural gas pipeline loop from the LNG terminal to be approximately \$107 million in 2005 and approximately \$8 million in 2006, plus capitalized interest. These estimates were developed for budget planning purposes and are subject to revision.

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 case is in the process of being 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.

Jack Grynberg, an individual, has filed actions against a number of companies, including Panhandle, now transferred to the U.S. District Court for the District of Wyoming, for damages for mis-measurement of gas volumes and Btu content, resulting in lower royalties to mineral interest owners. Panhandle believes that its measurement practices conformed to the terms of its FERC Gas Tariff, which was filed with and approved by FERC. As a result, Panhandle believes that it has meritorious defenses to the complaint (including FERC-related affirmative defenses, such as the filed rate/tariff doctrine, the primary/exclusive jurisdiction of FERC, and the defense that Panhandle complied with the terms of its tariff) and is defending the suit vigorously.

ENVIRONMENTAL MATTERS. Panhandle's gas transmission operations are subject to federal, state and local regulations regarding water quality, hazardous and solid waste management, air quality control and other environmental matters. Panhandle has previously 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.

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. Sixteen 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 COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 seventeen percent. Panhandle and twenty-one other non-affiliated parties conducted an initial voluntary investigation of the Pierce Oil Springfield site, one of the three sites. 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 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 has also received a Comprehensive Environmental Response, Compensation, and Liability Act 104e data request from the EPA Region V regarding the second Pierce Waste Oil site known as the Dunavan site, located in Oakwood, Illinois. Panhandle is working on the response that will show that waste oil generated at Panhandle facilities was shipped to the Dunavan Oil site in Oakwood, Illinois, resulting in Panhandle becoming a potentially responsible party at such site.

Panhandle expects the 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 approximately \$7 million to \$16 million. At December 31, 2004, Panhandle has related accruals totaling approximately \$12,912,000, of which \$3,046,000 is included in Other current liabilities for the estimated current amounts and \$9,866,000 is included in Other non-current liabilities on the Consolidated Balance Sheet. At December 31, 2003, Panhandle had accruals totaling approximately \$14,577,000 of such costs, of which \$2,933,000 was included in Other current liabilities for the estimated current amounts and \$11,644,000 was included in Other non-current liabilities on the Consolidated Balance Sheet. During 2004, Panhandle spent \$1,942,000 related to these cleanup programs.

Panhandle paid approximately \$6,783,000 during the second quarter of 2003 in connection with the May 13, 2003, execution of a cleanup liability assumption agreement with Duke Energy and a third party relating to a site in Liberal, Kansas. The agreement provides for a third party to assume all liability and responsibility for remediation of the site, excluding any potential third-party liabilities. In connection with the agreement, a \$30,000,000 insurance policy with a ten-year term was purchased to cover any such potential third-party liabilities. Panhandle had provided accruals related to the liability related to this site in prior periods.

AIR QUALITY CONTROL. In 1998, the EPA issued a final rule on regional ozone control that requires Panhandle to place controls on 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 the 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 eighty-two percent 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 twenty 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 requires 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 two 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

PANHANDLE EASTERN PIPE LINE COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 percent from these engines. Catalytic controls will be required to reduce emissions under these rules with a final implementation date of June 2007. Panhandle Eastern Pipe Line and Trunkline have twenty-two 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 (MMS), additional royalties from gas producers as a result of payments received by such producers in connection with past take-or-pay settlements and buyouts and buydowns of gas sales contracts with natural gas pipelines. Panhandle 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. This liability is being assessed for its impact on the final purchase price allocation. 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.

In conjunction with its acquisition by Southern Union, Panhandle initiated a plan designed to reduce its workforce by approximately five percent. The workforce reduction initiative was an involuntary plan with a voluntary component, and was fully implemented by the end of the third quarter of 2003. Total workforce reduction initiative costs of approximately \$10,000,000 are included in the \$31,922,000 of transaction costs incurred. See Note I -- Corporate Structure.

In conjunction with Southern Union's investment in CCE Holdings, LLC (CCE) and CCE's acquisition of Cross Country Energy, LLC (CrossCountry) from Enron Corp. and certain subsidiaries of Enron, Panhandle initiated an additional workforce reduction plan designed to reduce the workforce by approximately an additional six percent. Certain of the approximately \$7.7 million of the resulting severance and related costs are reimbursable by CCE pursuant to agreements between the parties involved, with the reimbursable portion totaling approximately \$6 million.

Panhandle Eastern Pipe Line provided a guarantee related to the bridge financing entered into by Southern Union on November 17, 2004 of \$407,000,000 to fund a portion of Southern Union's equity investment in CCE Holdings, LLC (the Bridge Loan). The Bridge Loan was subject to standard terms and conditions and was due and payable on May 17, 2005. The Bridge Loan was repaid in February 2005 and Panhandle Eastern Pipe Line has been released from all related obligations.

On September 10, 2003, Panhandle Eastern Pipe Line provided a guarantee to CB&I Constructors, Inc. for the full performance by Trunkline LNG, its subsidiary, of the engineering, procurement and construction contract between Trunkline LNG and CB&I Constructors, Inc. The contract is for the construction of the expansion of the Trunkline LNG Lake Charles facility, and covers approximately \$18 million of the remaining cost of the Phase I expansion through December 2005 and approximately \$30 million of the remaining cost of the Phase II expansion through June 2006. Under the terms of the guarantee, Panhandle Eastern Pipe Line would be required to perform should Trunkline LNG be in default of its obligation, as it relates to services already rendered. There are no amounts being carried as liabilities for Panhandle's obligations under these guarantees.

In May 2001, Panhandle provided a guaranty related to project financing associated with its investment in Centennial in an amount up to \$50,000,000 during the initial operating period of the project. Due to rating agency downgrades of Panhandle's debt, the Centennial lender required additional credit support from Panhandle. On September 27, 2002 Panhandle's partners provided credit support of \$25,000,000 each in the form of guarantees to the Centennial lender to cover Panhandle's \$50,000,000 obligation. The partners were paid credit fees by Panhandle on the outstanding balance of the guarantees for the periods for which they were in effect. On February 10, 2003, Panhandle sold its one-third equity interest in Centennial for \$40,000,000 to Centennial's two other partners, MAPL and TEPPCO. Panhandle has been released by MAPL, TEPPCO and the lenders for any liabilities related to Panhandle's \$50,000,000 parent guaranty of the project debt.

In November 2001, in conjunction with the Guardian project, Panhandle provided a \$60,000,000 guaranty related to project financing during the construction and initial operating period of the project. Due to rating agency

PANHANDLE EASTERN PIPE LINE COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

downgrades of Panhandle's debt, the Guardian lender assessed credit fees and required additional credit support from Panhandle. In October 2002, Panhandle provided a letter of credit to the lenders which constituted acceptable credit support under the Guardian financing agreement. On March 10, 2003, Panhandle's ownership interest in Guardian was transferred back to CMS Gas Transmission, along with the \$62,500,000 cash collateral. Panhandle was also released from the guarantee obligations associated with the Guardian non-recourse debt as of March 10, 2003, by the partners, the Prudential Insurance Company of America and the other noteholders.

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 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. As of December 31, 2004, the aggregate amount of the projected benefit obligations of these pension plans was approximately \$398,516,000 and the estimated fair value of all of the assets of these plans was approximately \$276,836,000.

XV RETIREMENT BENEFITS

EMPLOYEE RETIREMENT BENEFITS. Until June 11, 2003, Panhandle, through its former parent company, participated in a defined benefit retirement plan which covered most employees with a minimum of one year vesting service and provided additional retirement benefits under a number of different plans, including certain health care and life insurance, benefits to certain management employees under SERP, and benefits to substantially all its employees under a defined benefit pension plan and a defined contribution 401(k) plan. None of the assets or liabilities related to the CMS defined benefit retirement plan and OPEB plan were transferred with the sale of Panhandle. Panhandle employees, following the sale, are no longer eligible to accrue benefits or make contributions to the CMS plans.

The significant downturn in the equities markets and a decrease in the price of CMS Common Stock affected the value of the CMS Pension Plan (Pension Plan) assets. The Pension Plan's Accumulated Benefit Obligation exceeded the value of these assets at December 31, 2002 by \$425,900,000, and as a result, CMS was required to recognize an additional minimum liability for this excess in accordance with SFAS No. 87. Panhandle's allocation was \$47,998,000, of which \$25,770,000, net of tax, was recorded to Accumulated other comprehensive income in 2002.

In connection with the Panhandle Acquisition, CMS or its affiliates retained all assets and liabilities related to its underfunded Pension Plan. The Pension Plan will retain pension payment obligations under the plan for Panhandle employees who were already vested in the plan as of June 11, 2003.

For the CMS Pension Plan, the total pension plan expense, which was allocated to Panhandle by CMS, was approximately \$2,952,000 and \$3,672,000 for the period January 1 through June 11, 2003 and during 2002, respectively. Contributions made by Panhandle to CMS on behalf of the Pension Plan were \$6,423,000 for the period ended December 31, 2002. There were no contributions made by Panhandle to CMS on behalf of the Pension Plan for the period January 1 through June 11, 2003.

The net periodic postretirement benefit cost allocated to Panhandle was approximately \$2,648,000 for the period January 1 through June 11, 2003 and \$6,193,000 in 2002. Contributions made by Panhandle for the OPEB plan during the CMS ownership period was \$3,498,000 for the period January 1 through June 11, 2003 and \$7,756,000 for the period ended December 31, 2002. In connection with the Panhandle Acquisition, CMS, or its affiliates, retained liabilities with respect to OPEB for Panhandle retirees and employees who were eligible to retire with such benefits as of the closing of the Panhandle Acquisition. CMS, or its affiliates, also retained all of the assets relating to OPEB, which were estimated to be \$1,986,000 less than the liabilities retained.

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

PANHANDLE EASTERN PIPE LINE COMPANY, LP
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

service. Panhandle has generally retained the same active employee health insurance benefits that were offered prior to the acquisition by Southern Union. The new OPEB plan resulted in the recording of a \$42,752,000 liability as of June 12, 2003 and Panhandle continues to fund the plan at approximately \$7.8 million per year, with \$12,196,000 and \$4,314,000 of plan assets accumulated at December 31, 2004 and December 31, 2003, respectively. Since retirement eligible active employees as of June 12, 2003 have primary coverage through a benefit they are eligible to receive from CMS, no liability is currently recognized for these employees under the new Panhandle plan.

It is Panhandle's general policy to fund accrued postretirement health care costs. Panhandle accrues on an actuarial basis, health and life benefit costs over the active service period of employees to the date of full eligibility for the benefits. The following table represents the OPEB plan at December 31, 2004.

OPEB	POST-ACQUISITION	
	YEAR ENDED DECEMBER 31, 2004	JUNE 11 TO DECEMBER 31, 2003
- ----	----	----
Change in Benefit Obligation		
Benefit obligation at beginning of period	\$ 47,085	\$ 42,752
Service cost	2,327	1,302
Interest cost	3,004	1,425
Amendments	(1,600)	--
Actuarial loss	12,029	1,606
	-----	-----
Benefit obligation at end of year	\$ 62,845	\$ 47,085
	=====	=====
Change in Plan Assets		
Fair value of plan assets at beginning of period	\$ 4,314	\$ --
Return on plan assets	70	1
Employer contributions	7,812	4,313
Benefits paid	--	--
	-----	-----
Fair value of plan assets at end of year	\$ 12,196	\$ 4,314
	=====	=====
Funded Status		
Funded status at end of year	\$ (50,649)	\$ (42,771)
Unrecognized net actuarial gain	13,989	1,605
Unrecognized prior service cost	(1,600)	--
	-----	-----
Net liability recognized at December 31	\$ (38,260)	\$ (41,166)
	=====	=====

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS:

POST-ACQUISITION AS OF DECEMBER 31	2004	2003
- ----	----	----
Discount rate	5.75%	6.25%
Rate of compensation increase	N/A	N/A
Health care cost trend rates:		
Medical (graded to 4.75% by year 2012)	13.00%	14.00%
Dental	N/A	8.00%

PANHANDLE EASTERN PIPE LINE COMPANY, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Panhandle's OPEB benefit consists of the following:

	POST-ACQUISITION	
	Year Ended December 31, 2004	June 12 - December 31, 2003
OPEB		
- - - - -	- - - - -	- - - - -
Service cost	\$ 2,327	\$ 1,302
Interest cost	3,004	1,425
Expected return on plan assets	(425)	-
Amortization of prior service cost	-	-
Amortization of transition obligation	-	-
Recognized actuarial gain (loss)	-	-
Settlement recognition	-	-
	-----	-----
Net periodic benefit cost	\$ 4,906	\$ 2,727
	=====	=====

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COSTS:

POST-ACQUISITION YEAR ENDED DECEMBER 31	2004	2003
- - - - -	- - - - -	- - - - -
Discount rate	6.25%	6.00%
Rate of compensation increase	N/A	N/A
Expected long-term return on plan assets:		
a. Union VEBA rate	7.00%	N/A
b. Non union VEBA rate	5.00%	N/A
Health care cost trend rates:		
Medical (graded to 4.75% by year 2012)	13.00%	13.00%
Dental (graded to 4.75% by year 2012)	8.00%	8.00%

Panhandle employs a building block approach in determining the expected long-term rate on return on plan assets. Historical markets are studied and long-term historical relationships between equities and fixed-income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

SENSITIVITY TO CHANGES IN ASSUMED HEALTH CARE COST TREND RATES FOR PANHANDLE:

	ONE PERCENTAGE POINT INCREASE	ONE PERCENTAGE POINT DECREASE
	-----	-----
Effect on total service and interest cost components	\$ 1,481	\$ (1,151)
Effect on postretirement benefit obligation	\$ 13,785	\$ (10,825)

PANHANDLE EASTERN PIPE LINE COMPANY, LP
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PLAN ASSET INFORMATION:

The plan assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. An investment objective of income and growth for the plan has been adopted. This investment objective: (i) is a risk-averse balanced approach that emphasizes a stable and substantial source of current income and some capital appreciation over the long-term; (ii) implies a willingness to risk some declines in value over the short-term, so long as the plan is positioned to generate current income and exhibits some capital appreciation; (iii) is expected to earn long-term returns sufficient to keep pace with the rate of inflation over most market cycles (net of spending and investment and administrative expenses), but may lag inflation in some environments; (iv) diversifies the plan in order to provide opportunities for long-term growth and to reduce the potential for large losses that could occur from holding concentrated positions; and (v) recognizes that investment results over the long-term may lag those of a typical balanced portfolio since a typical balanced portfolio tends to be more aggressively invested. Nevertheless, this plan is expected to earn a long-term return that compares favorably to appropriate market indices.

It is expected that these objectives can be obtained through a well-diversified portfolio structure in a manner consistent with the investment policy.

Panhandle's other postretirement benefit plan weighted-average asset allocations by asset category are as follows:

	YEAR ENDED	
	DECEMBER 31,	
	2004	2003
	----	----
Equity securities	0%	0%
Debt securities	0%	0%
Cash and cash equivalents	100%	100%
	---	---
Total	100%	100%
	===	===

CASH FLOW INFORMATION:

Panhandle expects to contribute an amount of approximately \$7.8 million to its OPEB plan in 2005 and approximately \$7.8 million annually thereafter until modified by rate case proceedings.

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 gets an allocation, and the assets and costs for Panhandle are not distinguishable from the OPEB plan information, therefore, the presentation would not be meaningful.

STOCK OPTIONS. On November 4, 2003, the stockholders of Southern Union adopted the 2003 Stock and Incentive Plan (2003 Plan) under which options to purchase 7,350,000 shares were provided to be granted to officers and key employees, including employees of Panhandle, at prices not less than fair market value on the date of the grant, until September 28, 2013. The 2003 Plan allows for the granting of stock appreciation rights, stock awards, performance units, dividend equivalents, incentive options, non-statutory options, and other equity-based rights. Options granted under the 2003 Plan are exercisable for periods of ten years from the date of the grant or such lesser period as may be designated for particular options, and become exercisable after a specified period of time from the date of grant in cumulative annual installments. See Note II -- Summary of Significant Accounting Policies and Other Matters - Stock Based Compensation.

PANHANDLE EASTERN PIPE LINE COMPANY, LP
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides information on stock options granted, exercised, canceled and outstanding under the 2003 Plan for employees of Panhandle for the year ended December 31, 2004:

	2003 PLAN	
	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding December 31, 2003	-	
Granted	254,625	\$ 17.67
Exercised	-	
Canceled	(19,425)	17.67
Outstanding December 31, 2004	235,200	\$ 17.67

The weighted average remaining contractual life of options outstanding under the 2003 Plan at December 31, 2004 was 8.3 years. There were no shares exercisable under the 2003 Plan at December 31, 2004.

Panhandle's former parent company retained financial responsibility for all stock options issued prior to the sale of Panhandle as of June 11, 2003. For the stock options through Panhandle's former parent company, the total compensation cost, which was allocated by CMS, was approximately \$418,000 in 2002. There were no compensation costs, which were allocated by its former parent company for the period January 1 through June 11, 2003.

XVI QUARTERLY FINANCIAL DATA (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
2004					
Operating revenue	\$ 138,179	\$ 108,341	\$ 109,318	\$ 133,542	\$ 489,380
Operating income	65,781	34,207	37,971	52,266	190,225
Earnings before extraordinary item and cumulative effect of change in accounting principle	33,057	14,144	16,056	24,676	87,933
Net earnings	33,057	14,144	16,056	24,676	87,933

	PRE-ACQUISITION			POST-ACQUISITION		TOTAL
	FIRST QUARTER	APRIL 1 - JUNE 11	JUNE 12 - JUNE 30	THIRD QUARTER	FOURTH QUARTER	
2003						
Operating revenue	\$ 137,464	\$ 96,806	\$ 24,529	\$ 114,218	\$ 130,344	\$ 503,361
Operating income	63,266	44,616	9,634	37,919	55,795	211,230
Earnings before extraordinary item and cumulative effect of change in accounting principle	28,835	19,176	4,612	20,121	26,719	99,463
Net earnings	30,838	19,176	4,612	20,121	26,719	101,466

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Southern Union Company and Board of Managers of
Panhandle Eastern Pipe Line Company, LP:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, owners' equity and comprehensive income (loss) and cash flows present fairly, in all material respects, the financial position of Panhandle Eastern Pipe Line Company, LP (formerly Panhandle Eastern Pipe Line Company, LLC) and its subsidiaries (collectively, "the Company") at December 31, 2004 and 2003, and the results of their operations and their cash flows for the year ended December 31, 2004 and the period from June 12 through December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Houston, Texas
March 16, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Southern Union Company and Board of Managers of
Panhandle Eastern Pipe Line Company, LP:

In our opinion, the accompanying consolidated statements of operations, owners' equity and comprehensive income (loss) and cash flows present fairly, in all material respects, the results of the operations and cash flows of Panhandle Eastern Pipe Line Company, LP (formerly Panhandle Eastern Pipe Line Company, LLC) and its subsidiaries (collectively, "the Company") for the period from January 1 through June 11, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the accompanying consolidated financial statements, the Company was acquired by Southern Union Company effective June 11, 2003. The post-acquisition period financial statements reflect a new basis of accounting and pre-acquisition and post-acquisition period financial results are presented but are not comparable.

PricewaterhouseCoopers LLP

Houston, Texas
March 16, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholder
Panhandle Eastern Pipe Line Company:

We have audited the accompanying consolidated statements of operations, common stockholder's equity and comprehensive income (loss) and cash flows of Panhandle Eastern Pipe Line Company for the year ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Panhandle Eastern Pipe Line Company for the year ended December 31, 2002 in conformity with U.S. generally accepted accounting principles.

As discussed in Note IV to the accompanying consolidated financial statements, the Company changed its method of accounting for goodwill effective January 1, 2002.

Ernst & Young, LLP
Houston, Texas
March 14, 2003

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
3(a)	Certificate of Formation of Panhandle Eastern Pipe Line Company, LP (Filed herein).
3(b)	Limited Partnership Agreement of Panhandle Eastern Pipe Line LP, dated as of June 29, 2004, by Southern Union Panhandle LLC (Filed herein).
4(a)	Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee (Filed as Exhibit 4(a) to the Form 10-Q for the quarter ended March 31, 1999.)
4(b)	1st Supplemental Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee, including a form of Guarantee by Panhandle Eastern Pipe Line Company of the obligations of CMS Panhandle Holding Company (Filed as Exhibit 4(b) to the Form 10-Q for the quarter ended March 31, 1999).
4(c)	2nd Supplemental Indenture dated as of March 27, 2000, between Panhandle, as Issuer and Bank One Trust Company, National Association, as Trustee (filed as Exhibit 4(e) to the Form S-4 filed on June 22, 2000).
4(d)	3rd Supplemental Indenture dated as of August 18, 2003, between Panhandle, as Issuer and Bank One Trust Company, National Association, as Trustee (Filed as Exhibit 4(d) to the Form 10-Q for the quarter ended September 30, 2003).
4(e)	4th Supplemental Indenture dated as of March 12, 2004, between Panhandle, as Issuer and J.P. Morgan Trust Company, National Association, as Trustee (Filed herein).
4(f)	Indenture dated as of February 1, 1993, between Panhandle and Morgan Guaranty Trust Company effective January 1, 1982, as amended December 3, 1999 (Filed as Exhibit 4 to the Form S-3 filed February 19, 1993).
12	Computation of Consolidated Ratio of Earnings to Fixed Charges (Filed as Exhibit 12 to the Form S-4/A filed on May 18, 2004).
24	Power of Attorney
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

STATE OF DELAWARE
CERTIFICATE OF LIMITED PARTNERSHIP

- - THE UNDERSIGNED, desiring to form a limited partnership pursuant to the Delaware Revised Uniform Limited Partnership Act, 6 Delaware Code, Chapter 17, do hereby certify as follows:
- - FIRST: The name of the limited partnership is Panhandle Eastern Pipe Line Company, LP.
- - SECOND: The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street in the city of Wilmington.

The name of the Registered Agent at such address is The Corporation Trust Company.
- - THIRD: The name and mailing address of the general partner is as follows:

Southern Union Panhandle LLC
One PEI Center
Wilkes-Barre PA 18711
- - FOURTH: The effective date of this Certificate of Limited Partnership is June 30, 2004.
- - IN WITNESS WHEREOF, the undersigned has executed this Certificate of Limited Partnership of Panhandle Eastern Pipe Line Company, LP, as of June 29, 2004.

SOUTHERN UNION PANHANDLE LLC,
a Delaware limited liability company,
its General Partner

By: /s/ David J. Kvapil

Name:
Title:

AGREEMENT OF LIMITED PARTNERSHIP OF
PANHANDLE EASTERN PIPE LINE COMPANY, LP

This Agreement of Limited Partnership of Panhandle Eastern Pipe Line Company, LP (the "Agreement") is made and entered into effective as of the 29th day of June, 2004, by and among Southern Union Panhandle LLC, a Delaware limited liability company, as General Partner, and Southern Union Company, a Delaware corporation, as Limited Partner.

RECITALS

WHEREAS, the General Partner, as the sole member of the Predecessor LLC, has duly approved the conversion of the Predecessor LLC to a limited partnership, pursuant to Section 17-217(h) of the Act;

WHEREAS, the General Partner has heretofore formed the Partnership by filing a Certificate of Conversion from a Limited Liability Company to a Limited Partnership and a Certificate of Limited Partnership with the office of the Secretary of State of the State of Delaware; and

WHEREAS, the parties hereto desire to provide for the governance of the Partnership and to set forth in detail their respective rights and duties relating to the Partnership;

NOW, THEREFORE, in consideration of the mutual promises and obligations contained herein, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. Unless the context otherwise requires, the terms defined in this Article I shall, for the purposes of this Agreement, have the meanings herein specified.

"Act" means the Delaware Revised Uniform Limited Partnership Act, 6 Del. Code Ann. Tit. 6 Sections 17-101, et seq., as amended from time to time.

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"Agreement" means this Agreement of Limited Partnership of Panhandle Eastern Pipe Line Company, LP, as it may be amended, supplemented or restated from time to time.

"Available Cash" means, with respect to any Quarter ending prior to the

Liquidation Date, (a) the sum of (i) all cash and cash equivalents of the Partnership Group on hand at the end of such Quarter, and (ii) all additional cash and cash equivalents of the Partnership Group on hand on the date of determination of Available Cash with respect to such Quarter resulting from Working Capital Borrowings made subsequent to the end of such Quarter, less (b) the amount of any cash reserves that is necessary or appropriate in the reasonable discretion of the General Partner to (i) provide for the proper conduct of the business of the Partnership Group (including reserves for future capital expenditures and for anticipated future credit needs of the Partnership Group) subsequent to such Quarter or (ii) comply with applicable law or any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which any Group Member is a party or by which it is bound or its assets are subject; provided, however, that disbursements made by a Group Member or cash reserves established, increased or reduced after the end of such Quarter but on or before the date of determination of Available Cash with respect to such Quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within such Quarter if the General Partner so determines.

"Bankruptcy" means, with respect to any Partner, (i) the filing by a Partner of a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of its debts under Title II of the United States Code (or corresponding provisions of future laws) or any other federal or state insolvency law, or the filing by a Partner of an answer consenting to or acquiescing in any such petition, (ii) the making by a Partner of any assignment for the benefit of its creditors or the admission by a Partner in writing of its inability to pay its debts as they mature, (iii) the filing of an involuntary petition under Title 11 of the United States Code (or corresponding provisions of future laws), an application for the appointment of a receiver for the assets of a Partner, or an involuntary petition seeking liquidation, reorganization, arrangement or readjustment of its debts under any other federal or state insolvency law, provided that the same shall not have been vacated, set aside or stayed within a 60-day period after the occurrence of such event, or (iv) the entry against it of a final and nonappealable order for relief under any bankruptcy, insolvency or similar law now or hereafter in effect. With respect to a General Partner, the foregoing definition of "Bankruptcy" is intended to replace and shall supersede and replace the definition of "Bankruptcy" set forth in the Act.

"Book-Tax Disparity" means with respect to any item of property, as of the date of any determination, the difference between the book value of such property in accordance with Section 4.3(a) and the adjusted basis thereof for federal income tax purposes as of such date.

"Capital Account" means, with respect to any Partner, the account maintained for such Partner in accordance with the provisions of Section 4.3.

"Certificate of Limited Partnership" means the Certificate of Limited Partnership of the Partnership filed with the Secretary of State of the State of Delaware, as such Certificate of Limited Partnership may be amended, supplemented or restated from time to time.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any corresponding federal tax statute enacted after the date of this Agreement. A reference to a

pecific section (Section) of the Code refers not only to such specific section but also to any corresponding provision of any federal tax statute enacted after the date of this Agreement, as such specific section or such corresponding provision is in effect on the date of applications of the provisions of this Agreement containing such reference.

"Covered Person" has the meaning set forth in Section 10.1.

"Disabling Conduct" shall mean conduct that constitutes fraud, willful misconduct, bad faith or gross negligence.

"General Partner" means Southern Union Panhandle LLC and its successors and permitted assigns as General Partner of the Partnership.

"Group Member" means a member of the Partnership Group.

"Indemnified Person" has the meaning set forth in Section 10.2.

"Limited Partner" means Southern Union Company and its successors and permitted assigns as Limited Partner of the Partnership.

"Liquidating Trustee" means a Person or Persons who may be approved by the Limited Partner, as set forth in Section 11.4.

"Liquidation Date" means the date on which the event which gives rise to the dissolution of the Partnership occurs.

"Partners" means the General Partner and the Limited Partner.

"Partnership" means Panhandle Eastern Pipe Line Company, LP, a Delaware limited partnership, and any successors thereto.

"Partnership Group" means the Partnership and each of its Subsidiaries, treated as a single consolidated entity.

"Partnership Interest" means the percentage interest in the Partnership held by each Partner.

"Person" means an individual or a corporation, limited liability company, partnership (general or limited), joint venture, trust, unincorporated organization, association, government agency or political subdivision thereof or other entity.

"Predecessor LLC" has the meaning set forth in Section 4.1.

"Quarter" means, unless the context requires otherwise, a fiscal quarter of the Partnership.

"Subsidiary" means, with respect to any Person, (a) a corporation of which more than 50% of the voting power of shares entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such corporation is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person or a combination thereof, (b) a partnership (whether general or limited) in which such Person or a Subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if more than 50% of the partnership interests of such partnership (considering all of the partnership interests of the partnership as a single class) is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, or (c) any other Person (other than a corporation or a partnership) in which such Person, one or more Subsidiaries of such Person, or a combination thereof, directly or indirectly, at the date of determination, has (i) at least a majority ownership interest or (ii) the power to elect or direct the election of a majority of the directors or other governing body of such Person.

"Tax Matters Partner" has the meaning set forth in Section 9.5.

"Working Capital Borrowings" means borrowings exclusively for working capital purposes made pursuant to a credit facility or other arrangement requiring all such borrowings thereunder to be reduced to a relatively small amount each year for an economically meaningful period of time.

ARTICLE II

ORGANIZATION

Section 2.1. Formation. The Partnership was previously formed as a limited partnership pursuant to the provisions of the Act. This Agreement shall become effective on the date of this Agreement. Except as expressly provided to the contrary in this Agreement, the rights, duties (including fiduciary duties), liabilities and obligations of the Partners and the administration, dissolution and termination of the Partnership shall be governed by the Act. All Partnership Interests shall constitute personal property of the owner thereof for all purposes and a Partner has no interest in specific Partnership property.

Section 2.2. Name. The name of the Partnership shall be "Panhandle Eastern Pipe Line Company, LP". The Partnership's business may be conducted under any other name or names deemed necessary or appropriate by the General Partner. The words "Limited Partnership", "LP", or "Ltd." or similar words or letters shall be included in the Partnership's name where necessary or appropriate by the General Partner in its sole discretion. The General Partner in its discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partner of such change in the next regular communication to the Limited Partner.

Section 2.3. Principal Place of Business. The principal place of business of the Partnership shall be located at 5444 Westheimer, Houston, TX 77056. The General Partner may hereafter change the principal place of business of the Partnership to such other place or places as

the General Partner may determine from time to time in its sole discretion. The General Partner shall give notice of any such change to the Limited Partner. The Partnership may maintain such other offices at such other places as the General Partner deems advisable.

Section 2.4. Registered Agent; Registered Office. Unless and until changed by the General Partner, the address of the registered office of the Partnership in the State of Delaware shall be located at Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be The Corporation Trust Company.

Section 2.5. Purpose and Business. The Partnership is formed for the object and purpose of, and the nature of the business to be conducted and promoted by the Partnership is, engaging in any lawful act or activity for which limited partnerships may be formed under the Act and engaging in any and all activities necessary or incidental to the foregoing.

Section 2.6. Powers. The Partnership shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in Section 2.5 and for the protection and benefit of the Partnership.

Section 2.7. Term. The term of the Partnership commenced on the date the Certificate of Limited Partnership was filed in the office of the Secretary of State of the State of Delaware and, unless the Partnership is earlier terminated pursuant to any provision of this Agreement, shall continue until December 31, 2099, upon which date the Partnership shall automatically terminate; provided, however, that with the written approval of the Partners, the term of the Partnership may be extended.

Section 2.8. Title to Partnership Assets. Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner or Assignee, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof.

ARTICLE III

NAMES AND ADDRESSES OF PARTNERS

Section 3.1. General Partner. The name and mailing address of the General Partner is Southern Union Panhandle LLC, One PEI Center, Wilkes-Barre, Pennsylvania 18711.

Section 3.2. Limited Partner. The name and mailing address of the Limited Partner is Southern Union Company, One PEI Center, Wilkes-Barre, Pennsylvania 18711.

ARTICLE IV

INITIAL CONTRIBUTION AND ISSUANCE OF PARTNERSHIP INTERESTS

Section 4.1. No Contributions. As the Partnership has been formed by converting an existing Delaware limited liability company, Panhandle Eastern Pipe Line Company, LLC (the "Predecessor LLC"), to a Delaware limited partnership, pursuant to the laws of the State of Delaware, the Partners will not make any initial contributions to the Partnership, as provided in Sections 17-301(d) and 17-401(a) of the Act. No Partner shall be required to make any further contributions to the capital of the Partnership or to restore at any time any deficit in such Partner's Capital Account.

Section 4.2. Partnership Interests.

(a) The General Partner shall have a one percent (1%) Partnership Interest.

(b) The Limited Partner shall have a ninety-nine percent (99%) Partnership Interest.

Section 4.3. Capital Accounts.

(a) The Partnership shall maintain for each Partner owning a Partnership Interest a separate Capital Account with respect to such Partnership Interest in accordance with the rules of Treasury Regulation Section 1.704-1(b)(2)(iv), as applied by the General Partner in its reasonable discretion.

(b) A transferee of a Partnership Interest shall succeed to a pro rata portion of the Capital Account of the transferor relating the Partnership Interest so transferred.

ARTICLE V

ALLOCATIONS AND DISTRIBUTIONS

Section 5.1. Allocations for Capital Accounts Purposes. For purposes of maintaining the Capital Accounts, the Partnership's items of income, gain, loss and deduction (computed in accordance with Section 4.3(a)) shall be allocated 1% to the General Partner and 99% to the Limited Partner.

Section 5.2. Allocations for Tax Purposes.

(a) Except as otherwise provided herein, for federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Section 5.1.

(b) In an attempt to eliminate Book-Tax Disparities, items of income, gain, loss, depreciation, amortization and cost recovery deductions shall be allocated for federal

income tax purposes among the Partners in such manner as shall reasonably be determined by the General Partner consistently with Treasury Regulation section 1.704-3.

(c) The General Partner may adopt such methods of allocation of income, gain, loss, or deduction between a transferor and a transferee of a Partnership Interest as it determines necessary, to the extent permitted or required by Section 706 of the Code and the regulations or rulings promulgated thereunder.

Section 5.3. Distributions.

(a) At such times and in such amounts as the General Partner determines in its sole discretion, Available Cash shall, subject to Section 17-607 of the Delaware Act, be distributed pro rata in accordance with this Article V by the Partnership to the Partners in accordance with their respective Partnership Interests. The immediately preceding sentence shall not require any distribution of cash if and to the extent such distribution would be prohibited by applicable law or by any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which the Partnership is a party or by which it is bound or its assets are subject. All distributions required to be made under this Agreement shall be made subject to Section 17-607 of the Act.

(b) The General Partner shall have the discretion to treat taxes paid by the Partnership on behalf of, or amounts withheld with respect to, all or less than all of the Partners, as a distribution of Available Cash to such Partners.

ARTICLE VI

MANAGEMENT

Section 6.1. Management and Control of the Partnership.

(a) The General Partner shall conduct, direct and manage all activities of the Partnership in a manner that the General Partner determines is in the best interest of the Partnership. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the General Partner, and the Limited Partner shall not have any management power over the business and affairs of the Partnership.

(b) The General Partner, in its sole discretion and without the approval of the Limited Partner, may delegate to one or more other persons the General Partner's rights and powers to manage and control the business affairs of the Partnership, including to agents, officers and employees of the General Partner or the Partnership. Such delegation by the General Partner shall not cause the General Partner to cease to be a general partner of the Partnership or cause the person to whom such rights and powers have been delegated to be a general partner of the Partnership. Nothing contained in this Section 6.1(b) shall be deemed to limit the power and authority of the General Partner to delegate granted by Section 17-403(c) of the Act.

Section 6.2. Powers of General Partner.

(a) In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to Section 6.4, shall have full power and authority to do all things and on such terms as it, in its sole discretion, may deem necessary or appropriate to conduct the business of the Partnership, to exercise all powers set forth in Section 2.6, including the following:

(1) The making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible into a Partnership Interest, and the incurring of any other obligations;

(2) The making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;

(3) The acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership or the merger or other combination of the Partnership with or into another Person;

(4) The use of the assets of the Partnership (including cash on hand) for any purpose consistent with the terms of this Agreement, including the financing of the conduct of the operations of the Partnership Group; the lending of funds to other Persons; the repayment of obligations of the Partnership Group and the making of capital contributions to any member of the Partnership Group;

(5) The negotiation, execution and performance of any contracts, conveyances or other instruments (including instruments that limit the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party to the contract to have no recourse against the General Partner or its assets other than its interest in the Partnership, even if same results in the terms of the transaction being less favorable to the Partnership than would otherwise be the case);

(6) The distribution of Partnership cash;

(7) The selection and dismissal of employees (including employees having titles such as "president," "vice president," "secretary" and "treasurer") and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;

(8) The maintenance of such insurance for the benefit of the Partnership Group and the Partners as it deems necessary or appropriate;

(9) The formation of, or acquisition of an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, corporations, limited liability companies or other relationships subject to the restrictions set forth in Section 2.5;

(10) The control of any matters affecting the rights and obligations of the Partnership, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation; and

(11) The indemnification of any Person against liabilities and contingencies to the extent permitted by law.

Section 6.3. Certificate of Limited Partnership. The General Partner has caused the Certificate of Limited Partnership to be filed with the Secretary of State of the as required by the Act and shall use all reasonable efforts to cause to be filed such other certificates or documents as may be determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business or own property. To the extent that such action is determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all things to maintain the Partnership as a limited partnership (or a partnership or other entity in which the limited partners have limited liability) under the laws of the State of Delaware or of any other state in which the Partnership may elect to do business or own property. The General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto to any Limited Partner.

Section 6.4. Restrictions on General Partner's Authority. The General Partner may not, without written approval of the specific act by the Limited Partner or by other written instrument executed and delivered by the Limited Partner subsequent to the date of this Agreement, take any action in contravention of this Agreement.

Section 6.5. Reimbursement of the General Partner.

(a) The General Partner shall be reimbursed on a reasonable basis as the General Partner may determine in its sole discretion, for (i) all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership (including salary, bonus, incentive compensation and other amounts paid to any Person including Affiliates of the General Partner to perform services for the Partnership or for the General Partner in the discharge of its duties to the Partnership), and (ii) all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with operating the Partnership's business (including expenses allocated to the General Partner by its Affiliates). The

General Partner shall determine the expenses that are allocable to the Partnership in any reasonable manner determined by the General Partner in its sole discretion. Reimbursements pursuant to this Section 6.5 shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 10.2.

(b) The General Partner, in its sole discretion and without the approval of the Limited Partner (who shall have no right to vote in respect thereof), may propose and adopt on behalf of the Partnership employee benefit plans, employee programs and employee practices, in each case for the benefit of employees of the General Partner or Affiliate, or any of them, in respect of services performed, directly or indirectly, for the benefit of the Partnership Group. Expenses incurred by the General Partner in connection with any such plans, programs and practices shall be reimbursed in accordance with Section 6.5(a).

Section 6.6. Outside Businesses. Any Partner and any Affiliate of any Partner may engage in or possess an interest in other profit-seeking or business ventures of any kind, nature or description, independently or with others, whether or not such ventures are competitive with the Partnership and the doctrine of corporate opportunity, or any analogous doctrine, shall not apply to any Partner. No Partner who acquires knowledge of a potential transaction, agreement, arrangement or other matter that may be an opportunity for the Partnership shall have any duty to communicate or offer such opportunity to the Partnership, and such Partner shall not be liable to the Partnership or to the other Partners for breach of any fiduciary or other duty by reason of the fact that such Partner pursues or acquires for, or directs such opportunity to another Person or does not communicate such opportunity or information to the Partnership. Neither the Partnership nor any Partner shall have any rights or obligations by virtue of this Agreement or the partnership relationship created hereby in or to such independent ventures or the income or profits or losses derived therefrom, and the pursuit of such ventures, even if competitive with the activities of the Partnership, shall not be deemed wrongful or improper.

Section 6.7. Relationships with Affiliates. The Partnership may enter into any agreement or contract with the General Partner, any Person who is an Affiliate of the General Partner, any Limited Partner, any Affiliate of a Limited Partner, or any agent of the General Partner or the Partnership without the prior approval of any other Partners, provided that the General Partner shall have determined, in the General Partner's sole discretion, that such agreement or contract is reasonable.

Section 6.8. General Partner's Discretion. To the fullest extent permitted by law and notwithstanding any other provision of this Agreement or any agreement contemplated herein or applicable provisions of law or equity or otherwise, whenever in this Agreement the General Partner is permitted or required to make a decision (i) in its "sole discretion" or "discretion" or under a grant of similar authority or latitude, the General Partner shall be entitled to consider only such interests and factors as it desires, including its own interests, and shall have no duty or obligation to give any consideration to any interest of or factors affecting the Partnership or the Limited Partner, or (ii) in its "good faith" or under another expressed standard, the General Partner shall act under such express standard and shall not be subject to any other or different standards.

Section 6.9. Merger. The Partnership may merge with, or consolidate into, another Delaware limited partnership or other business entity (as defined in Section 17-211(a) of the Act) upon the approval by the General Partner. In accordance with Section 17-211 of the Act (including Section 17-211(g)), notwithstanding anything to the contrary contained in this Agreement, an agreement of merger or consolidation approved by the General Partner, may (A) effect any amendment to this Agreement, or (B) effect the adoption of a new partnership agreement for the Partnership if it is the surviving or resulting limited partnership of the merger or consolidation. Any amendment to this Agreement or adoption of a new partnership agreement made pursuant to the foregoing sentence shall be effective at the effective time or date of the merger or consolidation. The provisions of this Section 6.9 shall not be construed to limit the accomplishment of a merger or of any of the matters referred to herein by any other means otherwise permitted by law.

ARTICLE VII

RIGHTS OF LIMITED PARTNER

Section 7.1. Limitation of Liability. The Limited Partner shall have no liability under this Agreement except as expressly provided in this Agreement or in the Act.

Section 7.2. Management of Business. The Limited Partner, in its capacity as such, shall not participate in the operation, management or control (within the meaning of the Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership; provided, however, that (i) the Limited Partner may exercise the rights conferred on it in this Agreement and (ii) the exercise by the Limited Partner of any such right shall not be construed to constitute participation by the Limited Partner in the control of the business of the Partnership so as to make the Limited Partner liable as a general partner for the debts and obligations of the Partnership for purposes of Section 17-303 of the Act.

Section 7.3. Employees, Agents or Officers of the Partnership or a General Partner. The Limited Partner or an employee, agent, director or officer of the Limited Partner may also be (i) an employee, agent, director or officer of the Partnership or (ii) an agent, employee, member or manager of the General Partner, and, pursuant to Section 17-303(b) of the Act, the existence of these relationships and acting in such capacities will not result in the Limited Partner being deemed to be participating in the control of the business of the Partnership so as to make the Limited Partner liable as a general partner for the debts and obligations of the Partnership.

Section 7.4. Outside Activities of the Limited Partners. The Limited Partner shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership Group. Neither the Partnership nor any of the other Partners or Assignees shall have any rights by virtue of this Agreement in any business ventures of the Limited Partner.

ARTICLE VIII
ASSIGNABILITY; ADMISSION AND WITHDRAWAL OF PARTNERS

Section 8.1. Assignability of a General Partner's Interest in the Partnership. The General Partner may sell, transfer, assign, pledge, encumber, mortgage, or otherwise hypothecate (hereinafter in this Article VIII collectively referred to as "assign" or "assignment") the whole or any part of its interest as a General Partner in the Partnership without the prior written consent of the Limited Partner. An assignee of all or part of the interest of a General Partner in the Partnership shall be admitted to the Partnership as a general partner of the Partnership only if the assigning General Partner and any other General Partners approve in writing the admission of such assignee as an additional or successor General Partner. Such additional or successor General Partner is hereby authorized to and shall continue the Partnership without dissolution. Upon the admission of such additional or successor General Partner, an assignor of its entire interest as a General Partner shall at that time cease to be a general partner of the Partnership.

Section 8.2. Assignability of a Limited Partner's Interest in the Partnership. No Limited Partner may assign the whole or any part of its interest in the Partnership without the prior written consent of the General Partner, which consent may be withheld in the General Partner's sole discretion.

Section 8.3. Recognition of Assignment by Partnership. No assignment, or any part thereof, that is in violation of this Article VIII shall be valid or effective.

Section 8.4. Death, Incompetency, Bankruptcy, or Dissolution of a Limited Partner. The death, incompetency, Bankruptcy, dissolution or other cessation to exist as a legal entity of the Limited Partner shall not, in and of itself, dissolve the Partnership. In any such event, the personal representative (as defined in the Act) of such Limited Partner may exercise all of the rights of such Limited Partner for the purpose of settling its estate or administering its property, subject to the terms and conditions of this Agreement, including any power of an assignee to become a Limited Partner.

Section 8.5. Withdrawal from the Partnership. Except as provided in this Agreement, a General Partner or a Limited Partner may not withdraw as a general partner of the Partnership or as a limited partner of the Partnership, as the case may be.

ARTICLE IX
BOOKS AND RECORDS; TAX MATTERS

Section 9.1. Records and Accounting. At all times during the continuation of the Partnership, the General Partner shall keep or cause to be kept full and true books of account in which shall be entered fully and accurately each transaction of the Partnership. Such books of account, together with a copy of this Agreement and of the Certificate of Limited Partnership, shall at all times be maintained at the principal place of business of the Partnership and shall be open to inspection and examination at reasonable times by all Partners and their duly authorized

representatives for any purpose reasonably related to such Partner's interest as a partner in the Partnership.

Section 9.2. Bank or Brokerage Accounts. All funds of the Partnership shall be deposited in the Partnership's name or the name of any entity wholly owned by the Partnership in such bank or brokerage account or accounts as shall be determined by the General Partner. Withdrawals from any such bank or brokerage account or accounts shall be made upon such signature or signatures as the General Partner may designate.

Section 9.3. Fiscal Year. The fiscal year of the Partnership shall be a fiscal year ending December 31, unless otherwise determined by the General Partner.

Section 9.4. Tax Election. The General Partner, in its sole discretion, may make (and if made, may revoke) such elections under the Code or any successor thereto that the General Partner shall determine to be in the best interests of the Partnership. Without limiting the generality of the foregoing, the General Partner, in its discretion, may make (and if made, may revoke) the election referred to in Section 754 of the Code, and any similar provisions enacted in lieu thereof, provided that any Partner who transfers his Partnership Interest shall bear all expenses arising as it relates to the Partnership Interest so transferred. Each Partner shall, upon request, supply the information necessary to give effect to such election.

Section 9.5. Tax Matters Partner.

(a) To the extent that the Partnership is or elects to be a "partnership" subject to subchapter C of chapter 63 of the Code, the General Partner is hereby designated as the "Tax Matters Partner" of the Partnership within the meaning of Section 6231(a)(7) of the Code and shall have the power to manage and control, on behalf of the Partnership, any administrative proceeding at the Partnership level with the Internal Revenue Service relating to the determination of any item of Partnership income, gain, loss, deduction, or credit for federal income-tax purposes.

(b) The Tax Matters Partner shall comply with all statutory provisions of the Code applicable to a "tax matters partner" and shall, without limitation, within thirty (30) days of the receipt of any notice from the Internal Revenue Service in any administrative proceeding at the Partnership level relating to the determination of any Partnership item of income, gain, loss, deduction, or credit, mail a copy of such notice to each Partner.

ARTICLE X

EXCULPATION OF THE GENERAL PARTNER AND OTHER PERSONS

Section 10.1. Exculpatory Provisions.

(a) Notwithstanding any other terms of this Agreement, whether express or implied, or obligation or duty at law or in equity, neither the General Partner, its Affiliates, nor any of their respective officers, directors, shareholders, partners, employees, representatives or agents nor any officer, employee, representative or

agent of the Partnership and its Affiliates (individually, a "Covered Person" and collectively, the "Covered Persons") shall be liable to the Partnership or any Partner for any act or omission (in relation to the Partnership, this Agreement, any related document or any transaction or investment contemplated hereby or thereby) taken or omitted in good faith by a Covered Person and in the reasonable belief that such act or omission is in or is not contrary to the best interests of the Partnership and is within the scope of authority granted to such Covered Person by this Agreement, provided that such act or omission does not constitute Disabling Conduct.

(b) A Covered Person may rely and shall incur no liability in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, paper, document, signature or writing reasonably believed by it to be genuine, and may rely on a certificate signed by an officer of any Person in order to ascertain any fact with respect to such Person or within such Person's knowledge and may rely on an opinion of counsel selected by such Covered Person with respect to legal matters unless such Covered Person acts in bad faith.

Section 10.2. Insurance. The General Partner and the Partnership may purchase and maintain insurance, to the extent and in such amounts as the General Partner shall, in its sole discretion, deem reasonable, on behalf of Indemnified Persons and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expenses that may be incurred by such Person in connection with activities of the Partnership or such Persons, regardless of whether the Partnership would have the power to indemnify such Person against such liability. The General Partner and the Partnership may enter into indemnity contracts with Indemnified Persons and adopt written procedures pursuant to which arrangements are made for the advancement of expenses and the funding of obligations under this Section 10.2 and containing such other procedures regarding indemnification as are appropriate. "Indemnified Persons" means the General Partner, its Affiliates and all directors, officers, shareholders, partners, employees, representatives and agents of the General Partner and its Affiliates and all officers, employees, representatives and agents of the Partnership and its Affiliates.

ARTICLE XI

DISSOLUTION AND TERMINATION

Section 11.1. No Dissolution. The Partnership shall not be dissolved by the admission of additional Limited Partners or by the admission of additional General Partners or successor General Partners in accordance with the terms of this Agreement.

Section 11.2. Events Causing Dissolution. The Partnership shall be dissolved and its affairs shall be wound up upon the occurrence of any of the following events:

(a) The expiration of the term of the Partnership, as provided in Section 2.7;

(b) The withdrawal or Bankruptcy of the General Partner or assignment by the General Partner of its entire interest in the Partnership (unless an additional or successor General

Partner is admitted to the Partnership in accordance with Section 8.1), or the occurrence of any other event that results in the General Partner ceasing to be a general partner of the Partnership under the Act, provided, the Partnership shall not be dissolved and required to be wound up in connection with any of the events specified in this clause (b) if (i) at the time of the occurrence of such event there is at least one remaining general partner of the Partnership who is hereby authorized to and does carry on the business of the Partnership, or (ii) within ninety (90) days after the occurrence of such event, the Limited Partner elects to continue the business of the Partnership and to the appointment, effective as of the date of such event, if required, of one or more additional general partners of the Partnership;

(c) A written determination by the General Partner to dissolve the Partnership;

(d) There are no Limited Partners, unless the business of the Partnership is continued in accordance with the Act; or

(e) The entry of a decree of judicial dissolution under Section 17-802 of the Act.

Section 11.3. Notice of Dissolution. Upon the dissolution of the Partnership, the General Partner or the Liquidating Trustee, as the case may be, shall promptly notify the Partners of such dissolution.

Section 11.4. Liquidation. Upon dissolution of the Partnership, the General Partner, or, in the event that the dissolution is caused by an event described in Section 11.2(b) and there is no other General Partner, a Person or Persons who may be approved by the Limited Partner as the Liquidating Trustee, shall immediately commence to wind up the Partnership's affairs; provided, however, that a reasonable time shall be allowed for the orderly liquidation of the assets of the Partnership and the discharge of liabilities to creditors so as to enable the Partners to minimize the normal losses attendant upon a liquidation. The Partners shall continue to share profits and losses during liquidation in the same proportions as specified in Article V as before liquidation. Each Partner shall be furnished with a statement prepared by the Partnership's certified public accountant that shall set forth the assets and liabilities of the Partnership as of the date of dissolution. The proceeds of liquidation shall be distributed, as realized, in the following order and priority:

(a) To creditors of the Partnership, including Partners who are creditors, to the extent otherwise permitted by law, in satisfaction of the liabilities of the Partnership (whether by payment or the making of reasonable provision for payment thereof); and

(b) To distribute to the Partners the remaining proceeds of liquidation in accordance with Section 5.3.

Section 11.5. Methods of Liquidation. The Partnership may be liquidated by either:

(a) Selling the Partnership assets and distributing the net proceeds therefrom in the manner provided in Section 11.4; or

(b) Subject to the order of priority set forth in Section 11.4, distributing the Partnership assets proportionately to the Partners in kind with each Partner accepting an undivided interest in the Partnership assets, subject to Partnership liabilities, in satisfaction of its proportionate interests in the Partnership.

Section 11.6. Termination of Partnership. The Partnership shall terminate when all of the assets of the Partnership, after payment of or due provision for all debts, liabilities and obligations of the Partnership, shall have been distributed to the Partners in the manner provided for in this Article XI, and the Certificate of Limited Partnership shall have been cancelled in the manner required by the Act.

ARTICLE XII

POWER OF ATTORNEY

Section 12.1. Appointment of General Partner. The Limited Partner hereby irrevocably constitutes and appoints the General Partner and any Liquidating Trustee as its true and lawful attorney-in-fact, in its name, place, and stead, to make, execute, acknowledge, and file the following documents, to the extent consistent with the other provisions of this Agreement:

(a) This Agreement, and, to the extent required by law, the Certificate of Limited Partnership;

(b) Any fictitious or assumed-name certificates required to be filed on behalf of the Partnership;

(c) Any application or registration to do business in any State other than, or in addition to, the State of Delaware;

(d) Deeds, notes, mortgages, pledges, security instruments of any kind and nature, leases, and such other instruments as may be necessary to carry on the business of the Partnership; provided that no such instrument shall increase the personal liability of the Limited Partners;

(e) All certificates and other instruments that the General Partner deems appropriate or necessary to form and qualify, or continue the qualification of, the Partnership as a limited partnership in the State of Delaware and all jurisdictions in which the Partnership may intend to conduct business or own property;

(f) Any duly adopted amendment to or restatement of this Agreement or the Certificate of Limited Partnership;

(g) All conveyances and other instruments or documents that the General Partner deems appropriate or necessary to effect or reflect the dissolution, liquidation and termination of the Partnership pursuant to the terms of this Agreement (including a certificate of cancellation);

(h) Any and all financing statements, continuation statements, mortgages or other documents necessary to grant to or perfect for secured creditors of the Partnership, including the General Partner and its Affiliates, a security interest, mortgage, pledge or lien on all or any of the assets of the Partnership; and

(i) All other instruments as the attorneys-in-fact or any of them may deem necessary or advisable to carry out fully the provisions of this Agreement in accordance with its terms.

Section 12.2. Power Coupled with Interest. It is expressly intended by the Limited Partner that the power of attorney granted by Section 12.1 is coupled with an interest, shall be irrevocable, and shall survive and not be affected by the subsequent disability or incapacity of such Limited Partner (or if such Limited Partner is a corporation, partnership, trust, association, limited liability company or other legal entity by the dissolution or termination thereof).

ARTICLE XIII

GENERAL PROVISIONS

Section 13.1. Notices. Any notice, demand, request, report or proxy materials required or permitted to be given or made to a Partner or Assignee under this Agreement shall be in writing and shall be deemed to be given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Partner at the address described in Article III. Any notice to the Partnership shall be deemed given if received by the General Partner at the principal office of the Partnership designated pursuant to Section 2.3. The General Partner may rely and shall be protected in relying on any notice or other document from a Partner, Assignee or other Person if believed by it to be genuine.

Section 13.2. Further Action. The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

Section 13.3. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

Section 13.4. Integration. This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

Section 13.5. Creditors. None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

Section 13.6. Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach of any other covenant, duty, agreement or condition.

Section 13.7. Headings. The headings in this Agreement are included for convenience and identification only and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

Section 13.8. Interpretation. Throughout this Agreement and any amendment hereto, nouns, pronouns, and verbs shall be construed as masculine, feminine, neuter, singular or plural, whichever shall be applicable. All references herein to "Articles", "Sections", and paragraphs shall refer to corresponding provisions of this Agreement.

Section 13.9. Counterparts. This Agreement may be executed in counterparts, all of which together shall constitute an agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart.

Section 13.10. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

Section 13.11. Severability. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision was omitted.

Section 13.12. Amendment. Except as otherwise provided in this Agreement, this Agreement may be amended only by an instrument in writing executed by the parties hereto.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

GENERAL PARTNER:

SOUTHERN UNION PANHANDLE LLC

By: Southern Union Company,
its Sole Member

By: /s/ Stephen D. McGregor

Name: Stephen D. McGregor
Title: Vice President - Tax

LIMITED PARTNER:

SOUTHERN UNION COMPANY

By: /s/ Robert M. Kerrigan, III

Name: Robert M. Kerrigan, III
Title: Corporate Counsel &
Assistant Secretary

FOURTH SUPPLEMENTAL INDENTURE

between

PANHANDLE EASTERN PIPE LINE COMPANY, LLC
Issuer

and

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION
Trustee

Dated as of March 12, 2004

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FOURTH SUPPLEMENTAL INDENTURE, dated as of March 12, 2004 (the "Fourth Supplemental Indenture"), between Panhandle Eastern Pipe Line Company, LLC (formerly known as Panhandle Eastern Pipe Line Company), a Delaware limited liability company (the "Issuer"), and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee") under the indenture, dated as of March 29, 1999, among the Issuer, CMS Panhandle Holding Company, a Michigan corporation, and NBD Bank, as trustee (the "Base Indenture" and, as so supplemented, the "Indenture").

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

WHEREAS, the Issuer, CMS Panhandle Holding Company, and NBD Bank executed the First Supplemental Indenture, dated as of March 29, 1999, under which CMS Panhandle Holding Company issued a series of Debt Securities in three tranches known as its 6.125% Senior Notes due 2004, 6.500% Senior Notes due 2009 and 7.000% Senior Notes due 2029 in aggregate principal amounts of \$300,000,000, \$200,000,000 and \$300,000,000, respectively;

WHEREAS, Panhandle Eastern Pipe Line Company became the Issuer as provided for in the Base Indenture as a result of the merger of CMS Panhandle Holding Company into Panhandle Eastern Pipe Line Company, effective June 15, 1999, and Bank One Trust Company, National Association became the Trustee provided for in the Base Indenture as a result of the merger of NBD Bank into Bank One Trust Company, National Association;

WHEREAS, the Issuer and the Trustee executed the Second Supplemental Indenture, dated as of March 27, 2000, under which the Issuer issued a series of Debt Securities known as its 8.25% Senior Notes due 2010, Series A, in the principal amount of \$100,000,000 (the "2010 A Senior Notes"), and a series of Senior Notes to be issued in exchange for the 2010 A Senior Notes, known as the Issuer's "8.25% Senior Notes Due 2010, Series B," in the principal amount of \$100,000,000;

WHEREAS, in June, 2003, Southern Union Panhandle, LLC, a wholly-owned subsidiary of Southern Union Company ("Southern Union"), acquired all of the outstanding capital stock of the Issuer, after which Southern Union caused Panhandle Eastern Pipe Line Company to convert to a Delaware limited liability company;

WHEREAS, the Issuer and the Trustee executed the Third Supplemental Indenture, dated as of August 18, 2003, to provide for the establishment of two new series of its Debt Securities: (i) the 4.80% Senior Notes due 2008 in the initial principal amount of \$300,000,000, consisting of two tranches, the first tranche of 4.80% Senior Notes due 2008 known as "4.80% Senior Notes due 2008, Series A" (the "4.80% Series A Notes"), and the second tranche of 4.80% Senior Notes due 2008 to be issued in exchange for the 4.80% Series A

FOURTH SUPPLEMENTAL INDENTURE

Notes, known as "4.80% Senior Notes due 2008, Series B"; and (ii) the 6.05% Senior Notes due 2013 in the initial principal amount of \$250,000,000, consisting of two tranches, the first tranche of 6.05% Senior Notes due 2013 known as "6.05% Senior Notes due 2013, Series A" (the "6.05% Series A Notes"), and the second tranche of 6.05% Senior Notes due 2013 to be issued in exchange for the 6.05% Series A Notes, known as the "6.05% Senior Notes due 2013, Series B";

WHEREAS, J.P. Morgan Trust Company, National Association became the Trustee provided for in the Base Indenture as a result of the assumption of certain assets of Bank One Trust Company, National Association by a merger subsidiary which later merged with and into J.P. Morgan Trust Company, National Association;

WHEREAS, the Issuer desires to provide for the establishment of two new series of its Debt Securities: the first series, in the initial principal amount of \$200,000,000, known as "2.75% Senior Notes due 2007, Series A" (the "Series A Notes"), and the second series, to be issued in exchange for the Series A Notes, known as the "2.75% Senior Notes due 2007, Series B" (the "Series B Notes" and, together with the Series A Notes and any Additional Senior Notes (as defined below), the "Senior Notes"), the form and substance of such Senior Notes and the terms, provisions and conditions thereof to be set forth as provided in the Base Indenture and this Fourth Supplemental Indenture;

WHEREAS, there is no limit on the amount of Additional Senior Notes (as defined below) that may be issued after the initial issuance of the Initial Senior Notes (as defined below), provided that at the time of issuance of any Additional Senior Notes no Default or Event of Default shall have occurred and be continuing;

WHEREAS, the Issuer and the Initial Purchasers named therein have entered into a Registration Rights Agreement, dated as of March 9, 2004 (as amended, supplemented or otherwise modified from time to time, the "Registration Rights Agreement"), which requires the Issuer to use its reasonable best efforts to make an Exchange Offer (as defined below) which would enable holders of the Series A Notes to exchange such Senior Notes for Series B Notes, not subject to certain restrictions under the Securities Act, or to cause a Shelf Registration Statement to be declared effective with respect to the resale of the Series A Notes;

WHEREAS, the Issuer wishes to amend and add certain provisions to the Base Indenture for the benefit of the holders of the Senior Notes; and

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

NOW THEREFORE, in consideration of the purchase and acceptance of the Senior Notes to be issued hereunder by the holders thereof, and for the purpose of setting forth, as provided in the Indenture, the form and substance of the Senior Notes and the terms, provisions and conditions thereof, the Issuer covenants and agrees with the Trustee as follows:

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ARTICLE I.

DEFINITIONS

SECTION 1.1 Definition of Terms.

Unless the context otherwise requires:

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

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

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

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

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

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

"Additional Senior Notes" means any additional Senior Notes (other than Initial Senior Notes) issued from time to time under this Fourth Supplemental Indenture in accordance with Section 2.4 of the Base Indenture, as a part of the same series as the Initial Senior Notes; provided, that no Additional Senior Notes may be issued during the continuance of a Default or an Event of Default.

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

"Capital Stock" means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) corporate stock or limited liability company interests, including any Preferred Stock or letter stock;

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provided that Hybrid Preferred Securities are not considered Capital Stock for purposes of this definition.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Senior Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Senior Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

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

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

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

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

"DTC" means The Depository Trust Company, or any successor thereto.

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

"Depository" means, with respect to the Global Notes, DTC.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Notes" means the Series B Notes to be offered to Holders in exchange for the Series A Notes, pursuant to an Exchange Offer or otherwise pursuant to a Registration of Series B Notes containing terms identical in all material respects to the Series A Notes for which they are exchanged, except that (i) interest thereon shall accrue from the last date on which interest was paid on the Series A Notes or, if no such interest has been paid, from the date of issuance of the Series A Notes and (ii) the provisions relating to an increase in the stated rate of interest thereon upon the occurrence of a Registration Default shall be eliminated, (iii) the transfer restrictions and legends relating to restrictions on ownership and transfer thereof as a result of the issuance of the Series A Notes without Registration shall be eliminated, and (iv) each of the Exchange Notes so issued will be represented by one or more Global Notes in book-entry form unless exchanged for Exchange Notes in definitive certificated form under the circumstances provided hereunder.

"Exchange Offer" means the exchange offer by the Issuer of Exchange Notes for certain Senior Notes pursuant to the Registration Rights Agreement.

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

"Fixed Charge Coverage Ratio" means the ratio of Adjusted Consolidated Net Income plus Consolidated Interest Expense to Consolidated Interest Expense, for the four fiscal quarters of the Issuer ending immediately prior to the date of determination.

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

"Global Note" means a Senior Note bearing a legend specified in Section 6.1 evidencing all or part of a series of Senior Notes, issued to the Depository or its nominee with respect to such series of Senior Notes and registered in the name of such Depository or nominee.

"Holder" means a Person in whose name a Senior Note is registered.

"Hybrid Preferred Securities" means preferred securities issued by a Hybrid Preferred Securities Subsidiary, where such preferred securities have the following characteristics: (i) such Hybrid Preferred Securities Subsidiary lends substantially all of the

proceeds from the issuance of such preferred securities to the Issuer in exchange for subordinated debt issued by the Issuer; (ii) such preferred securities contain terms providing for the deferral of distributions corresponding to provisions providing for the deferral of interest payments on such subordinated debt; and (iii) the Issuer makes periodic interest payments on such subordinated debt, which interest payments are in turn used by the Hybrid Preferred Securities Subsidiary to make corresponding payments to the holders of the Hybrid Preferred Securities.

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

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Issuer.

"Initial Senior Notes" means the initial \$200,000,000 aggregate principal amount of Series A Notes issued under this Fourth Supplemental Indenture.

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

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

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

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

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

"Non-Convertible Capital Stock" means, with respect to any corporation or any limited liability company, any non-convertible Capital Stock of such corporation or limited liability company and any Capital Stock of such corporation or limited liability company convertible solely into non-convertible Capital Stock other than Preferred Stock of such

FOURTH SUPPLEMENTAL INDENTURE

corporation or limited liability company; provided, however, that Non-Convertible Capital Stock shall not include any Redeemable Stock or Exchangeable Stock.

"Permitted Liens" means:

(i) Liens upon rights-of-way for pipeline purposes;

(ii) any governmental Lien, mechanics', materialmen's, carriers' or similar Lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined Lien which is incidental to construction;

(iii) the right reserved to, or vested in, any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to purchase or recapture or to designate a purchaser of, any property;

(iv) Liens for taxes and assessments which are (A) for the then current year, (B) not at the time delinquent, or (C) delinquent but the validity of which is being contested at the time by the Issuer or any of its Subsidiaries in good faith;

(v) Liens of, or to secure performance of, leases;

(vi) any Lien upon, or deposits of, any assets in favor of any surety company or clerk of court for the purpose of obtaining indemnity or stay of judicial proceedings;

(vii) any Lien upon property or assets acquired or sold by the Issuer or any Restricted Subsidiary resulting from the exercise of any rights arising out of defaults on receivables;

(viii) any Lien incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations;

(ix) any Lien upon any property or assets in accordance with customary banking practice to secure any Debt incurred by the Issuer or any Restricted Subsidiary in connection with the exporting of goods to, or between, or the marketing of goods in, or the importing of goods from, foreign countries; or

(x) any Lien in favor of the United States of America or any state thereof, or any other country, or any political subdivision of any of the foregoing, to secure partial, progress, advance or other payments pursuant to any contract or statute, or any Lien securing industrial development, pollution control or similar revenue bonds.

"Principal Property" means any natural gas pipeline system, natural gas gathering system or natural gas storage facility located in the United States, except any such property that

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in the opinion of the Board of Directors is not of material importance to the business conducted by the Issuer and its Consolidated Subsidiaries taken as a whole.

"Private Exchange Notes" shall mean any Senior Notes issued to an Initial Purchaser (as defined in the Registration Rights Agreement) simultaneously with the delivery of the Exchange Notes in an Exchange Offer, in exchange for the Initial Senior Notes held by such Initial Purchaser, that are identical (except that such Private Exchange Notes shall bear transfer restrictions substantially in the form contained in Section 6.1 hereof with respect to Rule 144A Global Notes, and other appropriate transfer restrictions) to the Exchange Notes.

"Prospectus" shall mean the prospectus included in a Registration Statement, including any preliminary prospectus, and any such prospectus as amended or supplemented by any prospectus supplement, including any such prospectus supplement with respect to the terms of the offering of any portion of the Senior Notes covered by a Shelf Registration Statement, and by all other amendments and supplements to a prospectus, including post-effective amendments, and in each case including all material incorporated by reference therein.

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

"Reference Treasury Dealer" means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston LLC and J.P. Morgan Securities Inc. or their affiliates plus three others which are primary U.S. Government securities dealers, and their respective successors; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a "Primary Treasury Dealer"), the Issuer shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

"Registration" means a registered exchange offer for any Senior Notes by the Issuer pursuant to a Registration Statement or other registration for resale of any Senior Notes under the Securities Act pursuant to a Shelf Registration Statement, in each case in accordance with the terms of the Registration Rights Agreement.

"Registration Default" has the meaning set forth in the Registration Rights Agreement.

"Registration Rights Agreement" has the meaning set forth in the recitals to this Fourth Supplemental Indenture, and shall also include any registration rights agreements entered into by the Issuer in connection with the issuance of any Additional Senior Notes.

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"Registration Statement" means a registration statement of the Issuer under the Securities Act registering (i) the exchange of Series A Notes, for Series B Notes, for distribution pursuant to the Exchange Offer, or (ii) the resale of the Initial Senior Notes or Private Exchange Notes pursuant to a Shelf Registration Statement.

"Restricted Subsidiary" means any Subsidiary of the Issuer owning or leasing any Principal Property.

"Rule 144A" means Rule 144A under the Securities Act.

"Sale-Leaseback Transaction" means, with respect to the Issuer or any Restricted Subsidiary, the sale or transfer by the Issuer or such Restricted Subsidiary of any Principal Property to a Person (other than the Issuer or a Subsidiary of the Issuer) and the taking back by the Issuer or such Restricted Subsidiary, as the case may be, of a lease of such Principal Property. With respect to the Issuer, "Sale-Leaseback Transaction" means the sale or transfer by the Issuer of any assets or property to another Person and the taking back by the Issuer of a lease of such assets or property.

"SEC" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the execution of this Fourth Supplemental Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Securities Act" means the Securities Act of 1933, as amended.

"Senior Notes" has the meaning assigned to it in the recitals to this Fourth Supplemental Indenture. The Initial Senior Notes and the Additional Senior Notes shall be treated as a single class for all purposes under this Fourth Supplemental Indenture, and unless the context otherwise requires, all references to the Senior Notes shall include the Initial Senior Notes, the Exchange Notes, the Private Exchange Notes and any Additional Senior Notes.

"Shelf Registration Statement" shall mean a "shelf" registration statement of the Issuer which covers all or a portion of the Senior Notes (other than Exchange Notes) on an appropriate form under Rule 415 under the Securities Act, or any similar rule that may be adopted by the SEC, and all amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all material incorporated by reference therein.

"Standard & Poor's" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and any successor thereto which is a nationally recognized statistical rating organization, or if such entity shall cease to rate the Senior Notes or shall cease to exist and there shall be no such successor thereto, any other nationally recognized statistical rating organization selected by the Issuer which is acceptable to the Trustee.

"Subsidiary" means, with respect to any Person, (i) any corporation at least a majority of whose outstanding Voting Stock shall at the time be owned, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its

Subsidiaries, (ii) any limited liability company, general partnership, joint venture or similar entity, at least a majority of whose outstanding membership, partnership or similar interests shall at the time be owned by such Person, or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries and (iii) any limited partnership of which such Person or any of its Subsidiaries is a general partner.

"Total Capital" means the sum of (i) Consolidated Debt and (ii) Capital Stock, Hybrid Preferred Securities, premium on Capital Stock, capital surplus, capital in excess of par value and retained earnings (however the foregoing may be designated), less, to the extent not otherwise deducted, the cost of shares of Capital Stock of the Issuer held in treasury, all as set forth on the consolidated balance sheet of the Issuer and its Consolidated Subsidiaries for the Issuer's most recently completed fiscal quarter, prepared in accordance with generally accepted accounting principles.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Voting Stock" means securities of any class or classes the holders of which are ordinarily, in the absence of contingencies, entitled to vote for corporate directors or managers (in the case of a limited liability company) (or persons performing similar functions).

(g) solely for purposes of this Fourth Supplemental Indenture,

(1) the defined term "Business Day" contained in Section 1.01 of the Base Indenture shall be replaced in its entirety by the following new definition:

"Business Day" means a day on which banking institutions in the Borough of Manhattan, New York, New York are not authorized or required by law or regulation to close; and

(2) the defined term "Board of Directors" contained in Section 1.01 of the Base Indenture shall be deemed to include the Board of Managers of a limited liability company.

ARTICLE II.

GENERAL TERMS AND CONDITIONS OF THE SENIOR NOTES

SECTION 2.1 Designation and Principal Amount of the Series A Notes.

There is hereby authorized a single series of Debt Securities designated as the "2.75% Senior Notes due 2007, Series A", the principal amount of which shall be as set forth in any written order of the Issuer for the authentication and delivery of Senior Notes pursuant to Section 2.4 of the Base Indenture; provided, however, that Additional Senior Notes may be

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issued by the Issuer at any time subject to the terms and conditions of the Base Indenture and this Fourth Supplemental Indenture, provided, that at the time of such issuance no Default or Event of Default shall have occurred and be continuing.

The initial principal amount of the Series A Notes shall be \$200,000,000.

SECTION 2.2 Maturity of the Series A Notes.

The Series A Notes will mature on March 15, 2007.

SECTION 2.3 Interest on the Series A Notes.

Interest shall accrue from the date set forth, and shall be payable on the Series A Notes in the amount and as otherwise set forth, in the form of such Senior Note appearing in Article VI of this Fourth Supplemental Indenture.

SECTION 2.4 Form of the Series A Notes.

The form of the Series A Notes shall be substantially in the form provided for in Article VI for such Senior Notes. The terms of the Series A Notes form part of this Fourth Supplemental Indenture. The Series A Notes shall be represented by one or more Global Notes in definitive, registered form, without interest coupons. The Series A Notes will be initially issued as Global Notes registered in the name of Cede & Co. (as nominee for DTC, New York, New York, which, together with its nominees and their successors, is hereby designated the Depositary for the Series A Notes). The Series A Notes shall initially contain restrictions on transfer, substantially as described in the form set forth in Section 6.1. Each Series A Note, whether in the form of a Global Note or in certificated form, shall initially bear a non-registration legend and a Restricted Certificate of Transfer, in each case in substantially the form set forth in such form.

Beneficial interests in Series A Notes owned by qualified institutional buyers (as defined in Rule 144A) ("QIBs") or sold to QIBs in reliance upon Rule 144A will be represented by one or more Global Notes registered in the name of Cede & Co., as registered owner and as nominee for DTC, or another nominee designated by DTC in definitive, fully registered form without interest coupons in denominations of US\$1,000 and any integral multiples of US\$1,000. The Trustee and the Issuer will have no responsibility under the Indenture for transfers of beneficial interests in the Series A Notes. So long as a Senior Note bears a non-registration legend and a Restricted Certificate of Transfer the Trustee shall authenticate and issue new Senior Notes upon a registration of transfer only upon receipt of a Restricted Certificate of Transfer in the form set forth in Section 6.1 hereof. The Trustee shall refuse to register any transfer of a Senior Note in violation of the legend set forth on such Senior Note and without appropriate completion of the Restricted Certificate of Transfer on such Senior Note.

Subject to the conditions set forth therein and in the Indenture, pursuant to the Registration Rights Agreement, the non-registration legend and the Restricted Certificate of Transfer may be removed or rendered inapplicable in the event of the consummation of an Exchange Offer or upon a resale under an effective Shelf Registration Statement, in each case, in respect of the Series A Notes.

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SECTION 2.5 Special Transfer Provisions.

For the purposes of this Fourth Supplemental Indenture, unless and until a Series A Note is exchanged for an Exchange Note or is resold, in each case in connection with an effective Registration Statement pursuant to the Registration Rights Agreement, the registration of any proposed transfer of an interest in a Series A Global Note may be effected only through the book entry system maintained by the Depositary.

SECTION 2.6 Designation and Principal Amount of the Series B Notes.

There is hereby authorized a single series of Debt Securities designated as the "2.75% Senior Notes due 2007, Series B", the principal amount of which shall be as set forth in any written order of the Issuer for the authentication and delivery of Senior Notes pursuant to Section 2.4 of the Base Indenture; provided, however, that Additional Senior Notes may be issued by the Issuer at any time subject to the terms and conditions of the Base Indenture and this Fourth Supplemental Indenture, provided, that at the time of such issuance no Default or Event of Default shall have occurred and be continuing.

The initial principal amount of the Series B Notes shall not exceed \$200,000,000.

SECTION 2.7 Maturity of the Series B Notes.

The Series B Notes will mature on March 15, 2007.

SECTION 2.8 Interest on the Series B Notes.

Interest shall accrue from the date set forth, and shall be payable on the Series B Notes in the amount and as otherwise set forth, in the form of such Senior Note appearing in Article VI of this Fourth Supplemental Indenture.

SECTION 2.9 Form of the Series B Notes. -

The form of the Series B Notes shall be substantially in the form provided for in Article VI for such Senior Notes, and such Senior Notes, being Exchange Notes, shall not contain terms with respect to transfer restrictions (unless they are Private Exchange Notes) or additional interest payable upon the occurrence of a Registration Default. The terms of the Series B Notes form part of this Fourth Supplemental Indenture. The Series B Notes shall be represented by one or more Global Notes in definitive, registered form, without interest coupons. The Series B Notes will be initially issued as Global Notes registered in the name of Cede & Co. (as nominee for DTC, New York, New York, which, together with its nominees and their successors, is hereby designated the Depositary for the Series B Notes).

SECTION 2.10 Redemption of the Senior Notes.

The Senior Notes will be redeemable as a whole or in part, at the option of the Issuer at any time, at a redemption price equal to the greater of (i) 100% of the principal amount of such Senior Notes and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption)

discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points, plus accrued and unpaid interest thereon to the date of redemption.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date by the Issuer or by the Trustee on the Issuer's behalf to each Holder of Senior Notes to be redeemed.

Unless the Issuer defaults in payment of the redemption price, on and after the applicable redemption date interest will cease to accrue on the Senior Notes or portions thereof called for redemption.

ARTICLE III.

COVENANTS

SECTION 3.1 Limitation on Restricted Payments.

(a) So long as any of the Senior Notes are outstanding and during any time that such Senior Notes are rated below Baa3 (or an equivalent rating) by Moody's and below BBB- (or an equivalent rating) by Standard & Poor's, the Issuer will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

(i) declare or pay any dividend or make any distribution on the Capital Stock of the Issuer to the direct or indirect holders of its Capital Stock (except dividends or distributions payable solely in its Non-Convertible Capital Stock or in options, warrants or other rights to purchase such Non-Convertible Capital Stock and except dividends or distributions payable to the Issuer or a Subsidiary of the Issuer);

(ii) purchase, redeem or otherwise acquire or retire for value any Capital Stock of the Issuer; or

(iii) make any Loan to Southern Union or any of its Affiliates that is not a Subsidiary of the Issuer;

(any such dividend, distribution, purchase, redemption, other acquisition, retirement or Loan described in (i) through (iii) above being hereinafter referred to as a "Restricted Payment"), unless at the time the Issuer or such Restricted Subsidiary makes such Restricted Payment and after giving effect thereto:

(1) no Default or Event of Default shall have occurred and be continuing (or would result therefrom);

(2) the Issuer's Fixed Charge Coverage Ratio is greater than or equal to 2.2; and

(3) the Issuer's Leverage Ratio is less than or equal to 55%.

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Notwithstanding the foregoing, the Issuer or any of its Restricted Subsidiaries may declare, make or pay any Restricted Payment, if at the time the Issuer or such Restricted Subsidiary makes such Restricted Payment and after giving effect thereto:

(1) no Default or Event of Default shall have occurred and be continuing (or would result therefrom); and

(2) the aggregate amount of such Restricted Payment and all other Restricted Payments made since the original date of issuance of the Initial Senior Notes would not exceed the sum of:

(A) \$175 million;

(B) 75% of Adjusted Consolidated Net Income accumulated since the original date of issuance of the Initial Senior Notes to the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Restricted Payment; and

(C) the aggregate net cash proceeds received by the Issuer after the original date of issuance of the Initial Senior Notes from capital contributions or the issuance of Capital Stock of the Issuer to a Person who is not a Subsidiary of the Issuer, or from the issuance to such a Person of options, warrants or other rights to acquire such Capital Stock of the Issuer.

None of the foregoing provisions will prohibit:

(i) dividends or other distributions paid in respect of any class of Capital Stock issued by the Issuer in connection with the acquisition of any business or assets by the Issuer or a Restricted Subsidiary where the dividends or other distributions with respect to such Capital Stock are payable solely from the net earnings of such business or assets;

(ii) any purchase or redemption of Capital Stock of the Issuer made by exchange for, or out of the proceeds of the substantially concurrent sale of, Non-Convertible Capital Stock of the Issuer; or

(iii) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividends would have complied with this covenant.

SECTION 3.2 Limitation on Liens.

(a) The Issuer shall not, nor will it permit any Restricted Subsidiary to, create, assume, incur or suffer to exist any Lien upon any Principal Property, whether owned or leased on the date of the Indenture or thereafter acquired, to secure any Debt of the Issuer or any other Person (other than the Senior Notes), without in any such case making effective provision

whereby all of the Senior Notes outstanding shall be secured equally and ratably with, or prior to, such Debt so long as such Debt shall be so secured. There is excluded from this restriction:

(i) any Lien upon any property or assets of the Issuer or any Restricted Subsidiary in existence on the date of the Indenture or created pursuant to an "after-acquired property" clause or similar term in existence on the date of the Indenture or any mortgage, pledge agreement, security agreement or other similar instrument in existence on the date of the Indenture;

(ii) any Lien upon any property or assets created at the time of acquisition of such property or assets by the Issuer or any Restricted Subsidiary or within 18 months after such time to secure all or a portion of the purchase price for such property or assets or Debt incurred to finance such purchase price, whether such Debt was incurred prior to, at the time of or within 18 months of such acquisition;

(iii) any Lien upon any property or assets existing thereon at the time of the acquisition thereof by the Issuer or any Restricted Subsidiary (whether or not the obligations secured thereby are assumed by the Issuer or any Restricted Subsidiary);

(iv) any Lien upon any property or assets of a Person existing thereon at the time such Person becomes a Restricted Subsidiary by acquisition, merger or otherwise (whether or not such Lien was created in anticipation of such acquisition);

(v) any Lien securing obligations assumed by the Issuer or any Restricted Subsidiary existing at the time of the acquisition by the Issuer or any Restricted Subsidiary of the property or assets subject to such Lien or at the time of the acquisition of the Person which owns such property or assets;

(vi) any Lien on property to secure all or part of the cost of construction or improvements thereon or to secure Debt incurred prior to, at the time of, or within 18 months after completion of such construction or making of such improvements, to provide funds for any such purpose;

(vii) any Lien in favor of the Issuer or any Restricted Subsidiary;

(viii) any Lien created or assumed by the Issuer or any Restricted Subsidiary in connection with the issuance of Debt the interest on which is excludable from gross income of the holder of such Debt pursuant to the Internal Revenue Code of 1986, as amended, or any successor statute, for the purpose of financing, in whole or in part, the acquisition or construction of property or assets to be used by the Issuer or any Subsidiary;

(ix) any Lien upon property or assets of any foreign Restricted Subsidiary to secure Debt of that foreign Restricted Subsidiary;

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(x) Permitted Liens;

(xi) any Lien created by any program providing for the financing, sale or other disposition of trade or other receivables classified as current assets in accordance with United States generally accepted accounting principles entered into by the Issuer or by a Subsidiary of the Issuer, provided that such program is on terms customary for similar transactions, or any document executed by any Subsidiary of the Issuer in connection therewith, provided that such Lien is limited to the trade or other receivables in respect of which such program is created or exists, and the proceeds thereof;

(xii) any Lien upon any additions, improvements, replacements, repairs, fixtures, appurtenances or component parts thereof attaching to or required to be attached to property or assets pursuant to the terms of any mortgage, pledge agreement, security agreement or other similar instrument, creating a Lien upon such property or assets permitted by clauses (i) through (xi), inclusive, above; or

(xiii) any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancing, refundings or replacements) of any Lien, in whole or in part, that is referred to in clauses (i) through (vi), inclusive, above (and Liens related thereto referred to in clause (xii) above), or of any Debt secured thereby; provided, however, that the principal amount of Debt secured thereby shall not exceed the greater of the principal amount of Debt so secured at the time of such extension, renewal, refinancing, refunding or replacement and the original principal amount of Debt so secured (plus in each case the aggregate amount of premiums, other payments, costs and expenses paid or incurred in connection with such extension, renewal, refinancing, refunding or replacement); provided further, however, that such extension, renewal, refinancing, refunding or replacement shall be limited to all or a part of the property (including improvements, alterations and repairs on such property) subject to the encumbrance so extended, renewed, refinanced, refunded or replaced (plus improvements, alterations and repairs on such property).

Notwithstanding the foregoing, the Issuer may, and may permit any Restricted Subsidiary to, create, assume, incur, or suffer to exist any Lien upon any Principal Property to secure Debt of the Issuer or any other Person (other than the Senior Notes) that is not otherwise excepted by clauses (i) through (xiii), inclusive, above without securing the Senior Notes, provided that the aggregate principal amount of all Debt then outstanding secured by such Lien and all similar Liens, together with all net sale proceeds from Sale-Leaseback Transactions (excluding Sale-Leaseback Transactions permitted by clauses (i) through (iv), inclusive, of Section 3.3(a) of this Fourth Supplemental Indenture) does not exceed the greater of 15% of Consolidated Net Tangible Assets or 15% of Total Capital.

SECTION 3.3 Restriction on Sale-Leasebacks.

(a) The Issuer shall not, nor shall it permit any Restricted Subsidiary to, engage in a Sale-Leaseback Transaction, unless:

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(i) the Sale-Leaseback Transaction occurs within 18 months from the date of acquisition of the Principal Property subject thereto or the date of the completion of construction or commencement of full operations on such Principal Property, whichever is later;

(ii) the Sale-Leaseback Transaction involves a lease for a period, including renewals, of not more than four years;

(iii) the Issuer or such Restricted Subsidiary would be entitled to incur Debt secured by a Lien on the Principal Property subject thereto (pursuant to clauses (i) through (xiii), inclusive, of the first paragraph of Section 3.2(a) of this Fourth Supplemental Indenture) in a principal amount equal to or exceeding the net sale proceeds from the Sale-Leaseback Transaction without securing the Senior Notes; or

(iv) the Issuer or such Restricted Subsidiary, within an 18-month period after such Sale-Leaseback Transaction, applies or causes to be applied an amount not less than the net sale proceeds from such Sale-Leaseback Transaction to (A) the repayment, redemption or retirement of Funded Debt of the Issuer or any Subsidiary of the Issuer, or (B) investment in another Principal Property or in a Subsidiary of the Issuer which owns another Principal Property.

Notwithstanding the foregoing, the Issuer may, and may permit any Restricted Subsidiary to, effect any Sale-Leaseback Transaction that is not otherwise excepted by clauses (i) through (iv), inclusive, above, provided that the net sale proceeds from such Sale-Leaseback Transaction, together with the aggregate principal amount of outstanding Debt (other than the Senior Notes) secured by Liens upon any Principal Properties not excepted by clauses (i) through (xiii), inclusive, of Section 3.2(a) of this Fourth Supplemental Indenture, do not exceed the greater of 15% of Consolidated Net Tangible Assets or 15% of Total Capital.

SECTION 3.4 Financial Information.

Whether or not required by the SEC's rules and regulations, so long as any Senior Notes are outstanding, the Issuer shall furnish to the Holders of the Senior Notes, within the time periods specified in the SEC's rules and regulations:

- (1) all quarterly and annual reports that would be required to be filed with the SEC on Forms 10-Q and 10-K if the Issuer was required to file such reports; and
- (2) all current reports that would be required to be filed with the SEC on Form 8-K if the Issuer was required to file such reports.

The Issuer will be required to prepare all such reports in all material respects in accordance with all applicable rules and regulations. The Issuer will include in each annual report on Form 10-K a report on its consolidated financial statements by its certified independent public accountant. In addition, whether or not required by the SEC, the Issuer shall file a copy of each of the reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the SEC's applicable rules and regulations (unless the SEC

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will not accept such a filing) and make that information available to securities analysts and prospective investors upon request.

The Issuer is currently required under the Exchange Act to file reports with the SEC. If the Issuer is no longer subject to the periodic reporting requirements of the Exchange Act for any reason, the Issuer will nevertheless continue filing the reports specified in the preceding paragraphs with the SEC within the time periods specified above unless the SEC will not accept such a filing. The Issuer agrees not to take any action for the purpose of causing the SEC not to accept any such filings. If, notwithstanding the foregoing, the SEC will not accept the Issuer's filings for any reason, the Issuer will post the reports referred to in this Section 3.4 on the website www.panhandleenergy.com within the time periods that would apply if the Issuer was required to file those reports with the SEC.

For so long as any Senior Notes remain outstanding, at any time the Issuer is not required to file the reports required by this Section 3.4 with the SEC, the Issuer shall furnish at the Issuer's cost to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

SECTION 3.5 Applicability of Covenants.

Unless otherwise stated herein, the foregoing covenants contained in this Article III shall only be in effect so long as any of the Senior Notes are outstanding.

ARTICLE IV.

DEFAULT

SECTION 4.1 General.

All of the events specified in paragraphs (1) through (6) in Section 6.01(a) of the Base Indenture shall be "Events of Default" with respect to the Senior Notes.

SECTION 4.2 Additional Event of Default.

The following event shall be an "Event of Default" with respect to the Senior Notes: as a result of any action taken by the Issuer or its direct or indirect equity holders, there is a change in the Issuer's federal income tax status or a change in the deemed issuer of the indebtedness evidenced by the Senior Notes for federal income tax purposes, unless (i) Holders of more than 50% in principal amount of the Senior Notes consent to such change or (ii) (a) the Issuer certifies to the Trustee that it has received a ruling from the Internal Revenue Service or (b) the Issuer delivers to the Trustee an opinion of nationally recognized independent counsel reasonably acceptable in form and substance to the Trustee, in either case to the effect that the Holders of the Senior Notes will not recognize income, gain or loss for federal income tax purposes as a result of the change and that such Holders will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the change had not occurred.

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ARTICLE V.

DEFEASANCE

SECTION 5.1 General.

All of the provisions of Article XI of the Base Indenture shall be applicable to the Senior Notes.

SECTION 5.2 Covenant Defeasance.

With respect to and pursuant to the terms of Section 11.02(b) of the Base Indenture, the release of covenant obligations provided for therein shall, with respect to the Senior Notes, also apply to Section 3.1, Section 3.2, and Section 3.3 of this Fourth Supplemental Indenture.

ARTICLE VI.

FORM OF SENIOR NOTES

SECTION 6.1 Form of Senior Notes.

The Series A Notes and the Series B Notes, and the Trustee's Certificate of Authentication to be endorsed thereon, are to be substantially in the following forms:

[FORM OF FACE OF 2.75% SENIOR NOTES DUE 2007, SERIES A,
AND PRIVATE EXCHANGE NOTES]

Unless and until a Senior Note is exchanged for an Exchange Note (except for a Private Exchange Note) or sold in connection with an effective Registration Statement pursuant to the Registration Rights Agreement, the Global Notes shall bear the legend set forth below on the face thereof.

THE SENIOR NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS. NEITHER THIS SENIOR NOTE NOR ANY INTEREST HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A ("RULE 144A") UNDER THE SECURITIES ACT), (2) AGREES NOT TO OFFER, SELL OR OTHERWISE TRANSFER THIS SENIOR

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NOTE EXCEPT (A) TO PANHANDLE EASTERN PIPE LINE COMPANY, LLC, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SENIOR NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SENIOR NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT PANHANDLE EASTERN PIPE LINE COMPANY, LLC AND THE TRUSTEE SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (D) ABOVE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND (II) IN EACH OF THE FOREGOING CASES, BUT ONLY IF THIS SENIOR NOTE IS NOT A GLOBAL NOTE (AS DEFINED IN THE INDENTURE REFERRED TO HEREIN), TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SENIOR NOTE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO PANHANDLE EASTERN PIPE LINE COMPANY, LLC AND THE TRUSTEE.

This Senior Note is a Global Note within the meaning of the Indenture hereinafter referred to and is registered in the name of the Depository or a nominee of the Depository. This Senior Note is exchangeable for Senior Notes registered in the name of a person other than the Depository or its nominee only in the limited circumstances described in the Indenture, and may not be transferred except as a whole by the Depository to a nominee of the Depository, by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such a successor Depository.

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized

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representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

Unless and until it is exchanged in whole or in part for Senior Notes in definitive registered form in accordance with the provisions of the Indenture applicable to such exchange, this certificate may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor Depository or a nominee of such successor Depository.

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CUSIP No. 698465BK6

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Panhandle Eastern Pipe Line Company, LLC

2.75% SENIOR NOTE DUE 2007, SERIES A

PANHANDLE EASTERN PIPE LINE COMPANY, LLC, a Delaware limited liability company (the "Issuer"), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of [AMOUNT IN WORDS] dollars (\$[]) on March 15, 2007 ("Maturity") and to pay interest thereon from March 12, 2004 (the "Original Issue Date") or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, semi-annually in arrears on March 15th and September 15th in each year, commencing September 15, 2004 and at Maturity at the rate of 2.75% per annum, until the principal hereof shall have become due and payable, and on any overdue principal and premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum; provided that if any Registration Default with respect to this Senior Note occurs under the Registration Rights Agreement, then the per annum interest rate on this Senior Note will increase for the period from the occurrence of such Registration Default until such time as no Registration Default is in effect with respect to this Senior Note (at which time the interest rate will be reduced to its initial rate) at a per annum rate of 0.25% for the first 90-day period following the occurrence of such Registration Default, and by an additional 0.25% thereafter (up to a maximum of 0.50%). The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Senior Note is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person in whose name this Senior Note (or one or more Predecessor Securities, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment which shall be the close of business on the 1st day of the calendar month in which such Interest Payment Date occurs. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name this Senior Note (or one or more Predecessor Securities) is registered at the close of business on a special record date to be fixed by the Trustee (as defined below) for the payment of such defaulted interest, notice whereof shall be given to the registered holders of this series of Senior Notes not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Senior Notes may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. Any accrued and unpaid interest (including any additional interest payable upon the occurrence of a Registration Default) on this Senior Note upon the issuance of an Exchange Note (as defined

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in the Indenture) or a Private Exchange Note (as defined in the Indenture) in exchange for this Senior Note shall cease to be payable to the holder hereof and shall be payable on the next Interest Payment Date for such Exchange Note or Private Exchange Note to the holder thereof on the related regular record date. The principal of (and premium, if any) and the interest on this Senior Note shall be payable at the office or agency of the Trustee maintained for that purpose in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Issuer by check mailed to the registered holder at such address as shall appear in the Security Register.

This Senior Note shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

The provisions of this Senior Note are continued on the reverse side hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be executed.

Dated []

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

By _____

Name:
Title:

Attest:

By _____

Name:
Title:

FORTH SUPPLEMENTAL INDENTURE

[FORM OF CERTIFICATE OF AUTHENTICATION]
CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes of the series of Senior Notes described in the within-mentioned Indenture.

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, as Trustee

By _____
Authorized Signatory

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[FORM OF REVERSE OF SENIOR NOTE]

This Senior Note is one of a duly authorized series of Securities of the Issuer (herein sometimes referred to as the "Senior Notes"), specified in the Indenture, issued or to be issued in one or more series under and pursuant to an indenture (the "Base Indenture") dated as of March 29, 1999 among the Issuer, CMS Panhandle Holding Company, a Michigan corporation (which has merged into the Issuer), and NBD Bank, as trustee (predecessor to J.P. Morgan Trust Company, National Association), further supplemented by the Fourth Supplemental Indenture dated as of March 12, 2004 between the Issuer and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee") (the Base Indenture as so supplemented, hereinafter being referred to as the "Indenture"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the holders of the Senior Notes. By the terms of the Indenture, the Senior Notes are issuable in series which may vary as to amount, date of maturity, rate of interest and in other respects as in the Indenture provided. This series of Senior Notes is not limited in aggregate principal amount, as specified in said Fourth Supplemental Indenture.

The Senior Notes are redeemable at the option of the Issuer at any time and from time to time, in whole or in part, upon not less than 30 days nor more than 60 days notice to each holder of such Senior Notes, at a redemption price equal to the greater of (i) 100% of the principal amount of such Senior Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points plus accrued and unpaid interest thereon to the date of redemption. Unless there is a default in the payment of the redemption price, on and after the applicable redemption date, interest will cease to accrue on the Senior Notes or portions thereof called for redemption.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Senior Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Senior Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Issuer.

"Reference Treasury Dealer" means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston LLC and J.P. Morgan Securities Inc. or their

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affiliates plus three others which are primary U.S. Government securities dealers, and their respective successors; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a "Primary Treasury Dealer"), the Issuer shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

The Issuer may purchase the Senior Notes in the open market, by tender or otherwise. Senior Notes so purchased may be held, resold or surrendered to the Trustee for cancellation. If applicable, the Issuer will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other securities laws and regulations in connection with any such purchase.

No sinking fund is provided for the Senior Notes.

If an Event of Default with respect to this Senior Note shall occur and be continuing, the principal of this Senior Note may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture contains provisions for defeasance at any time of (i) the entire indebtedness of this Senior Note or (ii) certain restrictive covenants and certain other obligations with respect to this Senior Note, in each case upon compliance with certain conditions set forth therein.

The Indenture permits, with certain exceptions as therein provided, modifications and amendments of the Indenture by the Issuer and the Trustee with the consent of the holders of a majority in aggregate principal amount of the outstanding Senior Notes.

The Indenture provides that the holders of a majority in aggregate principal amount of the outstanding Senior Notes may, on behalf of the holders of all Senior Notes, modify or eliminate restrictive covenants, which right includes the right to waive insofar as the Senior Notes are concerned, compliance by the Issuer with certain restrictive provisions of the Indenture.

The Indenture provides that the holders of a majority in aggregate principal amount of the outstanding Senior Notes may, on behalf of all holders of Senior Notes, waive any past default under the Indenture with respect to any Senior Notes, except a default (i) in the payment of principal of, or premium, if any, or any interest on any Senior Note; or (ii) in respect

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of a covenant or provision of the Indenture which cannot be modified or amended without the consent of the holder of each outstanding Senior Note affected.

The Indenture provides that, subject to the duty of the Trustee during default to act with the required standard of care, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless such holders shall have offered to the Trustee reasonable indemnity. Subject to such provisions for the indemnification of the Trustee, the holders of a majority in aggregate principal amount of the outstanding Senior Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Senior Notes; provided, however, that the Trustee shall not be obligated to take any action unduly prejudicial to holders not joining in such direction or involving the Trustee in personal liability.

No reference herein to the Indenture and no provision of this Senior Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and any premium and interest on this Senior Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein and herein set forth, the transfer of this Senior Note is registrable in the Security Register, upon surrender of this Senior Note for registration of transfer at the office or agency of the Issuer in any place where the principal of and any premium and interest on this Senior Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Security Registrar duly executed by, the holder hereof or his attorney duly authorized in writing, and thereupon one or more new Senior Notes of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Senior Notes are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Senior Notes are exchangeable for a like aggregate principal amount of Senior Notes and of like tenor of a different authorized denomination, as requested by the holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Issuer shall not be required to (a) issue, exchange or register the transfer of this Senior Note for a period of 15 days next preceding the mailing of the notice of redemption of Senior Notes or (b) exchange or register the transfer of any Senior Note or any portion thereof selected, called or being called for redemption, except in the case of any Senior Note to be redeemed in part, the portion thereof not so to be redeemed.

Prior to due presentment of this Senior Note for registration of transfer, the Issuer, the Trustee and any agent of the Issuer or the Trustee may treat the Person in whose name this

FORTH SUPPLEMENTAL INDENTURE

Senior Note is registered as the owner hereof for all purposes, whether or not this Senior Note be overdue, and neither the Issuer, the Trustee nor any such agent shall be affected by notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Senior Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Issuer or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

All terms used in this Senior Note which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

[IF SENIOR NOTE IS A RESTRICTED SENIOR NOTE]

RESTRICTED CERTIFICATE OF TRANSFER

FOR VALUE RECEIVED, THE UNDERSIGNED HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO _____

(Please print or typewrite name and address including postal zip code, of assignee)

(PLEASE INSERT SOCIAL SECURITY NUMBER OR OTHER IDENTIFYING NUMBER OF ASSIGNEE)

the within Senior Note and all rights thereunder, and hereby irrevocably constitutes and appoints _____

to transfer said Senior Note on the books of the Issuer, with full power of substitution in the premises.

The undersigned certifies that said Senior Note is being resold, pledged or otherwise transferred as follows: (check one)

- to the Issuer;
- to a Person whom the undersigned reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act of 1933, as amended (the "Securities Act") purchasing for its own account or for the account of a qualified

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institutional buyer to whom notice is given that the resale, pledge or other transfer is being made in reliance on Rule 144A;

[] as otherwise permitted by the non-registration legend appearing on this Senior Note; or

[] as otherwise agreed by the Issuer, confirmed in writing to the Trustee, as follows: (describe)

Dated: _____]
[Name of Assignor]

[IF SENIOR NOTE IS NOT A RESTRICTED SENIOR NOTE]

CERTIFICATE OF TRANSFER

FOR VALUE RECEIVED, THE UNDERSIGNED HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO _____

(Please print or typewrite name and address including postal zip code, of assignee)

(PLEASE INSERT SOCIAL SECURITY NUMBER OR OTHER IDENTIFYING NUMBER OF ASSIGNEE)

the within Senior Note and all rights thereunder, and hereby irrevocably constitutes and appoints _____ to transfer said Senior Note on the books of the Issuer, with full power of substitution in the premises.

Dated: _____]
[Name of Assignor]

FORTH SUPPLEMENTAL INDENTURE

[FORM OF FACE OF 2.75% SENIOR NOTES DUE 2007, SERIES B]

This Senior Note is a Global Note within the meaning of the Indenture hereinafter referred to and is registered in the name of the Depository or a nominee of the Depository. This Senior Note is exchangeable for Senior Notes registered in the name of a person other than the Depository or its nominee only in the limited circumstances described in the Indenture, and may not be transferred except as a whole by the Depository to a nominee of the Depository, by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such a successor Depository.

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

Unless and until it is exchanged in whole or in part for Senior Notes in definitive registered form in accordance with the provisions of the Indenture applicable to such exchange, this certificate may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor Depository or a nominee of such successor Depository.

CUSIP No. 698465BL4

\$[]

Panhandle Eastern Pipe Line Company, LLC

2.75% SENIOR NOTE DUE 2007, SERIES B

PANHANDLE EASTERN PIPE LINE COMPANY, LLC, a Delaware limited liability company (the "Issuer"), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of [AMOUNT IN WORDS] dollars (\$[]) on March 15, 2007 ("Maturity") and to pay interest thereon from March 12, 2004 (the "Original Issue Date") or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, semi-annually in arrears on March 15th and September 15th in each year, commencing September 15, 2004 and at Maturity at the rate of 2.75% per annum, until the principal hereof shall have become due and payable, and on any overdue principal and premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on

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which interest is payable on this Senior Note is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person in whose name this Senior Note (or one or more Predecessor Securities, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment which shall be the close of business on the 1st day of the calendar month in which such Interest Payment Date occurs. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name this Senior Note (or one or more Predecessor Securities) is registered at the close of business on a special record date to be fixed by the Trustee (as defined below) for the payment of such defaulted interest, notice whereof shall be given to the registered holders of this series of Senior Notes not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Senior Notes may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. The principal of (and premium, if any) and the interest on this Senior Note shall be payable at the office or agency of the Trustee maintained for that purpose in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Issuer by check mailed to the registered holder at such address as shall appear in the Security Register.

This Senior Note shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

The provisions of this Senior Note are continued on the reverse side hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

FOURTH SUPPLEMENTAL INDENTURE

IN WITNESS WHEREOF, the Issuer has caused this instrument to be executed.

Dated []

PANHANDLE EASTERN PIPE LINE
COMPANY, LLC

By _____
Name:
Title:

Attest:

By _____
Name:
Title:

FOURTH SUPPLEMENTAL INDENTURE

[FORM OF CERTIFICATE OF AUTHENTICATION]

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes of the series of Senior Notes described in the within-mentioned Indenture.

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, as Trustee

By _____
[Authorized Signatory]

[FORM OF REVERSE OF SENIOR NOTE]

This Senior Note is one of a duly authorized series of Securities of the Issuer (herein sometimes referred to as the "Senior Notes"), specified in the Indenture, issued or to be issued in one or more series under and pursuant to an indenture (the "Base Indenture") dated as of March 29, 1999 among the Issuer, CMS Panhandle Holding Company, a Michigan corporation (which has merged into the Issuer), and NBD Bank, as trustee (predecessor to J.P. Morgan Trust Company, National Association), further supplemented by the Fourth Supplemental Indenture dated as of March 12, 2004 between the Issuer and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee") (the Base Indenture as so supplemented, hereinafter being referred to as the "Indenture"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the holders of the Senior Notes. By the terms of the Indenture, the Senior Notes are issuable in series which may vary as to amount, date of maturity, rate of interest and in other respects as in the Indenture provided. This series of Senior Notes is not limited in aggregate principal amount, as specified in said Fourth Supplemental Indenture.

The Senior Notes are redeemable at the option of the Issuer at any time and from time to time, in whole or in part, upon not less than 30 days nor more than 60 days notice to each holder of such Senior Notes, at a redemption price equal to the greater of (i) 100% of the principal amount of such Senior Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points, plus accrued and unpaid interest thereon to the date of redemption. Unless there is a default in the payment of the redemption price, on and after the applicable redemption date, interest will cease to accrue on the Senior Notes or portions thereof called for redemption.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Senior Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing

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new issues of corporate debt securities of a comparable maturity to the remaining term of such Senior Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Issuer.

"Reference Treasury Dealer" means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston LLC and J.P. Morgan Securities Inc. or their affiliates plus three others which are primary U.S. Government securities dealers, and their respective successors; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a "Primary Treasury Dealer"), the Issuer shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

The Issuer may purchase the Senior Notes in the open market, by tender or otherwise. Senior Notes so purchased may be held, resold or surrendered to the Trustee for cancellation. If applicable, the Issuer will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other securities laws and regulations in connection with any such purchase.

No sinking fund is provided for the Senior Notes.

If an Event of Default with respect to this Senior Note shall occur and be continuing, the principal of this Senior Note may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture contains provisions for defeasance at any time of (i) the entire indebtedness of this Senior Note or (ii) certain restrictive covenants and certain other obligations with respect to this Senior Note, in each case upon compliance with certain conditions set forth therein.

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The Indenture permits, with certain exceptions as therein provided, modifications and amendments of the Indenture by the Issuer and the Trustee with the consent of the holders of a majority in aggregate principal amount of the outstanding Senior Notes.

The Indenture provides that the holders of a majority in aggregate principal amount of the outstanding Senior Notes may, on behalf of the holders of all Senior Notes, modify or eliminate restrictive covenants, which right includes the right to waive insofar as the Senior Notes are concerned, compliance by the Issuer with certain restrictive provisions of the Indenture.

The Indenture provides that the holders of a majority in aggregate principal amount of the outstanding Senior Notes may, on behalf of all holders of Senior Notes, waive any past default under the Indenture with respect to any Senior Notes, except a default (i) in the payment of principal of, or premium, if any, or any interest on any Senior Note; or (ii) in respect of a covenant or provision of the Indenture which cannot be modified or amended without the consent of the holder of each outstanding Senior Note affected.

The Indenture provides that, subject to the duty of the Trustee during default to act with the required standard of care, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless such holders shall have offered to the Trustee reasonable indemnity. Subject to such provisions for the indemnification of the Trustee, the holders of a majority in aggregate principal amount of the outstanding Senior Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Senior Notes; provided, however, that the Trustee shall not be obligated to take any action unduly prejudicial to holders not joining in such direction or involving the Trustee in personal liability.

No reference herein to the Indenture and no provision of this Senior Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and any premium and interest on this Senior Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein and herein set forth, the transfer of this Senior Note is registrable in the Security Register, upon surrender of this Senior Note for registration of transfer at the office or agency of the Issuer in any place where the principal of and any premium and interest on this Senior Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Security Registrar duly executed by, the holder hereof or his attorney duly authorized in writing, and thereupon one or more new Senior Notes of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Senior Notes are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Senior Notes are exchangeable for a like aggregate

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principal amount of Senior Notes and of like tenor of a different authorized denomination, as requested by the holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Issuer shall not be required to (a) issue, exchange or register the transfer of this Senior Note for a period of 15 days next preceding the mailing of the notice of redemption of Senior Notes or (b) exchange or register the transfer of any Senior Note or any portion thereof selected, called or being called for redemption, except in the case of any Senior Note to be redeemed in part, the portion thereof not so to be redeemed.

Prior to due presentment of this Senior Note for registration of transfer, the Issuer, the Trustee and any agent of the Issuer or the Trustee may treat the Person in whose name this Senior Note is registered as the owner hereof for all purposes, whether or not this Senior Note be overdue, and neither the Issuer, the Trustee nor any such agent shall be affected by notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Senior Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Issuer or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

All terms used in this Senior Note which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

CERTIFICATE OF TRANSFER

FOR VALUE RECEIVED, THE UNDERSIGNED HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO -----

(Please print or typewrite name and address including postal zip code, of assignee)

(PLEASE INSERT SOCIAL SECURITY NUMBER OR OTHER IDENTIFYING NUMBER OF ASSIGNEE)

FOURTH SUPPLEMENTAL INDENTURE

Issuer, signed by its Chairman, President or any Vice President and its Secretary or an Assistant Secretary, without any further action by the Issuer.

ARTICLE VIII.

MISCELLANEOUS

SECTION 8.1 Ratification of Indenture.

The Base Indenture, as supplemented by this Fourth Supplemental Indenture, is in all respects ratified and confirmed, and this Fourth Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided. The provisions of this Fourth Supplemental Indenture shall supersede the provisions of the Indenture to the extent the Indenture is inconsistent herewith.

SECTION 8.2 Trustee Not Responsible for Recitals.

The recitals herein contained are made by the Issuer and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this Fourth Supplemental Indenture.

SECTION 8.3 Governing Law.

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

SECTION 8.4 Separability.

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

SECTION 8.5 Counterparts.

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

FOURTH SUPPLEMENTAL INDENTURE

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

PANHANDLE EASTERN PIPE LINE
COMPANY, LLC,
as Issuer

By: _____
Name:

J.P. MORGAN TRUST COMPANY, NATIONAL
ASSOCIATION,
as Trustee

By: _____
Name:
Title:

FOURTH SUPPLEMENTAL INDENTURE

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Thomas F. Karam and David J. Kvapil, or any of them, acting individually or together, as such person's true and lawful attorney(s)-in-fact and agent(s), with full power of substitution and revocation, to act in any capacity for such person and in such person's name, place, and stead in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended December 31, 2004 of Panhandle Eastern Pipe Line Company, LP, a Delaware limited partnership and any amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange.

Dated: March 16, 2005

/s/ GEORGE L. LINDEMANN

George L. Lindemann

/s/ JOHN E. BRENNAN

John E. Brennan

/s/ THOMAS F. KARAM

Thomas F. Karam

CERTIFICATIONS

I, Thomas F. Karam, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 annual 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 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; and

(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 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: March 16, 2005

/s/ THOMAS F. KARAM

Name: Thomas F. Karam
Title: Chief Executive Officer

CERTIFICATIONS

I, David J. Kvapil, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 annual 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 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; and
 - (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 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: March 16, 2005

/s/ DAVID J. KVAPIL

 Name: David J. Kvapil
 Title: Executive Vice President and
 Chief Financial Officer

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

In connection with the Annual Report on Form 10-K of Panhandle Eastern Pipe Line Company, LP (the "Company") for the annual period ended December 31, 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, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge (i) the Report fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) 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: March 16, 2005

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.

CERTIFICATION PUSUANT TO
18 U.S.C. SECTION 1350,

AS ADOPTED PUSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Panhandle Eastern Pipe Line Company, LP (the "Company") for the annual period ended December 31, 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, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge (i) the Report fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) 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

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Name: David J. Kvapil
Title: Executive Vice President and Chief Financial Officer
Date: March 16, 2005

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.