FORM 8-K

CURRENT REPORT

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

Date of Report (Date of Earliest event reported)
March 16, 2000

ITEM 5. OTHER EVENTS

Attached are the audited financial statements of Panhandle Eastern Pipe Line Company and Panhandle Eastern Pipe Line Company’s Management’s Discussion and Analysis, together with the Report of Independent Public Accountants Arthur Andersen LLP, dated February 25, 2000. The financial statements as of December 31, 1998 and 1997 and for each of the two years in the period ended December 31, 1998 have been audited by Deloitte & Touche LLP as stated in their Independent Auditors' Report dated February 12, 1999.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits -

(1)-(26) Not applicable.

(27) Financial Data Schedule.

(28)-(99) Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PANHANDLE EASTERN PIPE LINE COMPANY

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No
1-2921	**PANHANDLE EASTERN PIPE LINE COMPANY** (A Delaware Corporation)	44-0382470

5444 Westheimer Court
Houston, Texas 77056
(713) 627-5400

EXHIBIT INDEX

Exhibit
Number

(27) Financial Data Schedule.

INDEX TO FINANCIAL STATEMENTS

Panhandle Eastern Pipe Line Company

Dated: March 16, 2000	By:	/s/ Alan M. Wright
		Alan M. Wright Senior Vice President, Chief Financial Officer and Treasurer

GLOSSARY

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ABATE	Association of Businesses Advocating Tariff Equity
ALJ	Administrative Law Judge
AMT	Alternative minimum tax
Alliance	Alliance Regional Transmission Organization
Anadarko	Anadarko Petroleum Corporation, a non-affiliated company
Articles	Articles of Incorporation
Attorney General	Michigan Attorney General
Aux Sable	Aux Sable Liquids Products, L.P., a non-affiliated company
bcf	Billion cubic feet
Big Rock	Big Rock Point nuclear power plant, owned by Consumers
Board of Directors	Board of Directors of CMS Energy
Btu	British thermal unit
Class G Common Stock	One of two classes of common stock of CMS Energy, no par value, which reflects the separate performance of the Consumers Gas Group, redeemed in October 1999.
Clean Air Act	Federal Clean Air Act, as amended
CMS Capital	CMS Capital Corp., a subsidiary of Enterprises
CMS Electric and Gas	CMS Electric and Gas Company, a subsidiary of Enterprises
CMS Energy	CMS Energy Corporation, the parent of Consumers and Enterprises
CMS Energy Common Stock	One of two classes of common stock of CMS Energy, par value $.01 per share
CMS Gas Transmission	CMS Gas Transmission and Storage Company, a subsidiary of Enterprises
CMS Generation	CMS Generation Co., a subsidiary of Enterprises
CMS Holdings	CMS Midland Holdings Company, a subsidiary of Consumers
CMS Midland	CMS Midland Inc., a subsidiary of Consumers
CMS MST	CMS Marketing, Services and Trading Company, a subsidiary of Enterprises
CMS Oil and Gas	CMS Oil and Gas Company, a subsidiary of Enterprises
CMS Panhandle Holding	CMS Panhandle Holding Company, a subsidiary of CMS Gas Transmission
Common Stock	All classes of Common Stock of CMS Energy and each of its subsidiaries, or any of them individually, at the time of an award or grant under the Performance Incentive Stock Plan
CPEE	Companhia Paulista de Energia Eletrica
Consumers	Consumers Energy Company, a subsidiary of CMS Energy
Consumers Gas Group	The gas distribution, storage and transportation businesses currently conducted by Consumers and Michigan Gas Storage

Court of Appeals	Michigan Court of Appeals
Detroit Edison	The Detroit Edison Company, a non-affiliated company
DOE	U.S. Department of Energy
Dow	The Dow Chemical Company, a non-affiliated company
DSM	Demand-side management
Duke Energy	Duke Energy Corporation, a non-affiliated company
EITF	Emerging Issues Task Force

El Chocon	Hidroelectrica El Chocon S.A.
Enterprises	CMS Enterprises Company, a subsidiary of CMS Energy
EPA	Environmental Protection Agency
EPS	Earning per share
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FMLP	First Midland Limited Partnership, a partnership which holds a 75.5% lessor interest in the Midland Cogeneration Venture facility
FTC	Federal Trade Commission
GCR	Gas cost recovery
GTNs	CMS Energy General Term Notes®, $250 million Series A, $125 million Series B, $150 million Series C, $200 million Series D and $400 million Series E
Huron	Huron Hydrocarbons, Inc., a subsidiary of Consumers
ITC	Investment tax credit
Jorf Lasfar	The 1,356 MW (660 MW in operation and 696 MW under construction) coal-fueled power plant in Morocco, jointly owned by CMS Generation and ABB Energy Venture, Inc.
kWh	Kilowatt-hour
Loy Yang	The 2,000 MW brown coal fueled Loy Yang A power plant and an associated coal mine in Victoria, Australia, in which CMS Generation holds a 50 percent ownership interest
LNG	Liquefied natural gas
Ludington	Ludington pumped storage plant, jointly owned by Consumers and Detroit Edison
mcf	Thousand cubic feet
MCV Facility	A natural gas-fueled, combined-cycle cogeneration facility operated by the MCV Partnership
MCV Partnership	Midland Cogeneration Venture Limited Partnership in which Consumers has a 49 percent interest through CMS Midland
MD&A	Management's Discussion and Analysis
MEPCC	Michigan Electric Power Coordination Center
Michigan Gas Storage	Michigan Gas Storage Company, a subsidiary of Consumers
Mbbls	Thousand barrels
MMbbls	Million barrels
MMBtu	Million British thermal unit
MMcf	Million cubic feet
MPSC	Michigan Public Service Commission
MW	Megawatts
Natural Gas Act	Federal Natural Gas Act
NEIL	Nuclear Electric Insurance Limited, an industry mutual insurance company owned by member utility companies
Nitrotec	Nitrotec Corporation, a propriety gas technology company in which CMS Gas Transmission owns an equity interest

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NRC	Nuclear Regulatory Commission
NYMEX	New York Mercantile Exchange
OPEB	Postretirement benefit plans other than pensions for retired employees
Outstanding Shares	Outstanding shares of Class G Common Stock
Palisades	Palisades nuclear power plant, owned by Consumers
Pan Gas Storage	Pan Gas Storage Company, a subsidiary of Panhandle Eastern Pipe Line Company
PanEnergy	PanEnergy Corp., a subsidiary of Duke Energy and former parent of Panhandle
Panhandle	Panhandle Eastern Pipe Line Company, including its subsidiaries Trunkline, Pan Gas Storage, Panhandle Storage, and Trunkline LNG. Panhandle is a wholly owned subsidiary of CMS Gas Transmission
Panhandle Eastern Pipe Line	Panhandle Eastern Pipe Line Company, a wholly owned subsidiary of CMS Gas Transmission
Panhandle Storage	CMS Panhandle Storage Company, a subsidiary of Panhandle Eastern Pipe Line Company
PCBs	Poly chlorinated biphenyls
PECO	PECO Energy Company, a non-affiliated company
Pension Plan	The trusteed, non-contributory, defined benefit pension plan of Consumers and CMS Energy
PPA	The Power Purchase Agreement between Consumers and the MCV Partnership with a 35-year term commencing in March 1990
ppm	Parts per million
PSCR	Power supply cost recovery
PUHCA	Public Utility Holding Company Act of 1935
RTO	Regional Transmission Organization
SEC	Securities and Exchange Commission
Senior Credit Facilities	$725 million senior credit facilities consisting of a $600 million three-year revolving credit facility and a five-year $125 million term loan facility
SERP	Supplemental Executive Retirement Plan
SFAS	Statement of Financial Accounting Standards
SOP	Statement of position
Stranded Costs	Costs incurred by utilities in order to serve their customers in a regulated monopoly environment, but which may not be recoverable in a competitive environment because of customers leaving their systems and ceasing to pay for their costs. These costs could include owned and purchased generation and regulatory assets.
Superfund	Comprehensive Environmental Response, Compensation and Liability Act
TGN	Transportadora de Gas del Norte S.A., a natural gas pipeline located in Argentina
Transition Costs	Stranded Costs, as defined, plus the costs incurred in the transition to competition.
Trunkline	Trunkline Gas Company, a subsidiary of Panhandle Eastern Pipe Line Company
Trunkline LNG	Trunkline LNG Company, a subsidiary of Panhandle Eastern Pipe Line Company

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PANHANDLE EASTERN PIPE LINE COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

CMS Panhandle Holding privately placed $800 million of senior unsecured notes and received a $1.1 billion initial capital contribution from CMS Energy to fund the acquisition of Panhandle. On June 15, 1999, CMS Panhandle Holding was merged into Panhandle. Panhandle then became a wholly owned subsidiary of CMS Gas Transmission and Storage Company, a subsidiary of CMS Energy. At that time, the CMS Panhandle Holding notes became direct obligations of Panhandle. In September 1999, Panhandle completed an exchange offer which replaced the $800 million of notes originally issued by CMS Panhandle Holding with substantially identical SEC-registered notes issued by Panhandle.

The acquisition by CMS Panhandle Holding was accounted for using the purchase method of accounting in accordance with generally accepted accounting principles, with Panhandle allocating the purchase price paid by CMS Panhandle Holding to Panhandle’s net assets as of the acquisition date based on a preliminary appraisal completed in December 1999. 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 1).

The following information is provided to facilitate increased understanding of the 1999 and 1998 consolidated financial statements and accompanying notes of Panhandle but should be read in conjunction with these financial statements. Because all of the outstanding common stock of Panhandle is owned by CMS Gas Transmission and Storage Company, a subsidiary of CMS Energy, the following discussion uses the reduced disclosure format permitted by Form 10K for issuers that are wholly owned subsidiaries of reporting companies.

RESULTS OF OPERATIONS

Net Income:

Trust Preferred Securities	Securities representing an undivided beneficial interest in the assets of statutory business trusts, which interests have a preference with respect to certain trust distributions over the interests of either CMS Energy or Consumers, as applicable, as owner of the common beneficial interests of the trusts
Union	Utility Workers of America, AFL-CIO
UST	Underground storage tanks

For the year ending December 31, 1999, net income was $74 million, down $17 million from the corresponding period in 1998. Total natural gas transportation volumes for the twelve months ending December 31, 1999 were almost unchanged from 1998.

Revenues for the twelve months ended December 31, 1999 decreased $25 million from the corresponding period in 1998; $15 million was as a result of the transfer of Panhandle Field Services to Duke Energy in March 1999; $14 million from declining reservation rates; and $5 million due to Pan Border’s 1998 revenues from Northern Border Pipe Line Company partnership; partially offset by $13 million of Trunkline LNG terminal revenues in 1999.

Operating expenses for the twelve months ended December 31, 1999 decreased $17 million from the corresponding period in 1998 due primarily to lower administrative costs and the transfer of Panhandle Field Services to Duke Energy.

Other income for the twelve months ended December 31, 1999 decreased $18 million from the corresponding period in 1998 primarily due to a gain recorded in 1998 on the sale of the general partnership interests in Northern Border of $14 million.

Interest on long-term debt for the twelve months ended December 31, 1999 increased $39 million from the corresponding period in 1998 primarily due to interest on the new debt assumed by Panhandle (See Notes 1 and 9). Other interest decreased $38 million for the twelve months ended December 31, 1999 from the corresponding period in 1998 primarily due to interest for a partial year on the intercompany note with PanEnergy; the note was eliminated with the sale of Panhandle to CMS Panhandle Holding (See Note 1 and Note 4).

Operating Income:

			In Millions
December 31	1999	1998	Change
Twelve Months Ended	$74	$91	$(17)

OUTLOOK

CMS Energy intends to use Panhandle as a platform for expansion in the United States. Panhandle plays an important role in the growth strategy by providing services for the exploration of existing gas wells, production and throughput of gas to the market. The market for transmission of natural gas to the Midwest is increasingly competitive, however, and may become more so in light of projects recently completed or in progress to increase Midwest transmission capacity for gas originating in Canada and the Rocky Mountain region. As a result, there continues to be pressure on prices charged by Panhandle and an increasing necessity to discount the prices charged from the legal maximum, which reduces revenues. New contracts in the current market conditions tend to be of shorter duration than the expiring contracts being replaced, which will also increase revenue volatility. In addition, Trunkline in 1996 filed with FERC and placed into effect a general rate increase, however a subsequent January 2000 FERC order could, if approved without modification upon rehearing, reduce Trunkline’s tariff rates and future revenue levels by up to 3% of Panhandle’s consolidated revenues. Panhandle continues to be selective in offering discounts to maximize revenues from existing capacity and to advance projects that provide expanded services to meet the specific needs of customers. In addition, Panhandle will continue to evaluate opportunities to acquire synergistic operations such as the Sea Robin pipeline system (See Note 14), and attempt to maximize the use and value of its existing assets, such as the conversion of Trunkline's 26-inch pipeline to a liquid products pipeline (See Note 3).

OTHER MATTERS

ENVIRONMENTAL MATTERS

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

YEAR 2000 COMPUTER MODIFICATIONS

In 1999, Panhandle completed a detailed assessment of all information technology and non-information technology hardware and software, with emphasis on mission critical systems. Panhandle inventoried its information and non-information technology hardware and software. Panhandle also identified, remediated and tested those systems that were not year 2000 ready to ensure they would operate as desired on and after January 1, 2000.

As a result of its year 2000 efforts, Panhandle successfully transitioned to the new year without experiencing year 2000 related system failures, power outages or disruptions in services provided to its customers. Panhandle expensed the cost of software modifications as incurred, and capitalized the cost of new software and equipment, which is being amortized over its useful life. Since 1995, the total cost of the Year 2000 Program modifications was approximately $425,000. The commitment of Panhandle resources to the Year 2000 Program has not deferred any information technology projects that could have a material adverse effect on Panhandle's financial position, liquidity or results of operations.

While Panhandle does not expect any significant year 2000 issues to develop, Panhandle will continue to monitor its mission critical applications throughout the year 2000 to ensure that any year 2000 issues that may arise are addressed promptly through the use of contingency plans.

MARKET RISK INFORMATION

Interest Rate Risk: Panhandle is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt and fixed-rate debt. Panhandle manages its interest rate exposure by limiting its variable-rate and fixed-rate exposure to a certain percentage of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates (See Notes 8 and 9).

PANHANDLE EASTERN PIPE LINE COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(In millions)

Change Compared to Prior Year	In Millions Twelve Months Ended December 31 1999 vs. 1998
Commodity revenue	$ (1)
Reservation and other revenues	(24)
Operations and maintenance	22
Depreciation and amortization	(2)
General taxes	(3)
Total Change	$ (8)

PANHANDLE EASTERN PIPE LINE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Mar. 29 - Dec. 31, 1999	Jan. 1 - Mar. 28, 1999	Years Ended December 31, 1998	1997
Operating Revenue				
Transportation and storage of natural gas	$318	$123	$468	$501
Other	25	5	28	33
Total operating revenue	343	128	496	534
Operating Expenses				
Operation and maintenance	151	40	213	254
Depreciation and amortization	44	14	56	59
General taxes	22	7	26	26
Total operating expenses	217	61	295	339
Pretax Operating Income	126	67	201	195
Other Income, Net	2	4	24	6
Interest Charges				

Interest on long-term debt	59	5	25	25
Other interest	1	13	52	48
Total interest charges	60	18	77	73
Net Income Before Income Taxes	68	53	148	128
Income Taxes	27	20	57	48
Consolidated Net Income	$ 41	$ 33	$ 91	$ 80

PANHANDLE EASTERN PIPE LINE COMPANY

CONSOLIDATED BALANCE SHEETS

(In millions)

	Mar. 29 - Dec. 31, 1999	**Jan. 1 - Mar. 28, 1999**	**Years Ended December 31, 1998**	**1997**
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 41	$ 33	$ 91	$ 80
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	44	14	61	61
Deferred income taxes	34	—	17	2
Rate settlement	—	—	—	(70)
Changes in current assets and liabilities	51	(29)	4	9
Other, net	9	3	1	24
Net cash provided by operating activities	179	21	174	106
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Panhandle	(1,900)	—	—	—
Capital and investment expenditures	(53)	(4)	(85)	(105)
Net increase in advances receivable — PanEnergy	—	(17)	(106)	(9)
Retirements and other	(1)	—	17	8
Net cash used in investing activities	(1,954)	(21)	(174)	(106)
CASH FLOWS FROM FINANCING ACTIVITIES				
Contribution from parent	1,116	—	—	—
Proceeds from senior notes	785	—	—	—
Net increase in note receivable — CMS	(85)	—	—	—
Dividends paid	(41)	—	—	—
Net cash provided by financing activities	1,775	—	—	—
Net Increase (Decrease) in Cash and Temporary Cash Investments	—	—	—	—
Cash And Temporary Cash Investments, Beginning Of Period	—	—	—	—
Cash And Temporary Cash Investments, End Of Period	$ —	$ —	$ —	$ —
Other Cash Flow Activities Were:				
Interest paid (net of amounts capitalized)	$ 31	$ 12	$ 78	$ 81
Income taxes paid (net of refunds)	8	37	56	65

	December 31, 1999	**December 31, 1998**
ASSETS		
Property, Plant And Equipment		
Cost	$1,492	$2,749
Less accumulated depreciation and amortization	37	1,798
Sub-total	1,455	951
Construction work-in-progress	45	28
Net property, plant and equipment	1,500	979
Investments		
Advances receivable — PanEnergy	—	738
Investment in affiliates	2	44
Other	—	6
Total investments and other assets	2	788
Current Assets		
Receivables, less allowances of $1 for 1999 and $2 in 1998	112	94
Inventory and supplies	34	55
Deferred income taxes	11	2
Current portion of regulatory assets	—	6
Note receivable — CMS Capital	85	—
Other	30	23
Total current assets	272	180
Non-current Assets		
Goodwill, net	774	—
Debt issuance cost	11	11
Other	1	15
Total non-current assets	786	26
Total Assets	$2,560	$1,973

PANHANDLE EASTERN PIPE LINE COMPANY

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER’S EQUITY

(In millions)

	December 31, 1999	December 31, 1998
COMMON STOCKHOLDER'S EQUITY AND LIABILITIES		
Capitalization		
Common stockholder’s equity		
Common stock, no par, 1,000 shares authorized, issued and outstanding	$ 1	$ 1
Paid-in capital	1,127	466
Retained earnings	—	91
Total common stockholder’s equity	1,128	558
Long-term debt	1,094	299
Total capitalization	2,222	857
Current Liabilities		
Note payable — PanEnergy	—	675
Accounts payable	28	56
Accrued taxes	8	58
Accrued interest	29	8
Other	139	117
Total current liabilities	204	914
Non-current Liabilities		
Deferred income taxes	45	99
Other	89	103
Total non-current liabilities	134	202
Total Common Stockholder’S Equity And Liabilities	$2,560	$1,973

PANHANDLE EASTERN PIPE LINE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE STRUCTURE

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

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

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

CMS Panhandle Holding privately placed $800 million of senior unsecured notes and received a $1.1 billion initial capital contribution from CMS Energy to fund the acquisition of Panhandle. On June 15, 1999, CMS Panhandle Holding was merged into Panhandle, at which point the CMS Panhandle Holding notes became direct obligations of Panhandle. In September 1999, Panhandle completed an exchange offer which replaced the $800 million of notes originally issued by CMS Panhandle Holding with substantially identical SEC-registered notes.

The acquisition by CMS Panhandle Holding was accounted for using the purchase method of accounting in accordance with generally accepted accounting principles, with Panhandle allocating the purchase price paid by CMS Panhandle Holding to Panhandle's net assets as of the acquisition date based on a preliminary appraisal completed December 1999. 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.

Assets acquired and liabilities assumed are recorded at their estimated fair values and are subject to adjustment when additional information concerning asset and liability valuations is finalized by the end of the first quarter of 2000. Panhandle has allocated the tentative excess purchase price over the estimated fair value of net assets acquired of approximately $800 million to goodwill and is amortizing this amount on a straight-line basis over forty years. The amortization of the excess purchase price over 40 years reflects the nature of the industry in which Panhandle competes as well as the long-lived nature of Panhandle's assets. As a result of regulation, high replacement costs, and competition, entry into the natural gas transmission and storage business requires a significant investment. The excess purchase price over the prior carrying amount of Panhandle's net assets as of March 29, 1999 totaled $1.3 billion, and was allocated as follows:

	Mar. 29 - Dec. 31, 1999	Jan. 1 - Mar. 28, 1999	Years Ended December 31, 1998	1997
Common Stock				
At beginning and end of period	$ 1	$ 1	$ 1	$ 1
Other Paid-In Capital				
At beginning of period	466	466	466	466
Acquisition adjustment to eliminate original paid-in capital	(466)	—	—	—
Capital contribution of acquisition costs by parent	11	—	—	—
Cash capital contribution by parent	1,116	—	—	—
At end of period	1,127	466	466	466
Retained Earnings				
At beginning of period	101	92	34	29
Acquisition adjustment to eliminate original retained earnings	(101)	—	—	—
Net Income	41	33	91	80
Assumption of net liability by PanEnergy	—	57	—	—
Common stock dividends	(41)	(81)	(34)	(75)
At end of period	—	101	91	34
Total Common Stockholder's Equity	$1,128	$568	$558	$501

Pro forma results of operations for 1999 and 1998 as though Panhandle had been acquired and purchase accounting applied at the beginning of 1999 and 1998, respectively, are as follows:

	In Millions
Property, plant and equipment	$ 633
Accounts receivable	3
Inventory	(9)
Goodwill	788
Regulatory assets, net	(15)
Liabilities	(72)
Long-term debt	(6)
Other	(16)
Total	$1,306

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

Consolidations: The consolidated financial statements include the accounts of all of Panhandle's majority-owned subsidiaries after the elimination of significant intercompany transactions and balances. Investments in other entities that are not controlled by Panhandle, but where it has significant influence over operations, are accounted for using the equity method.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current and expected future events, actual results could differ from those estimates.

Cash And Cash Equivalents: All liquid investments with maturities at date of purchase of three months or less are considered cash equivalents.

Inventory: Inventory consists of gas held for operations and materials and supplies and is recorded at the lower of cost or market, using the weighted average cost method. Effective January 1, 1999, Trunkline changed to the weighted average cost method from the last-in first-out method for its gas held for operations with no material impact on the financial statements.

Gas Imbalances: Gas imbalances occur as a result of differences in volumes of gas received and delivered. Gas imbalance receivables and payables are valued at lower of cost or market.

Property, Plant And Equipment: On March 29, 1999, Panhandle's assets were acquired by CMS Panhandle Holding. The acquisition was accounted for using the purchase method of accounting in accordance with generally accepted accounting principles. Panhandle's property, plant and equipment was adjusted to estimated fair market value on March 29, 1999 and depreciated based on revised estimated remaining useful lives. Panhandle's accumulated depreciation and amortization provision balance at March 29, 1999 was eliminated pursuant to the purchase method of accounting (See Note 1).

Ongoing additions of property, plant and equipment are stated at original 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 property, plant and equipment is also capitalized. The cost of repairs and replacements of minor items is charged to expense as incurred. Depreciation is generally computed using the straight-line method. The composite weighted-average depreciation rates were 2.6%, 2.2% and 2.2% for 1999, 1998 and 1997, respectively.

When property, plant and equipment is retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation and amortization. When entire regulated operating units are 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.

Impairment Of Long-Lived Assets: The recoverability of long-lived assets and intangible assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluation is based on various analyses, including undiscounted cash flow projections.

Unamortized Debt Premium, Discount And Expense: Premiums, discounts and expenses incurred in connection with the issuance of presently outstanding long-term debt are amortized over the terms of the respective issues.

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. Under the terms of the sale of Panhandle to CMS Energy (See Note 1), a subsidiary of Duke Energy is obligated to complete the Panhandle clean-up programs at certain agreed-upon sites and to defend and indemnify Panhandle against certain future environmental litigation and claims. These clean-up programs are expected to continue until 2001.

Revenues: Revenues on transportation and storage of natural gas are recognized as service is provided. When rate cases are pending final approval, a portion of the revenues is subject to possible refund. Reserves have been established where required for such cases.

During 1999 and 1997, sales to ProLiance Energy, L.L.C., a nonaffiliated gas marketer, and Consumers Energy, a subsidiary of CMS Energy, each accounted for at least 10% of consolidated revenues of Panhandle. During 1998, sales to ProLiance Energy, L.L.C. accounted for approximately 10% of consolidated revenues of Panhandle. No other customer accounted for 10% or more of consolidated revenues during 1999, 1998 or 1997.

Interest Cost Capitalized: SFAS 34, *Capitalization of Interest Cost,* requires capitalization of interest on certain qualifying assets that are undergoing activities to prepare them for their intended use. SFAS 34 limits the capitalization of interest for the period to the actual interest cost that is incurred and prohibits imputing interest costs on any equity funds. As a result of the discontinuance of SFAS 71, Panhandle is now subject to the provisions of SFAS 34.

Income Taxes: CMS Energy and its subsidiaries file a consolidated federal income tax return. Federal income taxes have been provided by Panhandle on the basis of its separate company income and deductions in accordance with established practices of the consolidated group. Deferred income taxes have been provided for temporary differences. Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in different periods.

Goodwill Amortization: Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is amortized using the straight-line method over forty years. Accumulated amortization of goodwill at December 31, 1999 was $14 million.

Reclassifications: Certain amounts have been reclassified in the Consolidated Financial Statements to conform to the current presentation.

New Accounting Standard: In 1999, the FASB issued SFAS 137, *Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No.133.* SFAS 137 defers the effective date of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities,* to January 1, 2001. Panhandle is currently studying SFAS 133 and plans to adopt SFAS 133 as of January 1, 2001, and has yet to quantify the effects of adoption on its financial statements.

Change In Accounting Policy: As a result of Panhandle’s new cost basis resulting from the merger with CMS Panhandle Holding, which includes costs not likely to be considered for regulatory recovery, in addition to the level of discounting being experienced by Panhandle, it no longer meets the criteria of SFAS 71 and has discontinued application of SFAS 71. Accordingly, upon acquisition by CMS Panhandle Holding, the remaining net regulatory assets of approximately $15 million were eliminated in purchase accounting (See Note 1).

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3. REGULATORY MATTERS

Effective August 1996, Trunkline placed into effect a general rate increase, subject to refund. On September 16, 1999, Trunkline filed a FERC settlement agreement to resolve certain issues in this proceeding. This settlement was approved on February 1, 2000 and will require refunds of approximately $2 million expected to be made in April 2000, with supplemental refunds expected in July 2000. On January 12, 2000, FERC issued an order on the remainder of the rate proceeding which, if approved without modification, would result in a substantial reduction to Trunkline’s tariff rates which would impact future revenues and require refunds. Trunkline has requested rehearing of certain matters in this order.

In conjunction with a FERC order issued in September 1997, certain natural gas producers were required to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines. These pipelines were ordered to refund these amounts to their customers. All payments are to be made in compliance with prescribed FERC requirements. At December 31, 1999 and December 31, 1998, accounts receivable included $54 million and $50 million, respectively, due from natural gas producers, and other current liabilities included $54 million and $50 million, respectively, for related obligations.

In June 1998, Trunkline filed a petition with the FERC to abandon 720 miles of its 26-inch diameter pipeline that extends from Longville, Louisiana to Bourbon, Illinois. Trunkline requested permission to transfer the pipeline to an affiliate, which had entered into an option agreement with Aux Sable for potential conversion of the line to allow transportation of hydrocarbon vapors. Trunkline requested FERC to grant the abandonment authorization in time to separate the pipeline from existing facilities and allow Aux Sable to convert the pipeline to hydrocarbon vapor service by October 1, 2000, if the option was exercised. The option expired on July 1, 1999 and was not renewed by Aux Sable. On November 8, 1999, the FERC issued a letter order dismissing Trunkline’s filing without prejudice to refiling the abandonment to reflect changed circumstances. Trunkline on March 9, 2000 refiled its abandonment application with FERC. This filing is in conjunction with a plan for a joint venture to convert the line from natural gas transmission service to a refined products pipeline by the end of 2001. Panhandle will own a one-third interest in the joint venture.

On May 19, 1999, Trunkline and Trunkline LNG submitted a compliance filing advising the FERC that the acquisition by CMS Energy of Trunkline LNG triggered certain provisions of a 1992 settlement. The settlement resolved issues related to minimum bill provisions of the Trunkline LNG Rate Schedule PLNG-1, as well as pending rate matters for Trunkline and refund matters for Trunkline LNG. Specifically, the settlement provisions require Trunkline LNG, and Trunkline in turn, to make refunds to customers, including Panhandle Eastern Pipe Line Company and Consumers, who were parties to the settlement, if the ownership of all or portion of the LNG terminal is transferred to an unaffiliated entity. The total refund due customers of approximately $17 million will be paid within 30 days of final FERC approval of the compliance filing. In conjunction with the acquisition of Panhandle by CMS Energy, Duke Energy indemnified Panhandle for this refund obligation. In conjunction with the settlement, Panhandle Eastern Pipe Line Company and its customers entered into an agreement, whereby upon FERC approval of the compliance filing described above, Panhandle Eastern Pipe Line Company will file to flow through its portion of the settlement amounts to its customers. The May 19, 1999 compliance filing is pending FERC approval.

4. RELATED PARTY TRANSACTIONS

		In Millions
	Year Ended December 31, 1999 (Unaudited)	Year Ended December 31, 1998 (Unaudited)
Revenues	$ 467	$ 470
Net income	67	60
Total assets	2,560	2,477

Amounts for 1999 reflect only related party transactions with CMS Energy and its subsidiaries for the period after the sale of Panhandle to CMS Energy. Interest charges include $55 million for the twelve months ended 1998 for interest associated with notes payable to a subsidiary of Duke Energy. Note receivable from CMS Capital included an $85 million note at December 31, 1999, which bore interest at the 30-day commercial paper interest rate. Other income includes $2 million for the period ended December 31, 1999 for interest on note receivable from CMS Capital.

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

			In Millions	
	Mar. 29 - Dec. 31 1999	Jan. 1 - Mar. 28 1999	For the Years Ended December 31, 1998	1997
Transportation of natural gas	$ 64	$ 6	$29	$32
Other operating revenues	—	2	15	27
Operation and maintenance (a)	25	8	60	66
Interest income	2	—	—	—
Interest expense	—	13	55	49

(a) Includes allocated benefit plan costs

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

5. GAS IMBALANCES

The Consolidated Balance Sheets include in-kind balances as a result of differences in gas volumes received and delivered. At December 31, 1999 and 1998, other current assets included $22 million and $20 million, respectively, and other current liabilities included $30 million and $22 million, respectively, related to gas imbalances.

6. INCOME TAXES

The separate components of income tax expense consist of:

	In Millions	
	December 31,	
	1999	1998
Receivables	$ 8	$ 2
Accounts payable	16	46
Taxes accrued	—	35

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			In Millions	
	Mar. 29 - Dec. 31 1999	Jan. 1 - Mar. 28 1999	For the Years Ended December 31, 1998	1997
Current income taxes				
Federal	$(7)	$ 18	$34	$41
State	—	2	6	5
Total current income taxes	(7)	20	40	46
Deferred income taxes, net				
Federal	29	—	14	1
State	5	—	3	1
Total deferred income taxes, net	34	—	17	2
Total income tax expense	$27	$ 20	$57	$48

The principal components of Panhandle’s deferred tax assets (liabilities) recognized in the balance sheet are as follows:

INCOME TAX EXPENSE RECONCILIATION TO STATUTORY RATE			In Millions	
	Mar. 29 - Dec. 31 1999	Jan. 1 - Mar. 28 1999	For the Years Ended December 31, 1998	1997
Income tax, computed at the statutory rate	$ 24	$ 18	$ 52	$ 45
Adjustments resulting from:				
State income tax, net of federal income tax effect	3	2	5	3
Total income tax expense	$ 27	$ 20	$ 57	$ 48
Effective tax rate	39.6%	38.2%	38.5%	37.5%

As described in Note 1, the stock of Panhandle was acquired from subsidiaries of Duke Energy by CMS Panhandle Holding for a total of $2.2 billion in cash and acquired debt. The acquisition was treated as an asset acquisition for tax purposes, which eliminated Panhandle’s deferred tax liability and gave rise to a new tax basis in Panhandle’s assets equal to the purchase price.

7. PROPERTY, PLANT AND EQUIPMENT

Net Deferred Income Tax Liability Components	In Millions December 31, 1999	1998
Deferred credits and other liabilities	$ 30	$ 85
Other	32	3
Total deferred income tax assets	62	88
Investments and other assets	(18)	(18)
Property, plant and equipment	(10)	(148)
Goodwill	(65)	—
Regulatory assets	—	(12)
Total deferred income tax liabilities	(93)	(178)
State deferred income tax, net of federal tax effect	(3)	(7)
Net deferred income tax liability	(34)	(97)
Portion classified as current asset	11	2
Noncurrent liability	$(45)	$ (99)

8. FINANCIAL INSTRUMENTS

Panhandle’s financial instruments include approximately $1.1 billion and $299 million of long-term debt at December 31, 1999 and 1998, respectively, with an approximate fair value of $1 billion and $318 million as of December 31, 1999 and 1998, 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, 1999 and 1998 are not necessarily indicative of the amounts Panhandle could have realized in current market exchanges.

Guarantees made to related parties have no book value associated with them and there are no fair values readily determinable since quoted market prices are not available. The fair values of advances and note receivable-related parties are not readily determinable since such amounts are carried as open accounts (See Note 4).

9. LONG-TERM DEBT

		In Millions
	1999	**1998**
Transmission	$1,189	$2,003
Gathering	18	265
Underground storage	245	320
General plant	40	161
Construction work-in-progress	45	28
Total property, plant and equipment	1,537	2,777
Less accumulated depreciation and amortization	37	1,798
Net property, plant and equipment	$1,500	$ 979

On March 29, 1999, CMS Panhandle Holding privately placed $800 million of senior notes (See Note 1) including: $300 million of 6.125 percent senior notes due 2004; $200 million of 6.5 percent senior notes due 2009; and $300 million of 7.0 percent senior notes due 2029. On June 15, 1999, CMS Panhandle Holding was merged into Panhandle and the obligations of CMS Panhandle Holding under the notes and the related indenture were assumed by Panhandle. In September 1999, Panhandle completed an exchange offer which replaced the $800 million of notes originally issued by CMS Panhandle Holding with substantially identical SEC-registered notes.

In conjunction with the application of purchase accounting, Panhandle’s existing notes totaling $300 million were revalued resulting in a net premium recorded of approximately $5 million.

The 7.2% — 7.95% debentures have call options whereby Panhandle has the option to repay the debt early. Based on the year in which Panhandle may first exercise the redemption options, all $200 million could potentially be repaid in 2003.

At December 31, 1998, Note payable-PanEnergy consisted of a $675 million note bearing interest at prime rate. The note was eliminated immediately prior to the acquisition by CMS Energy.

Other: Under its most restrictive borrowing arrangement at December 31, 1999, none of Panhandle’s consolidated net income was restricted for payment of common dividends.

10. INVESTMENT IN AFFILIATES

Investments in affiliates, which are not controlled by Panhandle but where Panhandle has significant influence over operations, are accounted for by the equity method. These investments include undistributed earnings of $.4 million and $14 million in 1999 and 1998, respectively. Panhandle’s proportionate share of net income from these affiliates for the years ended December 31, 1999, 1998 and 1997 was $.2 million, $6 million and $5 million, respectively. These amounts are reflected in the Consolidated Statements of Income as Other Operating Revenues.
Investment in affiliates includes the following:

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

Panhandle Holding on March 29, 1999.

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

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

11. COMMITMENTS AND CONTINGENCIES

CAPITAL EXPENDITURES: Panhandle estimates capital expenditures and investments, including allowance for funds used during construction, to be approximately $130 million in 2000 and $60 million in each of the two following years. The year 2000 estimate includes the Sea Robin acquisition (see Note 14). These estimates are prepared for planning purposes and are subject to revision. Capital expenditures for 1999 were satisfied by cash from operations.

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

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

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

ENVIRONMENTAL MATTERS: Panhandle is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. Panhandle has identified environmental contamination at certain sites on its systems and has undertaken clean-up programs at these sites. The contamination resulted from the past use of lubricants in compressed air systems containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Under the terms of the sale of Panhandle to CMS Energy, a subsidiary of Duke Energy is obligated to complete the Panhandle clean-up programs at certain agreed-upon sites and to indemnify against certain future environmental litigation and claims. The Illinois EPA included Panhandle and Trunkline, together with other non-affiliated parties, in a cleanup of former waste oil disposal sites in Illinois. Prior to a partial cleanup by the United States EPA, a preliminary study estimated the cleanup costs at one of the sites to be between $5 million and $15 million. The State of Illinois contends that Panhandle Eastern Pipe Line Company's and Trunkline's share for the costs of assessment and remediation of the sites, based on the volume of waste sent to the facilities, is 17.32 percent. Management believes that the costs of cleanup, if any, will not have a material adverse impact on Panhandle's financial position, liquidity, or results of operations.

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

Under the terms of a settlement related to a transportation agreement between Panhandle and Northern Border Pipeline Company, Panhandle guarantees payment to Northern Border Pipeline Company under a transportation agreement held by a third party. The transportation agreement requires estimated total payments of $33 million for the remainder of 2000 through 2001. Management believes the probability that Panhandle will be required to perform under this guarantee is remote.

LEASES: Panhandle utilizes assets under operating leases in several areas of operation. Consolidated rental expense amounted to $14 million ($11 million related to the CMS Energy ownership period and $3 million during the Duke Energy ownership period), $15 million and $20 million in 1999, 1998 and 1997, respectively. Future minimum rental payments under Panhandle’s various operating leases for the years 2000 through 2004 are $14 million, $13 million, $10 million, $4 million and $4 million, respectively and $11 million for 2005 and thereafter.

12. EXECUTIVE INCENTIVE COMPENSATION

Panhandle participates in CMS Energy’s Performance Incentive Stock Plan. Under the plan, restricted shares of Common Stock of CMS Energy, as well as stock options and stock appreciation rights related to Common Stock may be granted to key employees based on their contributions to the successful management of CMS Energy and its subsidiaries. Awards under the plan may consist of any class of Common Stock. Certain plan awards are subject to performance-based business criteria. The plan reserves for awards not more than five percent, as amended January 1, 1999, of Common Stock outstanding on January 1 each year, less (i) the number of shares of restricted Common Stock awarded and (ii) Common Stock subject to options granted under the plan during the immediately preceding four calendar years. The number of shares of restricted Common Stock awarded under this plan can not exceed 20% of the aggregate number of shares reserved for award. Any forfeiture of shares previously awarded will increase the number of shares available to be awarded under the plan. At December 31, 1999, awards of up to 2,466,524 shares of CMS Energy Common Stock may be issued.

Restricted shares of Common Stock are outstanding shares with full voting and dividend rights. These awards vest over five years at the rate of 25 percent per year after two years. The restricted shares are subject to achievement of specific levels of total shareholder return and are subject to forfeiture if employment terminates before vesting. If performance objectives are exceeded, the plan provides additional awards. Restricted shares vest fully if control of CMS Energy changes, as defined by the plan. At December 31, 1999, all of the 12,000 shares of restricted CMS Energy Common Stock outstanding are subject to performance objectives.

The plan grants stock options and stock appreciation rights relating to Common Stock with an exercise price equal to the closing market price on each grant date. Some options may be exercised upon grant; others vest over five years at the rate of 25 percent per year after one year. All options expire up to ten years and one month from date of grant. The status of the restricted stock and options granted to Panhandle’s key employees under the Performance Incentive Stock Plan follows:

			In Millions
		December 31,	
	Year Due	1999	1998
6.125%-7.875% Notes	2004-2029	$ 900	$ 100
7.2%-7.95% Debentures	2023-2024	200	200
Unamortized debt (discount) and premium, net		(6)	(1)

Total long-term debt	$1,094	$ 299

The following table summarizes Panhandle information about CMS Energy Common Stock options outstanding at December 31, 1999:

	Restricted Stock	Options	
CMS ENERGY COMMON STOCK	**Number of Shares**	**Number of Shares**	**Weighted Average Exercise Price**
Outstanding at December 31, 1998	—	—	NA
Granted	12,000	299,912	$41.07
Exercised or Issued	—	—	NA
Outstanding at December 31, 1999	12,000	299,912	$41.07

The weighted average fair value of options granted to Panhandle employees for CMS Energy Common Stock was $5.93 in 1999. Fair value is estimated using the Black-Scholes model, a mathematical formula used to value options traded on securities exchanges, with the following assumptions:

Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price
CMS Energy Common Stock			
$39.0625 - $41.750	299,912	9.46 years	$41.07

Panhandle applies Accounting Principles Board Opinion 25 and related interpretations in accounting for the Performance Incentive Stock Plan. Since stock options are granted at market price, no compensation cost has been recognized for stock options granted under the plan. If compensation cost for stock options had been determined in accordance with SFAS 123, Accounting for Stock-Based Compensation, Panhandle’s net income would have decreased by approximately $1.2 million for 1999. The compensation cost charged against income for restricted stock was $.1 million in 1999.

13. BENEFIT PLANS

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

Following the acquisition of Panhandle by CMS Energy described in Note 1, Panhandle now participates in CMS Energy’s non-contributory defined benefit retirement plan covering most employees with a minimum of one year vesting service. Panhandle, through CMS Energy, provides retirement benefits under a number of different plans, including certain health care and life insurance benefits under OPEB, benefits to certain management employees under SERP, and benefits to substantially all its employees under a trusteed, non-contributory, defined benefit pension plan of CMS Energy (Pension Plan) and a defined contribution 401 (K) plan.

CMS Energy’s policy is to fund amounts, as necessary, on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. With respect to the CMS Pension Plan, the fair value of the plan assets was $1,094 million at December 31, 1999 as compared to the benefit obligation of $971 million. With respect to the prior Duke Energy plan, the fair value of the plan assets of $819 million at December 31, 1998, exceeded the projected benefit obligations of $338 million, as of December 31, 1998.

Panhandle’s net periodic pension benefit cost, as allocated by CMS Energy, was $2 million in 1999. For 1998 and 1997, Panhandle’s net periodic pension benefit cost, as allocated by a subsidiary of Duke Energy, was $14 million and $13 million, respectively.

Amounts presented below for the Pension Plan include amounts for employees of CMS Energy and nonutility affiliates which were not distinguishable from the plan’s total assets.

Weighted-Average Assumptions:

	Year Ended December 31, 1999
Risk-free interest rate	5.65%

Expected stock price volatility	16.81%
Expected dividend rate	$ .365
Expected option life	4.5years

(a) 1999 reflects CMS Energy's Pension and Other Postretirement benefits accounting.

The Pension Plan's net unrecognized transition obligation, resulting from the implementation of accrual accounting, is amortized over 16 years and 11 years for the SERP's on a straight-line basis over the average remaining service period of active employees.

Panhandle accrues health care and life insurance benefit costs over the active service period of employees to the date of full eligibility for the benefits.

With respect to the CMS OPEB Plan, the fair value of the plan assets was $431 million at December 31, 1999 as compared to the benefit obligation of $736 million. With respect to the prior Duke Energy plan, the fair value of the plan assets of $150 million at December 31, 1998, versus projected benefit obligations of $225 million, as of December 31, 1998.

It is Panhandle's and CMS Energy's general policy to fund accrued postretirement health care costs. CMS Energy's retiree life insurance plan is fully funded based on actuarially determined requirements.

Panhandle's net periodic postretirement benefit cost, as allocated by CMS Energy, was $4 million in 1999. For each year in 1998 and 1997, Panhandle's net periodic postretirement benefit cost, as allocated by a subsidiary of Duke Energy, was $7 million.

For measurement purposes, a 7.0 percent weighted average rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate is based on assumptions that it will decrease gradually to 5.5 percent in 2006 and thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for Panhandle's health care plans.

	Pension & SERP			**OPEB**		
Years Ended December 31	**1999a**	**1998**	**1997**	**1999a**	**1998**	**1997**
Discount rate	7.75%	6.75%	7.25%	7.75%	6.75%	7.25%
Expected long-term rate of return on plan assets	9.25%	9.25%	9.25%	7.00%	9.25%	9.25%
Rate of compensation increase		4.67%	4.75%			
Pension -to age 45	5.25%	NA	NA			
-age 45 to assumed retirement	3.75%	NA	NA			
SERP	5.50%	NA	NA			

14. SUBSEQUENT EVENT (UNAUDITED)

In January 2000, Panhandle announced that Trunkline has entered into a definitive agreement to acquire the Sea Robin Pipeline system, a 1 Bcf per day capacity offshore Gulf of Mexico pipeline, from Southern Natural Gas Company, a subsidiary of Sonat, Inc., for a total price including certain transaction costs of approximately $74 million. This transaction is expected to close in March 2000.

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

		In Millions
Sensitivity to Changes in Assumed Health Care Cost Trend Rates	**1-Percentage-Point Increase**	**1-Percentage-Point Decrease**
Effect on total service and interest cost components	$ 1	$ (1)
Effect on postretirement benefit obligation	$ 8	$ (7)

(In millions)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**

1999					
Operating revenue	$133(a)	$104(a)	$107	$127	$471
Pretax Operating Income	69(a)	44(a)	41	39	193
Net income	34	14	14	12	74
1998					
Operating revenue	$139	$116	$111	$130	$496
Pretax Operating Income	70	44	36	51	201
Net income	35	17	11	28(b)	91

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To: Panhandle Eastern Pipe Line Company:

We have audited the accompanying consolidated balance sheet of Panhandle Eastern Pipe Line Company (a Delaware corporation) and subsidiaries as of December 31, 1999, and the related consolidated statements of income, cash flows and common stockholder's equity for the period from January 1, 1999 through March 28, 1999 and for the period from March 29, 1999 through December 31, 1999. 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 in accordance with auditing standards generally accepted in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Panhandle Eastern Pipe Line Company and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for the period from January 1, 1999 through March 28, 1999 and for the period from March 29, 1999 through December 31, 1999 in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Houston, Texas

February 25, 2000

Independent Auditors' Report

Panhandle Eastern Pipe Line Company:

We have audited the accompanying consolidated balance sheets of Panhandle Eastern Pipe Line Company and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income, common stockholder's equity and cash flows for each of the two years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina

February 12, 1999

This schedule contains summary financial information extracted from the Panhandle Eastern Pipe Line Company Quarterly Report on Form 10-K for the year ended December 31, 1999 and is qualified in its entirety by reference to such financial statements.

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PANHANDLE EASTERN PIPE LINE COMPANY
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Not meaningful since Panhandle Eastern Pipe Line Company is a wholly-owned subsidiary.

(a) First and second quarters of 1999 were restated to include certain miscellaneous income, including rental income and gain or loss on sale of assets, as other revenue.
(b) Includes a gain on sale of certain general partnership interests of $14 million.