

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

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED

SEPTEMBER 30, 2003

COMMISSION FILE NO. 1-2921

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

DELAWARE

(State or other jurisdiction of
incorporation or organization)

44-0382470

(I.R.S. Employer
Identification No.)

5444 WESTHEIMER ROAD, P.O. BOX 4967

HOUSTON, TEXAS

(Address of principal executive offices)

77210-4967

(Zip Code)

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

Securities Registered Pursuant to Section 12(b) 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 whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12[b]-2).

Yes No

PANHANDLE EASTERN PIPE LINE COMPANY, LLC
FORM 10-Q
SEPTEMBER 30, 2003
INDEX

[Page(s)] ---

----- PART

I. FINANCIAL
INFORMATION

Item 1.

Financial
Statements:
Consolidated
statements of
operations -
three and
nine months
ended
September 30,
2003 3

Consolidated
balance
sheets -
September 30,
2003 and
December 31,
2002 4-5

Consolidated
statements of
owner's
equity - nine
months ended
September 30,
2003, the
period from
January 1,
2003 through
June 11, 2003
and the year
ended
December 31,
2002 6

Consolidated
statements of
cash flows -
nine months
ended
September 30,
2003 and 2002

7 Condensed
notes to
consolidated
financial
statements 8-

24 Item 2.
Management's
Discussion
and Analysis
of Financial
Condition and
Results 25-35
of Operations

Item 3.
Quantitative
and
Qualitative
Disclosures
about Market
Risk 36 Item

4. Controls
and
Procedures 36
PART II.

OTHER
INFORMATION

Item 1. Legal
Proceedings
(See

"COMMITMENTS
AND
CONTINGENCIES"

in Notes to
Consolidated
Financial
Statements)
36-37 Item 6.
Exhibits and
Reports on
Form 8-K 37

PANHANDLE EASTERN PIPE LINE COMPANY, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In Millions)

POST-
ACQUISITION
PRE-ACQUISITION
PRE-ACQUISITION

----- POST-
ACQUISITION
THREE MONTHS
THREE MONTHS --

NINE MONTHS
ENDED ENDED
JUNE 12- JAN 1-
ENDED SEPTEMBER
30, SEPTEMBER
30, SEPTEMBER
30, JUNE 11,
SEPTEMBER 30,
2003 2002 2003
2003 2002 -----

--- OPERATING
REVENUE

Transportation
and storage of
natural gas \$
96 \$ 92 \$ 117 \$
197 \$ 296 LNG
terminalling
revenue 16 15
19 27 44 Equity
losses from
unconsolidated
subsidiaries --
(2) -- -- (5)
Other 2 3 3 10
12 -----

Total operating
revenue 114 108
139 234 347 ---

----- OPERATING
EXPENSES

Operation,
maintenance and
general 53 50
63 91 150
Depreciation
and
amortization 17
14 20 23 40
General taxes 7
5 9 12 17 -----

PANHANDLE EASTERN PIPE LINE COMPANY, LLC
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)

ASSETS

POST-	
ACQUISITION	---

PRE-ACQUISITION	
(UNAUDITED)	---

SEPTEMBER 30,	
DECEMBER 31,	
2003 2002	-----

PROPERTY, PLANT	
AND EQUIPMENT	
Cost \$ 1,910 \$	
1,765	
Construction	
work-in-	
progress	69 44

---	1,979 1,809
Less	
accumulated	
depreciation	
and	
amortization	19
188	-----

Net	
property, plant	
and equipment	
1,960	1,621 ---

INVESTMENTS IN	
AFFILIATES	4 68

CURRENT	
ASSETS	
Cash and	
temporary cash	
investments at	
cost, which	
approximates	
market	15 81
Restricted cash	
--	64
Accounts	
receivable,	
less allowances	
of \$4 and \$8 as	
of September	
30, 2003 and	
December 31,	
2002,	
respectively	47
50	
Accounts	
receivable -	
related parties	
1 9	
Gas	
imbalances -	
receivable	18
18	
System gas	
and operating	
supplies	58 41
Deferred income	
taxes	2 13
Note	
receivable -	
related party	
74 60	
Other	11
6	-----

Total	
current assets	
226	342 -----

Goodwill, net -
- 113 Debt
issuance cost 5
17 Deferred
income taxes,
net -- 40 Non-
current system
gas 21 15 Other
5 16 -----

----- TOTAL
ASSETS \$ 2,221
\$ 2,232
=====

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

PANHANDLE EASTERN PIPE LINE COMPANY, LLC
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)
OWNER'S EQUITY AND LIABILITIES

POST-
ACQUISITION ---

PRE-ACQUISITION
(UNAUDITED) ---

SEPTEMBER 30,
DECEMBER 31,
2003 2002 -----

OWNER'S EQUITY
Common stock,
no par, 1,000
shares
authorized,
issued and
outstanding \$ -
- \$ 1
Accumulated
other
comprehensive
income (loss) 2
(39) Other
paid-in capital
679 1,281
Retained
earnings
(deficit) 25
(341) Note
receivable -
CMS Capital --
(150) Tax
sharing
receivable -
Southern Union
(85) -- -----

Total owner's
equity 621 752
Long-term debt
1,001 1,150 ---

Total
capitalization
1,622 1,902 ---

MINORITY
INTEREST -- --
CURRENT
LIABILITIES
Accounts
payable 14 9
Accounts
payable -
related parties
13 8 Current
portion of
long-term debt
210 12 Note
payable -- 30
Gas imbalances
- payable 56 41
Accrued taxes 7
11 Accrued
interest 8 25
Accrued
liabilities 10
21 Other 50 38

--- Total
current

liabilities 368
195 -----

Deferred income
taxes, net 109
-- Post-
retirement
benefits 34 53
Other 88 82 ---

TOTAL OWNER'S
EQUITY AND
LIABILITIES \$
2,221 \$ 2,232
=====
=====

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

PANHANDLE EASTERN PIPE LINE COMPANY, LLC
CONSOLIDATED STATEMENTS OF OWNER'S EQUITY

Accumulated
Other
Comprehensive
Other Paid-
in Common
Stock Income
Capital -----

(In
millions)
Balance
January 1,
2002 (Pre-
acquisition)
\$ 1 \$ -- \$
1,286

Comprehensive
income: Net
earnings --
-- --

Increase in
pension
liability --
(26) --

Unrealized
loss related
to interest
rate swaps,
net of tax -
- (13) --

Comprehensive
loss Return
of capital -
CMS -- --
(5) Common
stock
dividends --
-- --

Balance
December 31,
2002 (Pre-
acquisition)
\$ 1 \$ (39) \$
1,281

(Unaudited)
Comprehensive
income: Net
earnings --
-- --

Unrealized
loss related
to interest
rate swaps,
net of tax -
- (3) --

Comprehensive
income

Return of
capital -
Centennial -
- -- (40)

Return of
capital -
Guardian
equity
investment -
- -- (28)

Capital
contribution
from CMS Gas
Transmission
-- -- 15 ---

Balance June
11, 2003
(Acquisition

date) \$ 1 \$
 (42) \$ 1,228
 Acquisition
 adjustments
 to eliminate
 original
 balances (1)
 42 (1,228)
 Pushdown of
 purchase
 price and
 related
 costs -- --
 679 Tax
 sharing
 receivable -
 Southern
 Union -- --

 Subtotal --
 -- 679

Comprehensive
 income: Net
 earnings --
 -- --
 Unrealized
 gain related
 to interest
 rate swaps,
 net of tax -
 - 2 --
 Comprehensive
 income -----

Balance
 September
 30, 2003
 (Post-
 acquisition)
 \$ -- \$ 2 \$
 679
 =====
 =====
 =====

Note Tax
 Sharing
 Retained
 Receivable-
 Receivable-
 Earnings CMS
 Southern
 (Deficit)
 Capital
 Union Total

(In
 millions)
 Balance
 January 1,
 2002 (Pre-
 acquisition)
 \$ (13) \$
 (150) -- \$
 1,124
 Comprehensive
 income: Net
 earnings
 (300) -- --
 (300)
 Increase in
 pension
 liability --
 -- -- (26)
 Unrealized
 loss related
 to interest
 rate swaps,

net of tax -
 - - - - (13)

 Comprehensive
 loss (339) -

 Return of
 capital -
 CMS - - - -
 (5) Common
 stock
 dividends
 (28) - - - -
 (28) Balance
 December 31,
 2002 (Pre-
 acquisition)
 \$ (341) \$
 (150) - - \$
 752
 (Unaudited)
 Comprehensive
 income: Net
 earnings 50
 - - - - 50
 Unrealized
 loss related
 to interest
 rate swaps,
 net of tax -
 - - - - (3)

 Comprehensive
 income 47 - -

 Return of
 capital -
 Centennial -
 - - - - (40)
 Return of
 capital -
 Guardian
 equity
 investment -
 - - - - (28)
 Capital
 contribution
 from CMS Gas
 Transmission
 - - - - 15

 Balance June
 11, 2003
 (Acquisition
 date) \$
 (291) \$
 (150) \$ - - \$
 746
 Acquisition
 adjustments
 to eliminate
 original
 balances 291
 150 - - (746)
 Pushdown of
 purchase
 price and
 related
 costs - - - -
 - - 679 Tax
 sharing
 receivable -
 Southern
 Union - - - -
 (85) (85) - -

 Subtotal - -
 - - (85) 594
 Comprehensive

income: Net
earnings 25
-- -- 25
Unrealized
gain related
to interest
rate swaps,
net of tax -
- -- -- 2
Comprehensive
income 27 --

Balance
September
30, 2003
(Post-
acquisition)
\$ 25 \$ -- \$
(85) \$ 621
=====
=====
=====
=====

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

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

POST-ACQUISITION
PRE-ACQUISITION -

-- JUNE 12- JAN
1- NINE MONTHS
SEPTEMBER 30,
JUNE 11, ENDED
SEPTEMBER 30,
2003 2003 2002 --

CASH FLOWS FROM
OPERATING

ACTIVITIES Net
income (loss) \$
25 \$ 50 \$ (315)
Adjustments to
reconcile net
income (loss) to
net cash from
operating
activities:
Depreciation and
amortization 20
23 40 Cumulative
effect of change
in accounting
principle -- (2)
369 Gain on
retirement of
debt, net of
taxes (4) -- --
Deferred income
taxes 17 30 58
Changes in
current assets
and liabilities
(1) 10 (16)
Other, net (6) --
(6) -----

--- Net cash
flows from
operating
activities 51 111
130 -----

--- CASH FLOWS
FROM (USED IN)
INVESTING

ACTIVITIES
Capital and
investment
expenditures (26)
(30) (83) Sales
(purchase) of
system gas, net 1
(3) -- Sale of
Centennial -- 40
-- Retirements
and other (1) --
(3) -----

--- Net cash
flows from (used
in) investing
activities (26) 7
(86) -----

 ---- CASH FLOWS
 FROM (USED IN)
 FINANCING
 ACTIVITIES
 Contribution from
 LNG Holdings'
 Minority Interest
 -- -- 1 Net
 (increase)decrease
 in current Note
 receivable - CMS
 Capital -- (62)
 171 Net increase
 in current Note
 receivable -
 Southern Union
 (74) -- -- Debt
 issuance 550 10 -
 - Debt
 retirements (542)
 (46) (135) Debt
 issuance costs
 (4) -- (3) Debt
 retirement costs
 (1) -- -- Gain on
 interest rate
 swap -- -- 3
 Return of capital
 -- (40) --
 Dividend -- --
 (27) -----

---- Net cash
 flows from (used
 in) financing
 activities (71)
 (138) 10 -----

----- Change
 in cash and cash
 equivalents (46)
 (20) 54 CASH AND
 CASH EQUIVALENTS
 AT BEGINNING OF
 PERIOD 61 81 3 --

 CASH AND CASH
 EQUIVALENTS AT
 END OF PERIOD \$
 15 \$ 61 \$ 57
 =====
 =====
 =====

SUPPLEMENTAL
 DISCLOSURES OF
 CASH FLOW
 INFORMATION CASH
 PAID DURING THE
 PERIOD FOR:
 Interest (net of
 amounts
 capitalized) \$ 33
 \$ 38 \$ 76 Income
 taxes (net of
 refunds) -- -- 1
 OTHER NONCASH
 INVESTING AND
 FINANCING
 ACTIVITIES WERE:
 Return of capital
 - Guardian equity
 investment \$ -- \$
 (28) \$ --
 Property
 contributions
 received -- 15 --

PANHANDLE EASTERN PIPE LINE, LLC

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FINANCIAL STATEMENTS

These interim financial statements should be read in conjunction with the financial statements and notes thereto contained in the Form 10-K of Panhandle Eastern Pipe Line Company, LLC, a Delaware LLC, including all of its subsidiaries (Panhandle), for the year ended December 31, 2002. All dollar amounts in the tables herein are stated in millions, unless otherwise indicated. Certain prior period amounts have been reclassified to conform with the current period presentation.

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

As further described below, Panhandle was acquired by Southern Union Company (Southern Union Company and together with its subsidiary, Southern Union) effective June 11, 2003. The acquisition was accounted for using the purchase method of accounting in accordance with accounting principles generally accepted in the United States of America with Panhandle allocating the purchase price paid by Southern Union to Panhandle's net assets as of the acquisition date based on preliminary estimates. The Panhandle assets acquired and liabilities assumed have been recorded at their estimated fair value and are subject to further assessment and adjustments pending the results of outside appraisals. The outside appraisals are expected to be completed prior to December 31, 2003. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS. Panhandle is an indirect wholly-owned subsidiary of Southern Union since June 11, 2003 when Southern Union acquired Panhandle (Panhandle Acquisition) from CMS Gas Transmission Company (CMS Gas Transmission), a subsidiary of CMS Energy Corporation (CMS Energy Corporation and together with its subsidiaries, CMS). (See Note 2, Southern Union Acquisition). Panhandle is primarily engaged in the interstate transportation and storage of natural gas and also provides liquefied natural gas (LNG) terminalling and regasification services and is subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC). The Panhandle entities include Panhandle Eastern Pipe Line Company, LLC (Panhandle Eastern Pipe Line), Trunkline Gas Company, LLC (Trunkline) a wholly-owned subsidiary of Panhandle Eastern Pipe Line, Sea Robin Pipeline Company (Sea Robin), a Louisiana joint venture and an indirect wholly-owned subsidiary of Panhandle Eastern Pipe Line, Trunkline LNG Company, LLC (Trunkline LNG) a wholly-owned subsidiary of Trunkline LNG Holdings, LLC (LNG Holdings) and Southwest Gas Storage, LLC (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 per day and 72 billion cubic feet 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 billion cubic feet of above ground LNG storage facilities.

PRINCIPLES OF CONSOLIDATIONS. The consolidated financial statements include the accounts of Panhandle and all majority-owned subsidiaries, after eliminating significant intercompany transactions and balances. Investments in businesses not controlled by Panhandle, but over which it has significant influence, are accounted for using the equity method of accounting.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The principles of the Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (SFAS No. 5), guide the recording of contingent liabilities within the financial statements. Certain accounting principles require subjective and complex judgments used in the preparation of financial statements. Accordingly, a different financial presentation could result depending on the judgment, estimates or assumptions that are used. Such estimates and assumptions, include, but are not specifically limited to: depreciation and amortization, interest rates, discount rates, health care trend rates, inflation rates, future commodity prices, mark-to-market valuations, investment returns, volatility in the price of Southern Union and CMS Common Stock, impact of new accounting standards, future costs associated with long-term contractual obligations, future compliance costs associated with environmental regulations, and continuing creditworthiness of counterparties. Although these estimates are based on management's knowledge of current expected future events, actual results could materially differ from those estimates.

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.

PROPERTY, PLANT AND EQUIPMENT. Property, Plant and Equipment (PP&E) is stated at cost and includes intangible assets and related amortization. Panhandle capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. The cost of replacements 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 and amortization is generally computed using the straight-line method.

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. Trunkline records an asset whenever fuel is due from customers from prior underrecovery based on contractual and specific tariff provisions which support the treatment as an asset. Panhandle's other companies that are subject to fuel tracker provisions record an expense when fuel is under recovered. The pipelines' fuel reimbursement is in-kind and non-discountable.

RELATED PARTY TRANSACTIONS. Prior to the acquisition by Southern Union, Panhandle had a number of significant transactions with its former parent and its subsidiaries. These transactions include revenues for the transportation of natural gas for Consumers Energy Company (Consumers), and other CMS affiliated entities, which are based on regulated prices, market prices and/or competitive bidding. Related party expenses include payments for services provided by affiliates and payment of overhead costs and management and royalty fees to CMS, as well as allocated benefit plan costs. Subsequent to June 11, 2003, related party expenses primarily include payments for services provided by Southern Union. Other income was primarily related to interest income from the Note receivable - CMS Capital (See Note 5, Related Party Transactions).

PANHANDLE EASTERN PIPE LINE, LLC

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A portion of Panhandle's revenues for the transportation of natural gas include 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 agreement between CMS and Southern Union or closing of the Panhandle acquisition and were based on regulated prices, market prices and competitive bidding. Currently, Panhandle supplies less than ten percent of Missouri Gas Energy's total gas delivery requirements. Missouri Gas Energy's volumes on Panhandle Eastern Pipe Line represents less than one percent of the total volume of that pipeline's business.

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.

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 3, Regulatory Matters).

INTEREST COST CAPITALIZED. Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost", requires capitalization of interest on certain qualifying assets that are undergoing activities to prepare them for their intended use. Interest costs incurred during the construction period are capitalized and amortized over the life of the assets.

GOODWILL. Goodwill represents the excess of costs over fair value of assets of businesses acquired. The Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" (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 tested for impairment at least annually in accordance with the provisions of SFAS No. 142. Panhandle's goodwill impairment test upon adoption of SFAS No. 142 in 2002 resulted in a \$601 million pre-tax write-down (\$369 million after-tax) under the new standard. The impact has been reflected retroactively to the first quarter of 2002 as a cumulative effect of a change in accounting for goodwill, pursuant to the requirements of SFAS No. 142.

On June 11, 2003, Southern Union completed its acquisition of Panhandle and its subsidiaries from CMS. Based on the preliminary purchase price allocations, which rely on estimates and are subject to further assessment and adjustment pending the results of third party appraisals, the acquisition results in no recognition of goodwill.

ACCOUNTING FOR RETIREMENT BENEFITS. Panhandle follows SFAS No. 87, "Employers' Accounting for Pensions", to account for pension costs and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", to account for other postretirement benefit costs. 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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 by Southern Union, Panhandle 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 four percent of the employee's eligible pay. In addition, Panhandle makes additional contributions ranging from 4 to 6 percent of the employee's eligible pay, depending on the employee's age and years of service. Panhandle has generally retained the same active employee health insurance benefits that were offered prior to the acquisition by Southern Union.

In connection with the Panhandle acquisition by Southern Union, CMS, or its affiliates, also retained liabilities with respect to the post-retirement 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 of the assets relating to OPEB, which were \$16 million less than the liabilities retained. Following the Panhandle acquisition, Panhandle provides certain post-retirement life and health benefits to eligible, active employees (Panhandle Plan). The accumulated post-retirement benefit obligation with respect to such post-retirement health and life benefits immediately following the acquisition is estimated to be approximately \$43 million. Panhandle agreed to provide, or supplement, post-retirement 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.

ACCOUNTING FOR DERIVATIVES. 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 a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

Interest rate swap agreements are used to reduce interest rate risks and to manage interest expense. By entering into these agreements, Panhandle generally converts floating-rate debt into fixed-rate debt, but may also convert fixed rate debt into floating. Interest differentials to be paid or received due to 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 cash flow 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. 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. Current

PANHANDLE EASTERN PIPE LINE, LLC

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

market pricing models were used to estimate fair values of interest rate swap agreements.

Panhandle is party to interest rate swap agreements with an aggregate notional amount of \$204 million as of September 30, 2003 that fix the interest rate applicable to floating rate long-term debt and which qualify for hedge accounting. As of September 30, 2003, the ineffectiveness of the interest rate swap agreements is not significant. As of September 30, 2003, floating rate London InterBank Offered Rate (LIBOR) based interest payments were exchanged for weighted fixed rate interest payments of 5.08%. As such, payments or receipts on interest rate swap agreements are recognized as adjustments to interest expense. As of June 11, 2003 (the acquisition date), September 30, 2003 and December 31, 2002, the fair value liability position of the swaps was \$27.7 million, \$22.3 million and \$22.4 million, respectively. As of September 30, 2003 and since the acquisition date, an unrealized gain of \$1.8 million, net of tax, was included in accumulated other comprehensive income related to these swaps, of which approximately \$0.2 million, net of tax, is expected to be reclassified to interest expense during the next twelve months as the hedged interest payments occur.

ACCOUNTING FOR GAINS AND LOSSES ON DEBT EXTINGUISHMENT. These statements have been revised to reflect the application of 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), which 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 after May 15, 2002. Panhandle has adopted SFAS No. 145 and the implementation resulted in a reclassification of \$1 million of amounts related to debt retirements previously reflected as Extraordinary Gain to Other Income, Net for the three and nine months ended September 30, 2002. During the third quarter of 2003, Panhandle recorded a pre-tax gain on the extinguishment of debt of approximately \$6.1 million (\$3.7 million, net of tax) and is classified as Other Income, Net, pursuant to the requirements of SFAS No. 145.

ACCOUNTING FOR TAXES. For federal and certain state income tax purposes, after converting to LLCs, Panhandle and certain subsidiaries are not treated as a separate taxpayer. Instead, its income is taxable to Southern Union. Pursuant to a tax sharing agreement with Southern Union, which is subject to modification or amendment, Panhandle will pay its share of taxes based on its taxable income, which will generally equal the liability which would have been incurred as a separate taxpayer. Panhandle will receive credit from Southern Union for differences in tax depreciation resulting from the like-kind exchange over the taxable life of the related assets, as described in Note 2, Southern Union Acquisition.

Deferred income taxes have been provided for temporary differences. Temporary differences occur when events and transactions recognized for financial reporting result in taxable or non-taxable amounts in different periods.

NEW ACCOUNTING STANDARDS

In addition to the accounting policies discussed above, future results may be affected by a number of new accounting standards that have recently been issued, as discussed below.

SFAS NO. 143, "ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS" (SFAS NO. 143): In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations ("ARO"), which is effective for fiscal years beginning after June 15, 2002. The standard requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. 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 of \$10 million, recognition of an asset retirement obligation of \$6 million,

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

accounting for certain lease modifications that have similar economic impacts to sale-leaseback transactions (SFAS No. 13). This provision is effective for transactions occurring and financial statements issued after May 15, 2002. Panhandle has adopted SFAS No. 145 and the implementation resulted in a reclassification of \$1 million of amounts related to debt retirements which were previously reflected as Extraordinary Gain to Other Income, Net for the three and nine months ended September 30, 2002. During the third quarter of 2003 Panhandle recognized a \$6.1 million (\$3.7 million, net of tax) gain on debt extinguishment and is classified as Other Income, Net, pursuant to the requirements of SFAS No. 145.

SFAS NO. 146, "ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES" (SFAS NO. 146): Issued by the FASB in July 2002, this standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 supersedes previous accounting guidance, FASB's Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). This standard is effective for exit or disposal activities initiated after December 31, 2002. The scope of SFAS No. 146 includes, (1) costs related to termination benefits of employees who are involuntarily terminated, (2) costs to terminate a contract that is not a capital lease, and (3) costs to consolidate facilities or relocate employees. Any future exit or disposal activities that Panhandle may engage in will be subject to the provisions of this statement. Panhandle adopted SFAS No. 146 during the first quarter of 2003 and has determined the application of SFAS No. 146 has no impact on its consolidated financial position or results of operations.

SFAS NO. 148, "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE, AN AMENDMENT OF FASB STATEMENT NO. 123" (SFAS NO. 148): Issued by the FASB in December 2002, this standard provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of the statement are effective as of December 31, 2002 and interim disclosure provisions are effective for interim financial reports starting in 2003. Panhandle has adopted the fair value based method of accounting for stock-based employee compensation effective December 31, 2002, the amounts of which were immaterial during the fourth quarter of 2002, applying the prospective method of adoption which requires recognition of all employee awards granted, modified, or settled after the beginning of the year in which the recognition provisions are first applied. Panhandle has adopted SFAS No. 148 for new awards granted since January 1, 2002, which resulted in no expense recorded during the 2003 periods presented. CMS retained financial responsibility for all stock options issued prior to June 11, 2003, and no options have been subsequently granted.

SFAS NO. 149, "AMENDMENT OF STATEMENT 133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES" (SFAS NO. 149): In April 2003, the FASB issued SFAS No. 149, which is effective for contracts entered into or modified after June 30, 2003, with certain exceptions. The standard (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FASB Interpretation No. 45, and (4) amends certain other existing pronouncements. Panhandle adopted SFAS No. 149 during the third quarter of 2003 and has determined that the application of SFAS No. 149 has no impact on its consolidated financial position or results of operations.

SFAS NO. 150, "ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY" (SFAS NO. 150): In May 2003, the FASB issued SFAS No. 150, which becomes effective at the beginning of the first interim period beginning after June 15, 2003. The standard establishes guidelines on how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The standard further defines and requires that certain

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

instruments within the scope of SFAS No. 150 be classified as liabilities on the financial statements. Panhandle adopted SFAS No. 150 during the third quarter of 2003 and has determined that the application of SFAS No. 150 has no impact on its consolidated financial position or results of operations.

FASB INTERPRETATION NO. 45, "GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS": Issued by the FASB in November 2002, the interpretation expands on existing disclosure requirements for most guarantees, and clarifies that at the time a company issues a guarantee the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The interpretation is effective for guarantees issued or modified on and after January 1, 2003. For contracts that are within the initial recognition and measurement provision of this interpretation, the provisions are to be applied to guarantees issued or modified after December 31, 2002.

FASB INTERPRETATION NO. 46, "CONSOLIDATION OF VARIABLE INTEREST ENTITIES": Issued by the FASB in January 2003, the interpretation expands upon and strengthens existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. The consolidation requirements of the interpretation apply immediately to variable interest entities created after January 31, 2003. Certain disclosure requirements apply to all financial statements initially issued after January 31, 2003. Panhandle has adopted the interpretation effective January 1, 2003 and the implementation had no impact on the financial statements presented.

On October 3, 2003, the Financial Accounting Standards Board directed FASB staff to issue a FASB Staff Position deferring the effective date for applying the provisions of Interpretation No. 46 for a decision maker that receives fees paid by a variable interest entity if the fee has no variability and decision maker has no exposure to the expected losses of the entity and no right to expected residual returns of the entity. In those circumstances, the decision maker should not apply the provisions of Interpretation No. 46 to that variable interest entity until the Board has completed its consideration of a modification to the application of Interpretation No. 46 that may affect those parties. The current FASB Staff Position should not impact Panhandle's financial statements presented.

2. SOUTHERN UNION ACQUISITION

On June 11, 2003, Southern Union acquired Panhandle from CMS Energy Corporation for approximately \$582 million in cash and three million shares of Southern Union common stock (before adjustment for subsequent stock dividends) valued at approximately \$49 million based on market prices at closing and in connection therewith incurred transaction costs estimated at approximately \$30 million. Southern Union also incurred additional deferred state income tax liabilities estimated at \$18 million as a result of the transaction. At the time of the acquisition, Panhandle had approximately \$1.159 billion of debt outstanding that it retained. Southern Union funded the cash portion of the acquisition with approximately \$437 million in cash proceeds it received for the January 1, 2003 sale of its Texas operations, approximately \$121 million of the net proceeds it received from concurrent common stock and equity units offerings and with working capital available to Southern Union. Southern Union structured the Panhandle acquisition and the sale of its Texas operations to qualify as a like-kind exchange of property under Section 1031 of the Internal Revenue Code of 1986, as amended. Panhandle, and five of its subsidiaries, as well as the Southern Union subsidiary that became Panhandle's direct parent upon the acquisition, converted from Delaware corporations to Delaware limited liability companies in June 2003.

Under the terms of the Panhandle sale agreement, CMS was entitled to retain Panhandle's ownership interests in and obligations associated with the Centennial Pipeline, LLC (Centennial) and Guardian Pipeline, L.L.C. (Guardian) pipeline projects, as well as certain of Panhandle's net deferred tax assets of

PANHANDLE EASTERN PIPE LINE, LLC

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

\$28 million, all tax liabilities of \$17 million, net pension liabilities recorded of \$43 million, other net postretirement liabilities recorded of \$16 million and other net liabilities of \$3 million. CMS also retained financial responsibility for all existing stock options. Panhandle disposed of its interest in Centennial and Guardian and the Guardian related cash collateral was transferred to CMS. The Note Receivable from CMS Capital Corp. (CMS Capital), a subsidiary of CMS Energy Corporation was eliminated in the sale as the purchase by Southern Union from CMS included the offsetting Note Payable of CMS Capital and thus the note was eliminated in pushdown accounting and subsequently extinguished. For further information, see Note 5, Related Party Transactions. On March 1, 2003, certain assets previously held by CMS with a net book value of \$15 million were contributed to Panhandle by CMS and was included in the Southern Union purchase.

The acquisition was accounted for using the purchase method of accounting in accordance with accounting principles generally accepted in the United States of America with Panhandle allocating the purchase price paid by Southern Union to Panhandle's net assets as of the acquisition date based on preliminary estimates. 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 changes in owner's equity associated with the acquisition as of June 11, 2003 including details of the estimated fair value adjustment to the pre-acquisition carrying amounts of the net assets acquired. Panhandle is in the process of obtaining outside appraisals of the assets acquired and liabilities assumed, which are expected to be completed by December 31, 2003; thus, the allocation of the purchase price is preliminary and subject to change.

IN MILLIONS

Owner's
Equity,
pre-
acquisition
\$ 746 Fair
value
adjustments
to pre-
acquisition
net assets:
Current
assets,
excluding
system gas
(1) System
gas 13
Property,
plant and
equipment
(excluding
intangibles)
257
Intangibles
20 Goodwill
(113)
Deferred
debt costs
(14)
Current
liabilities
(31) Long-
term debt
(64) ----
Net fair
value
adjustments
67 Net
liabilities
retained by
CMS 51
Elimination
of CMS
Capital
Note
Receivable

(185)
Deferred
tax
liability
(85) -----

Owner's
Equity,
post-
acquisition
\$ 594
=====

Based on the preliminary purchase price allocations which are subject to change, the acquisition resulted in the recognition of intangible assets relating to customer relationships of approximately \$20 million as of the acquisition date. These intangibles are currently being amortized over a period of five years, pending final determination of estimated remaining useful life. As of June 30, 2003 and September 30, 2003, the carrying amount of these intangibles was approximately \$20 million and \$19 million, respectively, and is included in Property, Plant and Equipment on the Consolidated Balance Sheet. The accumulated amortization expense for the three month period ended September 30, 2003 related to these intangibles was \$1 million.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. REGULATORY MATTERS

In conjunction with a FERC order issued in September 1997, FERC required certain natural gas producers to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines, including Panhandle Eastern Pipe Line. FERC ordered these pipelines to refund these amounts to their customers. In June 2001, Panhandle Eastern Pipe Line filed with the FERC a proposed settlement, which was supported by most of the customers and affected producers. The settlement provides for the producers to refund and the customers to accept a reduction from the amounts originally billed to the producers. In October 2001, the FERC approved that settlement. The settlement provided for a resolution of the Kansas ad-valorem tax matter on the Panhandle Eastern Pipe Line system for a majority of refund amounts. However, certain producers and the state of Missouri elected not to participate in the settlement. A FERC hearing to resolve all outstanding issues was held on October 16, 2003; initial briefs are due November 20, 2003, reply briefs are due December 19, 2003 and an initial decision is scheduled to be issued in February 2004. At September 30, 2003 and December 31, 2002, accounts receivable included \$8 million for tax collections due from natural gas producers. At September 30, 2003 and December 31, 2002, other current liabilities included \$12 million for tax collections due to customers. On January 2, 2003, the Commission issued an order indicating its intention to cease collection efforts for approximately \$5 million of the amounts due from affected producers. Remaining amounts collected but not refunded are subject to refund pending resolution of issues remaining in the FERC docket and Kansas intrastate proceeding.

In July 2001, Panhandle Eastern Pipe Line filed a settlement with customers on FERC Order 637 matters to resolve issues including capacity release and imbalance penalties, among others. On October 12, 2001 and December 19, 2001, FERC issued orders approving the settlement, with modifications. The settlement changes became final effective February 1, 2002, and Panhandle recognized approximately \$3 million of income, after-tax, including interest.

In December 2002, FERC approved a Trunkline LNG certificate application to expand the Lake Charles facility to approximately 1.2 billion cubic feet per day of sendout capacity versus the current capacity of 630 million cubic feet per day. BG LNG Services, Inc., a subsidiary of BG Group of the United Kingdom (BG LNG Services) has contract rights for the 570 million cubic feet per day of additional capacity. Construction on the Trunkline LNG expansion project commenced in September 2003. In October 2003, FERC approved an amended filing with certain facility modifications. The filing included modifications which will not affect the authorized additional storage capacity and daily sendout capability and confirms the revised in-service date of January 1, 2006.

4. 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 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 million pre-tax write-down (\$369 million 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.

PANHANDLE EASTERN PIPE LINE, LLC

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

On June 11, 2003, Southern Union completed its acquisition of Panhandle from CMS. Based on the preliminary purchase price allocations, which rely on estimates and are subject to change based on the final outside appraisal, the acquisition results in no recognition of goodwill as of the acquisition date. The final appraisal may result in some of the purchase price being allocated to goodwill.

5. RELATED PARTY TRANSACTIONS

POST- PRE-
PRE-
ACQUISITION
ACQUISITION
ACQUISITION -

-- -----

POST- PRE-
THREE THREE
ACQUISITION
ACQUISITION
NINE MONTHS
MONTHS -----

- MONTHS
ENDED ENDED
JUNE 12 -
JANUARY 1-
ENDED
SEPTEMBER 30,
SEPTEMBER 30,
SEPTEMBER 30,
JUNE 11,
SEPTEMBER 30,
2003 2002
2003 2003
2002 -----

IN MILLIONS
Transportation
and storage
of natural
gas \$ 1 \$ 14
1 \$ 28 \$ 42
LNG
terminalling
revenue -- 1
-- -- 2 Other
operating
revenues --
(1) -- -- (3)
Operation and
maintenance
and
management &
royalty fees
3 4 3 -- 12
Other
expenses (a)
9 5 9 10 22
Interest
income -- 3 -
- 6 6

(a) Includes allocated benefit plan costs

Panhandle has a number of significant transactions with former related parties.

Revenue transactions, primarily for the transportation of natural gas for Consumers and other CMS affiliates which were related parties until June 11, 2003, are based on regulated prices, market prices or competitive bidding. Panhandle will continue transporting gas for these former related parties under the contracts currently in effect, and thereafter if contracts are renewed. Panhandle has transportation revenues with Missouri Gas Energy, a Southern Union division, which accounts for approximately 1 percent of annual consolidated revenues.

Prior to June 12, 2003, related party expenses include 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. Following the June 11, 2003 acquisition by Southern Union, Panhandle instituted certain retiree health care and life insurance benefits under OPEB and added certain benefits to substantially all of its employees under 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 corporate services and management and royalty fees implemented by Southern Union.

Other operating revenue for the three and nine month periods ended September 30, 2002 includes equity losses primarily related to Centennial. On February 10, 2003, Panhandle sold its one-third interest in Centennial for \$40 million to Centennial's two unaffiliated other partners. There was no income or loss related to Centennial in the first quarter of 2003. In March 2003, \$40 million of cash from the sale of

PANHANDLE EASTERN PIPE LINE, LLC

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Centennial was distributed to CMS as a return of capital.

Interest income includes zero and \$2 million for the three months ended September 30, 2003 and September 30, 2002, respectively, and \$6 million and \$6 million for the period January 1 through June 11, 2003 and the nine months ended September 30, 2002, respectively, related to interest on the Note receivable from CMS Capital. The Note receivable from CMS Capital of \$185 million as of the acquisition date (\$60 million at December 31, 2002) has since been eliminated under pushdown accounting effective June 12, 2003, following the acquisition of Panhandle by Southern Union. (See Note 2, Southern Union Acquisition). The \$150 million portion of the note classified as a reduction to equity as of the acquisition date was also eliminated.

Net cash generated by Panhandle in excess of operating, investing or financing needs was previously loaned to CMS Capital and is reflected as Note receivable-CMS Capital on the Consolidated Balance Sheet at December 31, 2002. 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.

Panhandle has loaned \$74 million to Southern Union during the third quarter of 2003 pursuant to a demand note with Southern Union under a cash management program. Panhandle is credited with interest on the note at a one month LIBOR rate.

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

POST-
ACQUISITION
PRE-
ACQUISITION
SEPTEMBER
30,
DECEMBER
31, 2003
2002 -----

IN
MILLIONS
Note
receivable
- Southern
Union \$ 74
\$ -- Note
receivable
- CMS
Capital --
60
Accounts
receivable
1 5
Accounts
receivable
- tax -- 4
Accounts
payable 13
8 Owners
equity -
Tax
sharing
receivable
- Southern
Union (85)
-- Owners
equity -
Note
receivable
- CMS
Capital --
(150)

The Panhandle acquisition by Southern Union was treated as an asset acquisition

for tax purposes, 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 book assets were recorded at fair value and the tax assets were recorded at the tax basis of the Southern Union assets that were exchanged (part of the assets that were acquired were treated as a like-kind exchange for tax purposes). The resulting transaction generated approximately \$85 million in a deferred tax liability at the acquisition date and a corresponding receivable from Southern Union reflected as a reduction to owner's equity on Panhandle's consolidated balance sheet.

At December 31, 2002, Panhandle had an intercompany tax receivable of \$4 million representing an estimated amount to be received from CMS for federal income taxes. The \$4 million tax receivable balance was eliminated with the sale of Panhandle to Southern Union.

On March 10, 2003, Panhandle's ownership interest in Guardian was transferred to CMS as a return of capital at the book value of \$28 million and Panhandle was released from its guarantee obligations

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

associated with the Guardian non-recourse guaranty by the note holders (see Note 7, Commitments and Contingencies). As a result, the \$63 million 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 from 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 million were contributed to Panhandle by CMS and so were included in Southern Union's acquisition of Panhandle.

6. DEBT

In accordance with the purchase method of accounting and accounting principles generally accepted in the United States of America, the debt retained by Panhandle when it was acquired by Southern Union was recorded at its fair value on Panhandle's balance sheet as of June 11, 2003. The valuation resulted in debt premiums being recorded of \$63 million in excess of the principal amount of the debt due to lower current market interest rates for comparable debt. During the third quarter of 2003, approximately \$5 million of the debt premium was amortized as a reduction in interest expense. Also, \$31.1 million of the remaining \$57.2 million of debt premium was retired during the third quarter of 2003 as a result of the Panhandle tender offer, resulting in \$26.1 million to be amortized. These premiums will be amortized over the remaining life of the respective debt issues.

In June 2003, Panhandle retired approximately \$33 million of remaining balance of the \$30 million and \$10 million of short-term loans which were obtained in December 2002 and January 2003, respectively.

Panhandle has \$1.211 billion of debt recorded at September 30, 2003, of which \$210 million is current. A total of \$938 million of Panhandle's debt principal is at fixed rates ranging from 4.8 percent to 8.25 percent, with \$273 million of variable rate bank loans secured by the Trunkline LNG facilities.

Panhandle's senior unsecured note provisions are not directly impacted by debt rating changes, but are subject to other requirements such as the maintenance of a fixed charge coverage ratio and a leverage ratio which restrict certain payments if not maintained and limitations on liens. At September 30, 2003, Panhandle was subject to a \$114 million limitation on additional restricted payments, including dividends and loans to affiliates.

At September 30, 2003, Panhandle had scheduled debt payments of \$3 million, \$210 million, \$13 million, \$14 million, \$232 million and \$739 million for the remainder of 2003 and for the years 2004 through 2007 and thereafter, respectively.

Based on the terms of an agreement between Southern Union and Missouri Public Service Commission (MPSC), Southern Union is prohibited from making loans or investing additional funds in Panhandle or providing guarantees of Panhandle obligations without prior approval of the MPSC.

In July 2003 Panhandle announced a tender offer for any and all of the \$747 million 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 \$135 million principal amount of its two series of debentures that were outstanding (the Panhandle Calls). Panhandle repurchased approximately \$378 million of the principal amount of its outstanding debt through the Panhandle Tender Offer for total consideration of approximately \$396 million plus accrued interest through the purchase date. Panhandle also redeemed its approximately \$135 million of debentures for total consideration of \$139 million 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 \$6.1 million (\$3.7 million, net of tax) in the third quarter of 2003 due to increases in interest rates

PANHANDLE EASTERN PIPE LINE, LLC

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

subsequent to the acquisition date, which has been classified as Other Income, Net, pursuant to the requirements of SFAS No. 145. In August 2003, Panhandle issued \$550 million of senior notes, of which \$300 million is a new five year senior note at 4.8 percent and \$250 million is a new ten year senior note at 6.05 percent, principally to refinance the repurchased notes and redeemed debentures. Panhandle's new five year and new ten year notes are subject to requirements such as the maintenance of a fixed charge coverage ratio and a leverage ratio which restricts certain payments if not maintained and limitations on liens. Also in August and September 2003, Panhandle repurchased \$3.2 million principal amount of its senior notes on the open market through two transactions for total consideration of \$3.4 million, plus accrued interest through the repurchase date. Listed below are the principal amounts of notes tendered as of August 14, 2003.

DESCRIPTION
OF THE
NOTES
PRINCIPAL
AMOUNT
TENDERED -

6.125%
Senior
Notes Due
3/15/04 \$
144,420,000
7.875%
Senior
Notes Due
8/15/04
47,545,000
6.500%
Senior
Notes Due
7/15/09
98,357,000
8.250%
Senior
Notes Due
4/1/10,
Series B
18,350,000
7.000%
Senior
Notes Due
7/15/29
69,585,000

7. COMMITMENTS AND CONTINGENCIES

CONTRACTUAL OBLIGATIONS: Panhandle has contractual obligations with regards to future payments of operating leases and natural gas storage service. The following table summarizes Panhandle's expected contractual obligations and commitments at September 30, 2003.

REMAINDER
IN
MILLIONS
2003 2004
2005 2006
2007
THEREAFTER

Operating

leases (1)
\$ 3 \$ 12 \$
11 \$ 10 \$
3 \$ 4
Storage
contracts
(2) 3 10 9
9 9 64 ---

Total \$ 6
\$ 22 \$ 20
\$ 19 \$ 12
\$ 68
=====

- 1) Lease of various assets utilized for operations
- 2) Charges for third party storage capacity

CAPITAL EXPENDITURES: Panhandle estimates expenditures associated with the LNG terminal expansion to be \$22 million for the remainder of 2003, \$65 million in 2004 and \$28 million in 2005. These estimates were developed for budgetary 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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

disposition of these proceedings will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

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

As part of the cleanup program resulting from contamination due to the use of lubricants containing PCBs in compressed air systems, Panhandle Eastern Pipe Line and Trunkline have identified PCB levels above acceptable levels inside the auxiliary buildings that house the air compressor equipment at thirty-two 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. One site has 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 is implementing a program to remediate sites where such issues have been identified during painting activities. If PCBs are identified above acceptable levels, the paint is removed and disposed of in an EPA-approved manner. Approximately 15 percent of the paint projects in the last few years have required this special procedure.

The 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 and 21 other non-affiliated parties conducted an initial investigation of one of the sites. Based on the information found during the initial investigation, Panhandle and the 21 other non-affiliated parties have decided to further delineate the extent of contamination by authorizing a Phase II investigation at this site. Once data from the Phase II investigation is evaluated, Panhandle and the 21 other non-affiliated parties will determine what additional actions will be taken. Panhandle Eastern Pipe Line's and Trunkline's estimated share for the costs of assessment and remediation of the sites, based on the volume of waste sent to the facilities, is approximately 17 percent.

Panhandle expects these cleanup programs to continue for several years and has estimated its share of remaining cleanup costs not indemnified by Duke Energy Corporation (Duke Energy), a non-affiliated company, to range from \$11 million to \$18 million. Panhandle has accrued approximately \$15 million of such costs, of which \$4 million is included in Other Current Liabilities for the estimated current amounts and \$11 million is included in Other Non-current Liabilities on the Consolidated Balance Sheet at September 30, 2003. At December 31, 2002, Panhandle had \$4 million included in Other Current Liabilities and \$18 million included in Other Non-current Liabilities.

AIR QUALITY CONTROL: In 1998, the EPA issued a final rule on regional ozone control that requires Panhandle to place controls on 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 is expected no earlier than early

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2004. Based on an EPA guidance document negotiated with gas industry representatives in 2002, it is believed that Panhandle Energy will be required to reduce nitrogen oxide (Nox) emissions by 82% on the identified large internal combustion (IC) engines and will be able to trade off engines within a company and State in an effort to create a cost effective NOx reduction solution. The implementation date is expected to be May 2007. The rule impacts 20 large internal combustion engines on the Panhandle system in Illinois and Indiana at an approximate cost of \$17 million for capital improvements, consistent with budget projections.

EPA proposed various Maximum Achievable Control Technology (MACT) rules in late 2002 and early 2003. The rules require that Panhandle Eastern Pipe Line and Trunkline control Hazardous Air Pollutants (HAPS) emitted from Major sources by 90% of carbon monoxide (CO) emissions. Most of Panhandle Eastern Pipe Line and Trunkline compressor stations are major sources. The HAP's pollutant of concern for Panhandle Eastern Pipe Line and Trunkline is formaldehyde. As proposed, the rule seeks to reduce CO emissions as a surrogate for formaldehyde. For IC engines, the control technology would be the use of non-selective catalytic reduction catalysts and the expected implementation date is February 2007. For Turbines, the control technology would be the use of oxidation catalysts and the expected implementation date is December 2007. Panhandle Eastern Pipe Line and Trunkline have 28 IC engines and two turbines subject to the rules. It is expected that compliance with these regulations will cost approximately \$8 million, consistent with budget projections.

The Illinois Environmental Protection Agency issued a permit in February of 2002, requiring the installation of certain capital improvements at the Glenarm compressor station facility at a cost of approximately \$3 million. Controls were installed on two engines in 2002 and on two additional engines in 2003 in accordance with the 2002 permit.

ACCOUNTING FOR RETIREMENT BENEFITS: Until June 11, 2003, Panhandle, through its former parent company, participated in a non-contributory 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 under OPEB, 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. No portion of the assets or liabilities related to the defined benefit retirement plan and OPEB plan was transferred with the sale of Panhandle. Panhandle employees, following the sale, are no longer eligible to accrue benefits or make contributions to these plans.

Following the June 11, 2003 acquisition by Southern Union, Panhandle instituted certain retiree health care and life insurance benefits under OPEB and added certain benefits to substantially all of its employees under a defined contribution 401(k) plan. Panhandle now offers a contribution match of 50 percent (two percent maximum) of the employee's contribution up to four percent of salary. Panhandle also makes additional contributions ranging from 4 to 6 percent of the employee's eligible pay based on age and years of 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 \$43 million liability as of June 11, 2003 and Panhandle continues to fund the plan at approximately \$8 million per year. Since retirement eligible active employees 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.

CONTROLLED GROUP PENSION LIABILITIES: Southern Union (including certain of its divisions) sponsors a number of defined benefit pension plans arising from any of its (including any of its present or former divisions) or a predecessor's business at some time before or when Southern Union acquired Panhandle. Under applicable pension and tax laws, upon being acquired by Southern Union, each of Panhandle and its subsidiaries became a member of Southern Union's "controlled group" with respect to those plans, and,

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 June 30, 2003, the aggregate amount of the projected benefit obligations of these pension plans was approximately \$337 million and the estimated fair value of all of the assets of these plans was approximately \$237 million.

OTHER COMMITMENTS AND CONTINGENCIES: In 1993, the U.S. Department of the Interior announced its intention to seek, through its Minerals 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 a portion of these costs from pipeline customers. Management believes these commitments and contingencies will not have a materially adverse effect on consolidated results of operations, liquidity or financial position.

In conjunction with its acquisition by Southern Union, Panhandle initiated a workforce reduction initiative designed to reduce the workforce by approximately 5 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 estimated workforce reduction initiative costs are approximately \$9 million which are a portion of the \$30 million of additional transaction costs incurred (see Note 2, Southern Union Acquisition).

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. Panhandle does not believe the outcome of this case will have a material adverse effect on its consolidated financial position or results of operations.

On September 10, 2003, Panhandle provided a guarantee to CB&I Constructors, Inc., for the full performance by Trunkline LNG, its subsidiary, of the engineering, procurement and construction contract (the "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 \$90 million of the remaining cost of the expansion over the next three years. Under the terms of the guarantee, Panhandle would be required to perform should Trunkline LNG be in default of its obligation, as it relates to services already rendered. The terms of this guarantee, in general, coincides with the terms of the underlying agreement. There are no amounts being carried as liabilities for Panhandle's obligations under these guarantees.

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

ACQUISITION OF PANHANDLE

See Note 2 of the Condensed Notes to the Consolidated Financial Statements.

On June 11, 2003, Southern Union acquired Panhandle from CMS Energy Corporation for approximately \$582 million in cash and three million shares of Southern Union common stock (before adjustment for subsequent stock dividends) valued at approximately \$49 million based on market prices at closing and in connection therewith incurred transaction costs estimated at approximately \$30 million. Southern Union also incurred additional deferred state income tax liabilities estimated at \$18 million as a result of the transaction. At the time of the acquisition, Panhandle had approximately \$1.159 billion of debt outstanding that it retained. Southern Union funded the cash portion of the acquisition with approximately \$437 million in cash proceeds it received for the January 1, 2003 sale of its Texas operations, approximately \$121 million of the net proceeds it received from concurrent common stock and equity units offerings and with working capital available to Southern Union. Southern Union structured the Panhandle acquisition and the sale of its Texas operations to qualify as a like-kind exchange of property under Section 1031 of the Internal Revenue Code of 1986, as amended. Panhandle and five of its subsidiaries as well as the Southern Union subsidiary that became Panhandle's direct parent upon the acquisition converted from Delaware corporations to Delaware limited liability companies in June 2003.

Under the terms of the Panhandle sale agreement, CMS was entitled to retain Panhandle's ownership interests in and obligations associated with the Centennial and Guardian pipeline projects, as well as certain of Panhandle's net deferred tax assets, all tax liabilities, and pension and other postretirement assets and liabilities. In accordance with the agreement, Panhandle disposed of its interest in Centennial and Guardian and the Guardian related cash collateral has been transferred to CMS. The Note Receivable from CMS Capital was eliminated in the sale as the purchase by Southern Union from CMS included the offsetting Note Payable of CMS Capital and thus the note was eliminated in pushdown accounting. For further information, see Note 5, Related Party Transactions. On March 1, 2003, certain assets previously held by CMS with a net book value of \$15 million were contributed to Panhandle by CMS and so was included in the Southern Union purchase.

The 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 to Panhandle's net assets as of the acquisition date based on preliminary estimates. 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 value and are subject to further assessment and adjustment pending the results of third party appraisals of the assets and liabilities.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

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

Factors that could cause actual results to differ materially from those expressed in the forward-looking statements include, but are not limited to, the following: customer growth; gas throughput volumes and available sources of natural gas; discounting of transportation rates due to competition, which could adversely affect Panhandle's results of operations; abnormal weather conditions in Panhandle's service territories; new legislation and government regulations affecting or involving Panhandle; 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; 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 our 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 any of its affiliates' debt securities ratings; factors affecting operations such as maintenance or repairs, environmental incidents or gas pipeline system constraints; the possibility of war or terrorist attacks; and other risks and unforeseen events.

In light of these risks, uncertainties and assumptions, the results reflected in the forward-looking statements contained or incorporated by reference in this Form 10-Q might not occur. In addition, Panhandle could be affected by general industry and market conditions, and general economic conditions, including interest rate fluctuations, federal, state and local laws and regulations affecting the retail gas industry or the energy industry generally. Other factors that could cause actual results to differ materially from estimates and projections contained in forward-looking statements are described in the documents that are incorporated by reference.

We do 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 our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this Form 10-Q.

CRITICAL ACCOUNTING POLICIES

See Note 1 of the Condensed Notes to the Consolidated Financial Statements.

Panhandle's consolidated financial statements are based on the application of accounting principles generally accepted in the United States of America. The application of these principles often requires management to make certain judgments, assumptions and estimates that may result in different financial presentations. Panhandle believes that certain accounting principles are critical in terms of understanding its consolidated financial statements. These principles include the use of estimates in accounting for contingencies and long-lived assets, accounting for derivatives and financial instruments, regulatory accounting and accounting for pension and postretirement benefits.

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

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 judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The principles of SFAS No. 5 guide the recording of contingent liabilities within the financial statements. Certain accounting principles require subjective and complex judgments used in the preparation of financial statements. Accordingly, a different financial presentation could result depending on the judgment, estimates or assumptions that are used. Such estimates and assumptions, include, but are not specifically limited to: depreciation and amortization, interest rates, discount rates, health care trend rates, inflation rates, future commodity prices, mark-to-market valuations, investment returns, volatility in the price of Southern Union and CMS Common Stock, impact of new accounting standards, future costs associated with long-term contractual obligations, future compliance costs associated with environmental regulations and continuing creditworthiness of counterparties. Although these estimates are based on management's knowledge of current expected future events, actual results could materially differ from those estimates.

RESULTS OF OPERATIONS

On June 11, 2003, Southern Union acquired Panhandle from CMS. The acquisition was accounted for using the purchase method of accounting in accordance with accounting principles generally accepted in the United States of America with Panhandle allocating the purchase price paid by Southern Union to Panhandle's net assets as of the acquisition date based on preliminary estimates. 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 and we view this presentation as meaningful in discussing our operating results. Assets acquired and liabilities assumed are recorded at their estimated fair value and are subject to further assessment and adjustment pending the results of outside appraisals of the assets acquired and liabilities assumed, which are expected to be completed by December 31, 2003. The most significant impacts of the new basis of accounting going forward are expected to be, based on preliminary estimates, higher depreciation expense due to the step-up of depreciable assets and 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.

NET INCOME IN
MILLIONS -----

SEPTEMBER 30
2003 - -----

--- Three month
presentation

Three month
ended September
30, 2003 (Post-
acquisition) \$
20 Three months
ended September
30, 2002 (Pre-
acquisition) 13

Change \$ 7 Nine
month

presentation
January 1 -
June 11, 2003
(Pre-
acquisition) \$
50 June 12 -
September 30,
2003 (Post-
acquisition) 25

Combined nine
months ended
September 30,
2003 75 Nine
months ended
September 30,
2002 (Pre-
acquisition)
(315) -----
----- Change \$
390
=====

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

NET INCOME IN
MILLIONS -----
----- THREE
MONTHS REASONS
FOR THE CHANGE:
CHANGE - -----

Reservation
revenue \$ 2 LNG
terminalling
revenue 1
Commodity
revenue 2
Equity and
other revenue 1
Operation,
maintenance,
and general (3)
Depreciation
and
amortization
(3) General
taxes (2) Other
income, net 4
Interest
charges 9
Minority
interest 1
Income taxes
(5) -----
---- Total \$ 7
=====

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

POST- PRE-
COMBINED PRE-
ACQUISITION
ACQUISITION
ACQUISITION
NINE MONTHS
NINE MONTHS
JUNE 12 -
JANUARY 1 -
ENDED ENDED
NINE SEPTEMBER
30, JUNE 11,
SEPTEMBER 30,
SEPTEMBER 30,
MONTHS REASONS
FOR THE CHANGE:
2003 2003 2003
2002 CHANGE - -

Reservation			
revenue	\$ 97	\$	
161	\$ 258	\$ 249	
\$ 9 LNG			
terminalling			
revenue	19	27	
46	44	2	
Commodity			
revenue	20	36	
56	47	9	Equity
and other			
revenue	3	10	13
7	6	Operation,	
maintenance and			
general	(63)		
(91)	(154)		
(150)	(4)		
Depreciation			
and			
amortization			
(20)	(23)	(43)	
(40)	(3)		
General taxes			
(9)	(12)	(21)	
(17)	(4)	Other	
income, net	7	6	
13	8	5	Interest
charges	(13)		
(36)	(49)	(57)	
8	Income taxes		
(16)	(30)	(46)	
(35)	(11)		
Minority			
interest	--	--	
--	(3)	3	
Extraordinary			
item	--	--	--
(1)	Cumulative		1
effect of			
change in			
accounting			
principles	--	2	
2	(369)	371	---

Total	\$ 25	\$ 50	
\$ 75	\$ (315)	\$	
390			

=====
=====
=====
=====
=====
=====

For the three months ended September 30, 2003, Panhandle had net income of \$20 million. The increase of \$7 million from the three months ended September 30, 2002 is primarily due to higher natural gas transportation volumes resulting from colder weather in 2003 and low storage volumes leading to heavier storage refill volumes being transported by customers.

For the combined nine months ended September 30, 2003, Panhandle had net income of \$75 million. The increase of \$390 million from the nine months ended September 30, 2002 is primarily due to a goodwill impairment charge of \$601 million (\$369 million after-tax) in the first quarter of 2002 which was recorded in conjunction with the adoption of SFAS No. 142 and higher natural gas transportation volumes.

RESERVATION REVENUE: For the three and combined nine months ended September 30, 2003, reservation revenue increased \$2 million and \$9 million, respectively, compared to 2002, due to higher average reservation rates realized on Panhandle due to increased demand during the period.

LNG TERMINALLING REVENUE: For the three and combined nine months ended September 30, 2003, LNG terminalling revenue increased \$1 million and \$2 million, respectively, compared to 2002 due to higher LNG volumes on the BG LNG Services contract. Trunkline LNG's 22-year agreement with BG LNG Services for the existing uncommitted long-term capacity at the LNG facility became effective in January 2002 (see Note 3, Regulatory Matters).

COMMODITY REVENUE: For the three and combined nine months ended September 30, 2003, commodity revenue increased \$2 million and \$9 million, respectively, compared to 2002. The change in the three and combined nine months ended September 30, 2003 was primarily due to an increase in commodity volumes. Volumes increased 14 percent for the three months ended

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

September 30, 2003 compared to 2002 and 12 percent for the combined nine months ended September 30, 2003, compared to 2002 primarily due to a colder winter in the midwest market area during the first quarter of 2003 and heavier volumes transported to fill storage in the second and third quarters of 2003.

EQUITY AND OTHER REVENUE: Equity and other revenue for the three and combined nine months ended September 30, 2003 increased \$1 million and \$6 million, respectively, compared to 2002. The sale of Panhandle's one-third equity interest in Centennial in February 2003, which had been written down to the estimated selling price in the fourth quarter of 2002, resulted in no income recognition for the Centennial equity investment during the first quarter of 2003, while start-up related losses of \$2 million and \$5 million occurred during the three and nine months ended September 30, 2002, respectively. In addition, gas imbalance cash-out gains in the first quarter of 2003, recouping prior losses, were comparable to a gain of \$4 million for the settlement of Order 637 matters related to capacity release and imbalance penalties during the first quarter of 2002 (see Note 3, Regulatory Matters).

OPERATION, MAINTENANCE AND GENERAL: Operation, maintenance and general expenses increased by \$3 million and \$4 million for the three and combined nine months ended September 30, 2003, compared to 2002, primarily due to higher benefit costs, under recovered Panhandle fuel costs and higher power and fuel costs offset partially by lower corporate charges, which were down approximately \$2 million.

DEPRECIATION AND AMORTIZATION: Depreciation and amortization increased by \$3 million for the three and combined nine months ended September 30, 2003 compared to 2002 primarily due to the step-up of depreciable assets and assignment of purchase price to certain shorter-lived amortizable intangible assets related to the Panhandle acquisition offset partially by certain intangible assets becoming fully depreciated in March 2003.

GENERAL TAXES: General taxes increased by \$2 million and \$4 million for the three and combined nine months ended September 30, 2003 primarily due to higher franchise and payroll taxes.

OTHER INCOME, NET: Other income, net, for the three and combined nine months ended September 30, 2003, increased \$4 million and \$5 million, respectively, compared to 2002, primarily due to a \$6 million gain on debt extinguishment in 2003 partially offset by a \$1 million gain recorded in 2002.

INTEREST CHARGES: Interest charges for the three and combined nine months ended September 30, 2003 decreased \$9 million and \$8 million, respectively, compared to 2002 due to elimination of interest on \$129 million of long-term debt principal retired in April 2002 and May 2002, amortization of debt premiums of \$4.5 million and \$6.4 million for the three and combined nine months ended September 30, 2003, respectively, which were recorded in purchase accounting related to the Panhandle acquisition and reduced interest charges associated to the Panhandle Tender Offering. For further discussion of Panhandle's long-term debt and guarantees, see Note 7, Commitments and Contingencies - Other Commitments and Contingencies.

MINORITY INTEREST: Minority interest decreased \$1 million and \$3 million for the three and combined nine months ended September 30, 2003, respectively, compared to 2002 due to Panhandle purchasing Dekatherm Investor Trust's interest in LNG Holdings, a directly and indirectly wholly-owned subsidiary of Panhandle Holdings, LLC, during November 2002 for approximately \$41 million. As a result, Panhandle owns 100 percent of LNG Holdings and therefore no minority interest exists subsequent to that purchase.

INCOME TAXES: Income taxes during the three and combined nine months ended September 30, 2003, compared to 2002, increased \$5 million and \$11 million, respectively, due to increases in pretax income, which reflects an effective tax rate of approximately 39 percent and 40 percent for the periods ended September 30, 2003 and September 30, 2002, respectively.

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. Available sources of liquidity, including new borrowings from capital markets are expected to cover the refinance obligations of existing debt, of which \$146 million of principal matures in March 2004 and an additional \$52 million matures in August 2004. Based on our current level of operations, Management believes that cash flow from operations and available cash will be adequate to meet other liquidity needs for at least the next 12 months, although no assurances can be given as to the sufficiency of cash flows or the ability to refinance existing obligations. Future operating performance and ability to extend or refinance our indebtedness will be dependent on future economic conditions and financial, business and other factors beyond our control.

INVESTING ACTIVITIES. Historically, Panhandle's capital requirements have generally been satisfied through operating cash flow, except that Panhandle relies on access to capital markets for refinancing maturing debt and extraordinary capital expenditures. Capital expenditures associated with the Lake Charles LNG terminal expansion are estimated to be \$22 million for the remainder of 2003, \$65 million in 2004 and \$28 million in 2005. These estimates have been developed for budget planning purposes and are subject to revision.

FINANCING ACTIVITIES. In June and July of 2002, the major debt ratings services lowered their ratings on Panhandle's senior unsecured debt from BBB to BB based on concerns surrounding the liquidity and debt levels of CMS, Panhandle's former indirect parent. Following Panhandle's acquisition by Southern Union, Fitch Ratings, Inc. and Standard & Poors restored Panhandle's ratings to BBB and Moody's raised its rating on Panhandle to Baa3. Panhandle's senior unsecured note provisions are not directly impacted by debt rating changes, but are subject to other requirements such as the maintenance of a fixed charge coverage ratio and a leverage ratio which restrict certain payments if not maintained and limitations on liens. At September 30, 2003, Panhandle was subject to a \$114 million limitation on additional restricted payments, including dividends and loans to affiliates. At September 30, 2003, Panhandle was in compliance with all covenants.

At September 30, 2003, Panhandle had scheduled debt payments of \$3 million, \$210 million, \$13 million, \$14 million, \$232 million and \$749 million for the remainder of 2003 and for the years 2004 through 2007 and thereafter, respectively.

Based on the terms of an agreement between Southern Union and the MPSC, Southern Union is prohibited from making loans to or investing additional funds in Panhandle or providing any guarantees of Panhandle obligations without prior approval by the MPSC.

In July 2003, Panhandle announced the Panhandle Tender Offer for any and all of the \$747 million outstanding principal amount of five of its series of senior notes outstanding at that point in time and also the Panhandle Calls which called for the redemption of all of the outstanding \$135 million principal amount of its two series of debentures that were outstanding. Panhandle repurchased approximately \$378 million of the principal amount of its outstanding debt through the Panhandle Tender Offer for total consideration of approximately \$396 million plus accrued interest through the purchase date. Panhandle also redeemed its approximately \$135 million of debentures for total consideration of \$139 million including the specified

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

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 \$6.1 million (\$3.7 million, 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 Income, Net, pursuant to the requirements of SFAS No. 145. In August 2003, Panhandle issued \$550 million of new five and ten year senior notes principally to refinance the repurchased notes and redeemed debentures. Also in August and September 2003, Panhandle repurchased \$3.2 million principal amount of its senior notes on the open market through two transactions for total consideration of \$3.4 million, plus accrued interest through the repurchase date. Listed below are the principal amounts of notes tendered as of August 14, 2003.

DESCRIPTION
OF THE
NOTES
PRINCIPAL
AMOUNT
TENDERED -

6.125%
Senior
Notes Due
3/15/04 \$
144,420,000
7.875%
Senior
Notes Due
8/15/04
47,545,000
6.500%
Senior
Notes Due
7/15/09
98,357,000
8.250%
Senior
Notes Due
4/1/10,
Series B
18,350,000
7.000%
Senior
Notes Due
7/15/29
69,585,000

On September 10, 2003, Panhandle provided a guarantee to CB&I Constructors, Inc. for the full performance by Trunkline LNG, its subsidiary, of the engineering, procurement and construction contract (the "Contract") between Trunkline LNG and CB&I Constructors, Inc. (See Note 7, Commitments and Contingencies).

OTHER MATTERS

CUSTOMER CONCENTRATION: For the nine months ended September 30, 2003, sales to Proliance Energy, LLC, a nonaffiliated local distribution company and gas marketer, accounted for 16 percent of Panhandle's consolidated revenues.

Sales to BG LNG Services, a nonaffiliated gas marketer, accounted for 16 percent, and sales to subsidiaries of CMS, the former indirect parent, also accounted for 13 percent of Panhandle's consolidated revenues. No other customer accounted for 10 percent or more of consolidated revenues during the same period. Aggregate sales to Panhandle's top 10 customers accounted for 71 percent of revenues for the nine months ended September 30, 2003.

During the first nine months of 2002, sales to Proliance Energy, LLC, a nonaffiliated gas marketer, accounted for 15 percent of Panhandle's consolidated revenues, sales to BG LNG Services LLC, a nonaffiliated gas marketer, accounted for 13 percent and sales to subsidiaries of CMS Energy accounted for 13 percent

of Panhandle's consolidated revenues. No other customer accounted for 10 percent or more of consolidated revenues during the same period. Aggregate sales to Panhandle's top 10 customers accounted for 67 percent of revenues during the first nine months of 2002.

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

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

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

COMPETITION

Panhandle's interstate pipelines compete with other interstate and intrastate pipeline companies in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service and flexibility, and reliability of service. Panhandle primarily competes with 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 in the Midwest market area.

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

ENVIRONMENTAL MATTERS

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

PCB ASSESSMENT AND CLEAN-UP PROGRAMS: Panhandle previously identified environmental contamination at certain sites on its systems and undertook clean-up programs at these sites. The contamination resulted from the past use of lubricants containing PCBs in compressed air systems and

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

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 7, Commitments and Contingencies - Environmental Matters.

AIR QUALITY CONTROL: In 1998, the EPA issued a final rule on regional ozone control that requires revised SIPs for 22 states, including five states in which Panhandle operates. Based on EPA guidance to these states for development of these SIPs, Panhandle expects future compliance costs to be approximately \$17 million for capital improvements to be incurred from 2004 through 2007.

Panhandle expects final rulings from the EPA in 2003 and 2004 regarding control of hazardous air pollutants, and expects that some of its engines and turbines will be affected. In 2002, the Texas Commission on Environmental Quality enacted the Houston/Galveston SIP regulations requiring reductions in NOx emissions in an eight-county area surrounding Houston. Trunkline's Cypress compressor station is affected and may require the installation of emission controls. In 2003, the new regulations will also require all grandfathered facilities to enter into the new source permit program which may require the installation of emission controls at five additional facilities. The company expects to incur future capital costs of approximately \$8 million in order to comply with these programs.

For further information on the above environmental matters, see Note 7, Commitments and Contingencies - Environmental Matters.

OFF-BALANCE SHEET ARRANGEMENTS AND AGGREGATE CONTRACTUAL OBLIGATIONS

The United States Securities and Exchange Commission (SEC) has adopted new rules that require the company to provide, in a separate captioned subsection of the MD&A, a comprehensive explanation of its off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the company that is material to investors. As of December 31, 2002, Panhandle had guarantees related to the Centennial and Guardian pipeline projects of \$50 million and \$60 million, respectively, and a letter of credit for \$63 million supporting the Guardian guarantee. Panhandle has since been released from these guarantees and the letter of credit obligation has been transferred to CMS Gas Transmission (see Liquidity and Capital Resources section of this MD&A).

CONTRACTUAL COMMITMENTS: Panhandle has contractual obligations with regard to future payments of operating leases and natural gas storage service. The following table summarizes Panhandle's expected contractual obligations and commitments at September 30, 2003.

Remainder				
In				
millions				
2003	2004			
2005	2006			
	2007			
Thereafter				

Operating				
Leases (1)				
\$ 3	\$ 12	\$		
11	\$ 10	\$		
3	\$ 4			
Storage				
contracts				
(2)	3	10	9	
9	9	64	---	

Total	\$ 6			
\$ 22	\$ 20			
\$ 19	\$ 12			
\$ 68				

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=====
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=====
=====
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- 1) Lease of various assets utilized for operations
- 2) Charges for third party storage capacity

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

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

CASH MANAGEMENT

FERC issued Order No. 634, effective December 1, 2003. Order No. 634 requires all FERC-regulated entities that participate in cash management programs (i) to establish and file with FERC for public review written cash management procedures including specification of duties and responsibilities of cash management program participants and administrators, specification of the methods for calculating interest and allocation of interest income and expenses, and specification of any restrictions on deposits or borrowings by participants, and (ii) to document monthly cash management activity. Order No. 634 also requires a FERC-regulated entity to notify FERC within 45 days when its proprietary capital ratio falls below 30 percent or subsequently returns to or exceeds 30 percent.

NEW FERC REPORTING REQUIREMENTS

On June 29, 2003, the FERC proposed substantial new quarterly reporting requirements for each FERC-regulated entity. The Notice of Proposed Rulemaking (NOPR) is proposed to be effective for reporting first quarter 2004 results. Panhandle is currently studying the implications of the NOPR to Panhandle Eastern Pipe Line, Trunkline, Trunkline LNG, Sea Robin and Southwest Gas Storage.

MARKETING AFFILIATE NOTICE OF PROPOSED RULEMAKING

In September 2001, the FERC issued a NOPR proposing to apply the standards of conduct governing the relationship between interstate pipelines and marketing affiliates to all energy affiliates. The proposed regulations, if adopted by the FERC, would dictate how energy affiliates conduct business and interact with interstate pipelines. At this time, Panhandle cannot predict the outcome of the NOPR, but adoption of the regulations in their proposed form would, at a minimum, result in additional administrative and operational burdens.

PIPELINE SAFETY NOTICE OF PROPOSED RULEMAKING

In January 2003, the U.S. Department of Transportation issued a NOPR proposing to establish a rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in what the notice refers to as "high consequence areas." The proposed rule resulted from the enactment of the Pipeline Safety Improvement Act of 2002, a new bill signed into law in December 2002. Comments on the NOPR were filed on April 30, 2003. Although we cannot predict the outcome of this rulemaking, we do not expect the order to have a material effect on us.

CONTROLLED GROUP PENSION LIABILITIES

Southern Union (including certain of its divisions) sponsors a number of defined benefit pension plans arising from any of its (including any of its present or former divisions) or a predecessor's business at some time before or when Southern Union acquired us. Under applicable pension and tax laws, upon being acquired by Southern Union, each of us and our subsidiaries 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 us and each of our subsidiaries. As of June 30, 2003, the aggregate amount of the projected benefit obligations of these pension plans was approximately \$337 million and the estimated fair value of all of the assets of these plans was approximately \$237 million.

QUANTITATIVE AND QUALITATIVE

DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk is contained in Part I: PANHANDLE'S MD&A, which is incorporated by reference herein.

CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), and with the participation of personnel from our Legal, Internal Audit, Risk Management and Financial Reporting Departments, of the effectiveness of the design and operation of the Company'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, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2003 and have communicated that determination to the Audit Committee of our Board of Directors.

CHANGES IN INTERNAL CONTROLS

There have been no significant changes in Panhandle's internal controls or in factors that could significantly affect internal controls subsequent to September 30, 2003 except for the continuing effects of changes beginning June 11, 2003 because our affiliation with CMS ended, and we and each of our subsidiaries became indirect wholly-owned or controlled subsidiaries of Southern Union that is subject to Southern Union's policies, procedures and practices related to internal controls, and disclosure controls and procedures including: Southern Union executives replacing all the members of our Board; departures from and additions to our management group, in particular, Southern Union officers have become our principal executive, operating, financial and legal officers, each of whom has or will have important functions involving, or responsibilities under or for, our internal controls and our disclosure controls and procedures, which now include those of Southern Union because we and our subsidiaries are required to comply with them pursuant to Southern Union policy or laws or regulations applicable to Southern Union; actual or prospective changes affecting our information systems and technology, particularly new systems and technology, and sharing of any new systems and technology, particularly new technology, and sharing of any such systems and technology with Southern Union's other businesses; and any other factors arising from our recent change in control from CMS to Southern Union.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The discussion below is limited to an update of developments that have occurred in various judicial and administrative proceedings, many of which are more fully described in Panhandle's Form 10-K for the year ended December 31, 2002. Reference is also made to the CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, in particular Note 12 - Commitments and Contingencies - Litigation for Panhandle, included herein for additional information regarding various pending administrative and judicial proceedings involving rate, operating, regulatory and environmental matters.

ENVIRONMENTAL MATTERS

Panhandle and its subsidiaries and 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 its present knowledge and subject to future legal and factual developments, Panhandle believes that it is unlikely that these actions, individually or in total, will

have a material adverse effect on its financial condition. See Panhandle's MD&A; and Panhandle's CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) LIST OF EXHIBITS

- 3(a) Certificate of Formation of Panhandle Eastern Pipe Line Company, LLC (Filed as Exhibit 3(a) to the Form 10-Q for the quarter ended June 30, 2003).
- 3(b) Certificate of Conversion from a Corporation to a Limited Liability Company (Filed as Exhibit 3(b) to the Form 10-Q for the quarter ended June 30, 2003).
- 3(c) Certificate of Amendment to Certificate of Formation (Filed as Exhibit 3(c) to the Form 10-Q for the quarter ended June 30, 2003).
- 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 herein).
- 4(e) 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).
- 31(a) Rule 13a - 14(a)/15(d) - 14a Certification of Chief Executive Officer
- 31(b) Rule 13a - 14(a)/15(d) - 14a Certification of Chief Financial Officer
- 32(a) Section 1350 Certification (Joint)

(B) REPORTS OF FORM 8-K

NA

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Panhandle Eastern Pipe Line Company, LLC has duly caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, on the November 14, 2003.

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

By /s/ Thomas F. Karam

Thomas F. Karam
Chief Executive Officer

By /s/ David J. Kvapil

David J. Kvapil
Executive Vice President and
Chief Financial Officer

INDEX TO EXHIBIT

PREVIOUSLY
FILED WITH
EXHIBIT FILE
NUMBER
DESCRIPTION

- - - - -

3(a) 1-2921
Certificate
of Formation
of Panhandle
Eastern Pipe
Line
Company, LLC
(Filed as
Exhibit 3(a)
to the Form
10-Q for the
quarter
ended June
30, 2003).

3(b) 1-2921
Certificate
of
Conversion
from a
Corporation
to a Limited
Liability
Company
(Filed as
Exhibit 3(b)
to the Form
10-Q for the
quarter
ended June
30, 2003).

3(c) 1-2921
Certificate
of Amendment
to
Certificate
of Formation
(Filed as
Exhibit 3(c)
to the Form
10-Q for the
quarter
ended June
30, 2003).

4(a) 1-2921
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) 1-2921
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) 1-2921
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
herein).
4(e) 1-2921
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). 31(a)
Rule 13a -
14(a)/15(d)
- 14a

Certification
of Chief
Executive
Officer
31(b) Rule
13a -
14(a)/15(d)
- 14a

Certification
of Chief
Financial
Officer
32(a)

Section 1350
Certification
(Joint)

THIRD SUPPLEMENTAL INDENTURE

between

PANHANDLE EASTERN PIPE LINE COMPANY, LLC
Issuer

and

BANK ONE TRUST COMPANY, NATIONAL ASSOCIATION
Trustee

Dated as of August 18, 2003

Table of Contents

ARTICLE I.

DEFINITIONS

SECTION 1.1 Definition of Terms.....3

ARTICLE II.

GENERAL TERMS AND CONDITIONS OF THE SENIOR NOTES

SECTION 2.1 Designation and Principal Amount of the 4.80% Series A Notes and the 6.05% Series A Notes.....11

SECTION 2.2 Maturity of the 4.80% Series A Notes and the 6.05% Series A Notes.....12

SECTION 2.3 Interest on the 4.80% Series A Notes and the 6.05% Series A Notes.....12

SECTION 2.4 Form of the 4.80% Series A Notes and the 6.05% Series A Notes.....12

SECTION 2.5 Special Transfer Provisions.....13

SECTION 2.6 Designation and Principal Amount of the 4.80% Series B Notes and the 6.05% Series B Notes.....14

SECTION 2.7 Maturity of the 4.80% Series B Notes and the 6.05% Series B Notes.....14

SECTION 2.8 Interest on the 4.80% Series B Notes and the 6.05% Series B Notes.....15

SECTION 2.9 Form of the 4.80% Series B Notes and the 6.05% Series B Notes.....15

SECTION 2.10 Redemption of the Senior Notes.....15

ARTICLE III.

COVENANTS

SECTION 3.1 Limitation on Restricted Payments.....16

SECTION 3.2 Limitation on Liens.....17

SECTION 3.3 Restriction on Sale-Leasebacks.....19

SECTION 3.4 Financial Information.....20

SECTION 3.5 Applicability of Covenants.....21

ARTICLE IV.

DEFAULT

SECTION 4.1 General.....21

SECTION 4.2 Additional Event of Default.....21

ARTICLE V.

DEFEASANCE

SECTION 5.1 General.....22
SECTION 5.2 Covenant Defeasance.....22

ARTICLE VI.

FORM OF SENIOR NOTES

SECTION 6.1 Form of Senior Notes.....22

ARTICLE VII.

ISSUANCE OF SENIOR NOTES

SECTION 7.1 Original Issue of Senior Notes.....39
SECTION 7.2 Additional Senior Notes.....40

ARTICLE VIII.

MISCELLANEOUS

SECTION 8.1 Ratification of Indenture.....40
SECTION 8.2 Trustee Not Responsible for Recitals.....40
SECTION 8.3 Governing Law.....40
SECTION 8.4 Separability.....41
SECTION 8.5 Counterparts.....41

EXHIBIT A Form of Owner Senior Notes Certification to be delivered in connection with the exchange of the Temporary Regulation S Global Note

EXHIBIT B Form of Depositary Certification to be delivered in connection with exchanges of the Temporary Regulation S Global Note

THIRD SUPPLEMENTAL INDENTURE, dated as of August 18, 2003 (the "Third 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 Bank One 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 desires to provide for the establishment of two new series of its Debt Securities: (i) the 4.80% Senior Notes due 2008 (as defined below) 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 Notes, known as "4.80% Senior Notes due 2008, Series B" (the "4.80% Series

B Notes", and together with the 4.80% Series A Notes, the "4.80% Senior Notes due 2008"); and (ii) the 6.05% Senior Notes due 2013 (as defined below) 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" (the "6.05% Series B Notes" and, together with the 6.05% Series A Notes, the "6.05% Senior Notes due 2013" and, together with the 4.80% Senior Notes due 2008 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 Third 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 August 18, 2003 (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 4.80% Series A Notes and the 6.05% Series A Notes to exchange such Senior Notes for 4.80% Series B Notes and 6.05% Series B Notes, respectively, not subject to certain restrictions under the Securities Act or to cause a Shelf Registration Statement to be declared effective with respect to the respective resale of the 4.80% Series A Notes or the 6.05% 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 Third Supplemental Indenture, and all requirements necessary to make this Third 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 Third 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:

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 Third Supplemental Indenture;

(b) a term defined anywhere in this Third 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 Third 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 Third Supplemental Indenture in accordance with Section 2.4 of the Base Indenture, as a part of the same Series as the applicable 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;

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

"Clearstream" means Clearstream Banking, S.A.

"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.

"Depository Certification" has the meaning set forth in Section 2.4 hereof.

"Euroclear" means The Euroclear System.

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

"Exchange Notes" means the 4.80% Series B Notes and 6.05% Series B Notes to be offered to Holders in exchange for the 4.80% Series A Notes and the 6.05% Series A Notes, respectively, pursuant to an Exchange Offer or otherwise pursuant to a Registration of Senior Notes containing terms identical in all material respects to the Senior Notes of such Series for which they are exchanged, except that (i) interest thereon shall accrue from the last date on which interest was paid on the Senior Notes or, if no such interest has been paid, from the date of issuance of the Senior 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 Senior 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 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 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 either the initial \$300,000,000 million aggregate principal amount of 4.80% Senior Notes due 2008 or the initial \$250,000,000 million aggregate principal amount of 6.05% Senior Notes due 2013 issued under this Third Supplemental Indenture and when the context requires, collectively.

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

"Owner Senior Notes Certification" has the meaning set forth in Section 2.4 hereof.

"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 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, 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 Third 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.

"Registration Statement" means a registration statement of the Issuer under the Securities Act registering (i) the exchange of 4.80% Series A Notes or 6.05% Series A Notes, respectively, for 4.80% Series B Notes or 6.05% 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.

"Regulation S Legend" has the meaning set forth in Section 6.1 hereof.

"Regulation S Restricted Period" means the 40 calendar days after the original issue date of the Senior Notes.

"Regulation S Global Note" has the meaning set forth in Section 2.4 hereof.

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

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

"Rule 144A Global Note" has the meaning set forth in Section 2.4 hereof.

"Rule 144A Legend" has the meaning set forth in Section 6.1 hereof.

"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 Third 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 Third Supplemental Indenture. The Initial Senior Notes and the Additional Senior Notes shall be treated as a single class for all purposes under this Third 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.

"Series" means either the 4.80% Senior Notes due 2008 or the 6.05% Senior Notes due 2013. For the avoidance of doubt, each Series includes both the Initial Senior Notes and any Additional Senior Notes issued pursuant to such Series.

"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 applicable Series of 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.

"Temporary Regulation S Global Note" has the meaning set forth in Section 2.4 hereof.

"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 Third 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 4.80% Series A Notes and the 6.05% Series A Notes.

There is hereby authorized two series of Debt Securities designated as follows:

(a) The "4.80% Senior Notes due 2008, 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; and

(b) The "6.05% Senior Notes due 2013, 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 issued by the Issuer at any time subject to the terms and conditions of the Base Indenture and this Third 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 4.80% Series A Notes shall be \$ 300,000,000, and the initial principal amount of the 6.05% Series A Notes shall be \$ 250,000,000.

SECTION 2.2 Maturity of the 4.80% Series A Notes and the 6.05% Series A Notes.

The 4.80% Series A Notes will mature on August 15, 2008 and the 6.05% Series A Notes will mature on August 15, 2013.

SECTION 2.3 Interest on the 4.80% Series A Notes and the 6.05% Series A Notes.

Interest shall accrue from the date set forth, and shall be payable on the 4.80% Series A Notes and the 6.05% Series A Notes in the respective amount and as otherwise set forth, in the respective form of such Senior Note appearing in Article VI of this Third Supplemental Indenture.

SECTION 2.4 Form of the 4.80% Series A Notes and the 6.05% Series A Notes.

The form of the 4.80% Series A Notes and the 6.05% Series A Notes shall be substantially in the form provided for in Article VI for such Senior Notes. The terms of each of the 4.80% Series A Notes and the 6.05% Series A Notes form part of this Third Supplemental Indenture. The 4.80% Series A Notes and 6.05% Series A Notes shall be respectively represented by one or more Global Notes in definitive, registered form, without interest coupons. The 4.80% Series A Notes and 6.05% 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 Depository for the 4.80% Series A Notes and 6.05% Series A Notes). The 4.80% Series A Notes and 6.05% Series A Notes shall initially contain restrictions on transfer, substantially as described in the form set forth in Section 6.1. Each 4.80% Series A Notes and 6.05% Series A Notes, 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 Senior Notes owned by qualified institutional buyers (as defined in Rule 144A under the Securities Act) ("QIBs") or sold to QIBs in reliance upon Rule 144A under the Securities Act will be represented by one or more global certificates registered in the name of Cede & Co., as registered owner and as nominee for DTC, or another nominee designated by DTC (the "Rule 144A Global Notes") in definitive, fully registered form without interest coupons in denominations of US\$1,000 and any integral multiples of US\$1,000. Senior Notes of each Series sold outside the United States in offshore transactions in reliance on Regulation S under the Securities Act, will be represented by one or more Temporary Global Notes (each, a "Temporary Regulation S Global Note") in definitive, fully registered form without interest coupons in denominations of US\$1,000 and any integral multiples of US\$1,000, and will be deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., or another nominee designated by DTC for the respective accounts of Euroclear and Clearstream. The Trustee and the Issuer will have no responsibility under the Indenture for transfers of beneficial interests in the 4.80% Series A Notes or the 6.05% 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.

During the Regulation S Restricted Period, beneficial interests in a Temporary Regulation S Global Note may only be held through Euroclear and Clearstream until such interests are exchanged for corresponding interests in an unrestricted Global Note (the "Regulation S Global Note") as provided in the next sentence. A holder of a beneficial interest in a Regulation S Temporary Global Note must provide written certification (an "Owner Senior Notes Certification") to Euroclear or Clearstream, as the case may be, that the beneficial owner of the interest in such Global Note is not a U.S. Person (as defined in Rule 902(k) under the Securities Act) or is a U.S. Person who purchased such beneficial interest in a transaction that did not require registration under the Securities Act in the form set forth in Exhibit A, and Euroclear or Clearstream, as the case may be, must provide to the Trustee a similar certification in the form set forth in Exhibit B (a "Depositary Certification"), prior to any exchange of such beneficial interest for a beneficial interest in a Regulation S Global Note. Any such exchange may take place only after the expiration of the Regulation S Restricted Period. After any such exchange, Holders of beneficial interests of the Regulation S Global Notes may hold such interests through organizations other than Euroclear and Clearstream that are participants in DTC.

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 4.80% Series A Notes and the 6.05% Series A Notes, as the case may be.

SECTION 2.5 Special Transfer Provisions.

For the purposes of this Third Supplemental Indenture, unless and until a 4.80% Series A Note or a 6.05% 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 following provisions shall apply to each such Senior Note:

(a) Transfers of Interests in a Rule 144A Global Note. With respect to the registration of any proposed transfer of an interest in a Rule 144A Global Note, if the Senior Note to be transferred consists of a Rule 144A Global Note (i) to be transferred to a transferee who takes delivery in the form of an interest in a Temporary Regulation S Global Note or a Regulation S Global Note (if after the Regulation S Restricted Period), the registrar shall register the transfer if such transfer is being made by a proposed transferor who has delivered to the registrar a Restricted Certificate of Transfer substantially in the form set forth in Section 6.1 hereof or (ii) to be transferred to a transferee who takes delivery in the form of an interest in a Rule 144A Global Note, the transfer of such interest may be effected only through the book entry system maintained by the Depositary.

(b) Transfers of Interests in a Temporary Regulation S Global Note. With respect to registration of any proposed transfer of an interest in a Temporary Regulation S Global Note to a person who takes delivery in the form of a Restricted Senior Note or an interest in a Rule 144A Global Note, the registrar shall register the transfer of any Senior Note if the proposed transferor has delivered to the Issuer a Restricted Certificate of Transfer from the transferor substantially in the form set forth in Section 6.1 hereof or a certificate from the transferee advising the Issuer that it is purchasing the Senior Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a QIB within the meaning of Rule 144A, and is aware that the sale to it is being made in reliance on Rule 144A and that the Senior Notes delivered to it shall bear the Rule 144A Legend and acknowledges that it has received such information regarding the Issuer as it has requested pursuant to Rule 144A and that it is aware that the transferor is relying upon its foregoing representations in order to claim the exemption from registration provided by Rule 144A. The Issuer shall use its best efforts to cause the Depository to ensure that beneficial interests in a Regulation S Temporary Global Note may be held only in or through accounts maintained at the Depository by or on behalf of Euroclear or Clearstream, and no Person shall be entitled to effect any transfer or exchange that would result in any such interest being held otherwise than in or through such account, except as provided in this Section 2.5.

SECTION 2.6 Designation and Principal Amount of the 4.80% Series B Notes and the 6.05% Series B Notes.

There is hereby authorized two series of Debt Securities designated as follows:

(a) The "4.80% Senior Notes due 2008, 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; and

(b) The "6.05% Senior Notes due 2013, 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 Third 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 4.80% Series B Notes shall not exceed \$300,000,000, and the initial principal amount of the 6.05% Series B Notes shall not exceed \$250,000,000.

SECTION 2.7 Maturity of the 4.80% Series B Notes and the 6.05% Series B Notes.

The 4.80% Series B Notes will mature on August 15, 2008 and the 6.05% Series B Notes will mature on August 15, 2008.

SECTION 2.8 Interest on the 4.80% Series B Notes and the 6.05% Series B Notes.

Interest shall accrue from the date set forth, and shall be payable on the 4.80% Series B Notes and the 6.05% Series B Notes in the respective amount and as otherwise set forth, in the respective form of such Senior Note appearing in Article VI of this Third Supplemental Indenture.

SECTION 2.9 Form of the 4.80% Series B Notes and the 6.05% Series B Notes.

The form of each of the 4.80% Series B Notes and the 6.05% 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 4.80% Series B Notes and the 6.05% Series B Notes form part of this Third Supplemental Indenture. The 4.80% Series B Notes and 6.05% Series B Notes shall be respectively represented by one or more Global Notes in definitive, registered form, without interest coupons. The 4.80% Series B Notes and 6.05% 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 Depository for the 4.80% Series B Notes and 6.05% 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 in the case of the 4.80% Senior Notes due 2008 or 25 basis points in the case of the 6.05% Senior Notes due 2013, plus in each case 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%.

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;

(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 Third 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:

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

This Issuer currently files reports with the SEC on a voluntary basis. Following the consummation of the Exchange Offer contemplated by the Registration Rights Agreement, the Issuer will be required under the Exchange Act to file such reports. If, at any time after consummation of the Exchange Offer contemplated by the Registration Rights Agreement, 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 each Series of Senior Notes.

SECTION 4.2 Additional Event of Default.

The following event shall be an "Event of Default" with respect to each Series of 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 any Senior Note of such Series for federal income tax purposes, unless (i) Holders of more than 50% in principal amount of the applicable Series 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 applicable Series of 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.

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 Third Supplemental Indenture.

ARTICLE VI.

FORM OF SENIOR NOTES

SECTION 6.1 Form of Senior Notes.

The 4.80% Series A Notes, 6.05% Series A Notes, 4.80% Series B Notes and 6.05% 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 4.80% SENIOR NOTES DUE 2008, SERIES A, 6.05% SENIOR NOTES DUE 2013, SERIES A, AND PRIVATE EXCHANGE NOTES)

Unless and until a Security 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, (i) the Rule 144A Global Notes shall bear the legend set forth below on the face thereof and (ii) the Regulation S Global Notes shall bear the legend set forth below on the face thereof until at least the 41st day after the original issue date of the Senior Notes and receipt by the Issuer and the Trustee of a certificate substantially in the form contained in Section 6.1 hereof.

[FOR EACH RULE 144A GLOBAL NOTE ADD THE FOLLOWING LEGEND (THE "RULE 144A LEGEND")]:

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 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, (D) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (E) 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 (E) 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.]

[FOR EACH TEMPORARY REGULATION S GLOBAL NOTE ADD THE FOLLOWING LEGEND (THE "REGULATION S LEGEND"):

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 NOT A "U.S. PERSON" (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT), (2) AGREES NOT TO OFFER, SELL OR OTHERWISE TRANSFER THIS SENIOR NOTE PRIOR TO THE DATE WHICH IS 40 DAYS AFTER THE ORIGINAL ISSUE DATE OF THE SENIOR NOTES (THE "REGULATION S RESTRICTED PERIOD") 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 ("RULE 144A") UNDER THE SECURITIES ACT, 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, (D) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S OR (E) 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 (E) 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 LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE TERMINATION OF THE REGULATION S RESTRICTED PERIOD FOLLOWING COMPLIANCE WITH THE CERTIFICATION REQUIREMENTS SET FORTH IN THE INDENTURE.]

This Security 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 Security is exchangeable for Securities 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 Securities 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. [] \$[]

Panhandle Eastern Pipe Line Company, LLC

[4.80% SENIOR NOTE
DUE 2008, SERIES A][6.05% SENIOR NOTE
DUE 2013, 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 [], 20[]

("Maturity") and to pay interest thereon from [], 200[] (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 February 15th and August 15th in each year, commencing [], 2003 and at Maturity at the rate of []% 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 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 [], 2003

PANHANDLE EASTERN PIPE LINE COMPANY, LLC

By

Name:
Title:

Attest:

By -----
Name:
Title:

(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.

BANK ONE 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 Bank One Trust Company, National Association), further supplemented by the Third Supplemental Indenture dated as of August 18, 2003 between the Issuer and Bank One 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 Third 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 [] basis points(1) plus in each case accrued and unpaid interest thereon to the date of redemption. Unless there is a default in the payment of the redemption price, on and after the 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.

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- (1) Insert 20 basis points in the case of the 4.80% Senior Notes due 2008, Series A and 25 basis points in the case of the 6.05% Senior Notes due 2013, Series A

"Reference Treasury Dealer" means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, 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.

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 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.

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

[] in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act;

[] 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]

(FORM OF FACE OF 4.80% SENIOR NOTES DUE 2008, SERIES B AND 6.05% SENIOR
NOTES DUE 2013, SERIES B)

This Security 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 Security is exchangeable for Securities 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 Securities 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. [] \$[]

Panhandle Eastern Pipe Line Company, LLC

[4.80% SENIOR NOTE
DUE 2008, SERIES B][6.05% SENIOR NOTE
DUE 2013, 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 [], 20[] ("Maturity") and to pay interest thereon from [], 200[] (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 February 15th and August 15th in each year, commencing [] and at Maturity at the rate of []% per annum, until the principal hereof shall have become due and payable, and on any overdue principal and

premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this 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.

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:

(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.

BANK ONE 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 Bank One Trust Company, National Association), further supplemented by the Third Supplemental Indenture dated as of August 18, 2003 between the Issuer and Bank One 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 Third 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 [] basis points(2), plus in each case accrued and unpaid interest thereon to the date of redemption. Unless there is a default in the payment of the redemption price, on and after the 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, 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.

- - - - -

- (2) Insert 20 basis points in the case of the 4.80% Senior Notes due 2008, Series B and 25 basis points in the case of the 6.05% Senior Notes due 2013, Series B

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 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 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)

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]

ARTICLE VII.

ISSUANCE OF SENIOR NOTES

SECTION 7.1 Original Issue of Senior Notes.

Upon execution of this Third Supplemental Indenture, the 4.80% Series A Notes in the initial principal amount of \$300,000,000 and the 6.05% Series A Notes in the initial principal amount of \$250,000,000 may be executed by the Issuer. Such Senior Notes may be delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Senior Notes to or upon the written order of the Issuer, signed by its Chairman, President or any Vice President and its Secretary or an Assistant Secretary, without any further action by the Issuer. Further, upon execution of this Third Supplemental Indenture, the 4.80% Series B Notes in the initial principal amount not to exceed \$300,000,000 and the 6.05% Series B Notes in the initial principal amount not to exceed \$250,000,000 may be executed by the Issuer. Such Senior Notes may be delivered to the Trustee to hold until a Registration Statement

has been declared effective by the SEC and the Exchange Offer has been consummated or a resale has been effected under such Registration Statement, and the Trustee shall thereupon authenticate and deliver said Senior Notes to or upon the written order of the Issuer, signed by its Chairman, President or any Vice President and its Secretary or an Assistant Secretary, without any further action by the Issuer.

SECTION 7.2 Additional Senior Notes.

Upon execution of this Third Supplemental Indenture, subject to Section 2.1 and Section 2.6 hereof, Additional Senior Notes may be executed by the Issuer. Such Additional Senior Notes issued as either 4.80% Series A Notes or 6.05% Series A Notes may be delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Additional Senior Notes to or upon the written order of the Issuer, signed by its Chairman, President or any Vice President and its Secretary or an Assistant Secretary, without any further action by the Issuer. Such Additional Senior Notes issued as either 4.80% Series B Notes or 6.05% Series B Notes may be delivered to the Trustee to hold until a Registration Statement has been declared effective by the SEC and the Exchange Offer has been consummated or a resale has been effected under such Registration Statement, and the Trustee shall thereupon authenticate and deliver said Senior Notes to or upon the written order of the Issuer, signed by its Chairman, President or any Vice President and its Secretary or an Assistant Secretary, without any further action by the Issuer.

ARTICLE VIII.

MISCELLANEOUS

SECTION 8.1 Ratification of Indenture.

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

SECTION 8.3 Governing Law.

This Third 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 Third 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 Third Supplemental Indenture or of the Senior Notes, but this Third 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 Third Supplemental Indenture may be executed in any number of counterparts each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

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

PANHANDLE EASTERN PIPE LINE COMPANY, LLC,
as Issuer

By: /s/ DAVID J. KVAPIL

Name: David J. Kvapil

BANK ONE TRUST COMPANY, NATIONAL
ASSOCIATION,
as Trustee

By: /s/ RENEE JOHNSON

Name: Renee Johnson
Title: Vice President

THIRD SUPPLEMENTAL INDENTURE 42

CERTIFICATIONS

I, Thomas F. Karam, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Panhandle Eastern Pipe Line Company, LLC;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the registrant and we 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 quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly 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 quarterly 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 controls over financial reporting; and
5. The registrant's other certifying officers 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 of internal control over financial reporting function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

By /s/ Thomas F. Karam

Executive Vice President and
Chief Executive Officer

I, David J. Kvapil, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Panhandle Eastern Pipe Line Company, LLC;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the registrant and we 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 quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and
 - c) Disclosed in this quarterly 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 controls over financial reporting; and
5. The registrant's other certifying officers 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 of internal control over financial reporting function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

By /s/ David J. Kvapil

 Executive Vice President and
 Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Panhandle Eastern Pipe Line Company, LLC (the "Company") for the quarterly period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Thomas F. Karam, as Chief Executive Officer of the Company, and David J. Kvapil, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

/s/ Thomas F. Karam

Name: Thomas F. Karam
Title: Chief Executive Officer
Date: November 14, 2003

/s/ David J. Kvapil

Name: David J. Kvapil
Title: Executive Vice President and Chief Financial Officer
Date: November 14, 2003

This certification is furnished pursuant to Item 601 of Regulation S-K and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise be subject to the liability of that section. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent the Company specifically incorporates it by reference.