

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

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996 COMMISSION FILE NO. 1-2921

PANHANDLE EASTERN PIPE LINE COMPANY  
(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.)

5400 WESTHEIMER COURT  
P.O. BOX 1642  
HOUSTON, TEXAS 77251-1642  
(Address, including zip code, of principal executive offices)  
(713) 627-5400  
(Telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
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7.95% Debentures Due 2023	The New York Stock Exchange, Inc.
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Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

The Registrant meets the conditions set forth in General Instructions (J) (1) (a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format. Items 4, 10, 11, 12 and 13 have been omitted and Item 7 has been reduced in accordance with such Instruction J.

The Registrant's parent, PanEnergy Corp (File No. 1-8157), files reports and proxy materials pursuant to the Securities Exchange Act of 1934.

State the aggregate market value of the voting stock held by non-affiliates of the Registrant.

NONE

Indicate number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practicable date.

TITLE OF EACH CLASS  
-----

NUMBER OF SHARES OUTSTANDING  
AS OF FEBRUARY 28, 1997  
-----

Common Stock, without par value

1,000

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All gas volumes used herein are stated at 14.73 pounds per square inch, on a dry basis, at 60 degrees Fahrenheit.

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PART I

ITEM 1. BUSINESS

GENERAL

Panhandle Eastern Pipe Line Company ("PEPL"), a subsidiary of PanEnergy Corp ("PEC"), is a Delaware corporation incorporated in 1929. PEPL and its subsidiaries (the "Company") are primarily engaged in the interstate transportation and storage of natural gas.

On November 25, 1996, PEC, Duke Power Company ("Duke Power") and Duke Transaction Corporation announced a definitive merger agreement for a tax-free, stock-for-stock transaction. Under the agreement, each share of PEC common stock would be converted into 1.0444 common shares of Duke Power. The merger is conditioned upon, among other things, the approval of PEC and Duke Power shareholders, and approvals of appropriate state and federal regulatory agencies. The Company anticipates that the stockholder and regulatory approvals can be completed within 12 months. At closing, Duke Power will change its name to Duke Energy Corporation ("Duke Energy") and PEC will become a wholly-owned subsidiary of Duke Energy. The merger will be accounted for under the pooling of interests method.

Information concerning components of the Company's consolidated operating revenues, including revenues attributable to transportation, storage and sales of natural gas, for the years 1996, 1995 and 1994 is contained in the Consolidated Statement of Income on page F-2, which is incorporated herein by reference.

Executive offices of PEPL are located at 5400 Westheimer Court, Houston, Texas 77056-5310, and the telephone number is (713) 627-5400.

Certain Terms

Certain terms used in the description of the Company's business are explained below.

Federal Energy Regulatory Commission ("FERC"): The agency that regulates the transportation of natural gas in interstate commerce under the Natural Gas Act of 1938 (the "NGA") and the Natural Gas Policy Act of 1978 (the "NGPA"). FERC's jurisdiction includes rate-making, construction of facilities and authorization to provide service.

Firm Service: Transportation or storage of third-party gas, for which customers pay a charge to reserve pipeline or storage capacity.

Interruptible Service: Transportation or storage of third-party gas provided by pipelines on a capacity-available, non-firm basis.

Local Distribution Company ("LDC"): A municipal or investor-owned utility that sells or transports gas to local commercial, industrial and residential consumers.

Order 636: The FERC pipeline service restructuring rule that guided the industry's transition to unbundled, open-access pipeline contract transportation and related services, creating a more market-responsive environment.

Transition Costs: Those costs incurred as a result of the pipelines' transition to unbundled services under Order 636. The disposition of natural gas contracts tied to the former merchant function comprises the majority of such costs.

Units of Measure:

BBtu/d: Billion British thermal units per day  
 TBtu: Trillion British thermal units  
 MMcf/d: Million cubic feet per day  
 Bcf: Billion cubic feet  
 Tcf: Trillion cubic feet

NATURAL GAS TRANSMISSION

General

PEPL and its principal subsidiary, Trunkline Gas Company ("Trunkline"), together with Texas Eastern Transmission Corporation ("TETCO") and Algonquin Gas Transmission Company ("Algonquin"), both subsidiaries of PEC, own and operate one of the nation's largest gas transmission networks. This fully interconnected 22,000-mile system can receive natural gas from most major North American producing regions for delivery to markets in the Mid-Atlantic, New England and Midwest states. During 1996, PEC's pipelines delivered 2,939 TBtu of natural gas, equal to approximately 12% of U.S. consumption.

Market and Supply Area Deliveries

As used herein, "market area" with respect to each pipeline refers to those portions of the pipeline that include primarily delivery points for natural gas leaving the pipeline, and "supply area" with respect to each pipeline refers to those portions of the pipeline that include primarily receipt points for gas entering the pipeline. Market-area deliveries represent volumes of gas delivered to the market area, while supply-area deliveries represent volumes of gas delivered to the supply area. Generally, rates for supply-area service have lower margins than rates for market-area service.

A substantial majority of the delivered volumes of the Company's interstate pipelines represents gas transported under long-term firm service agreements with LDC customers in the pipelines' market areas. Firm transportation services are also provided under contract to gas marketers, producers, other pipelines and a variety of end-users. In addition, the pipelines offer interruptible transportation to customers on a short-term or seasonal basis. See "Regulation" and "Competition."

Set forth below is information concerning throughput volumes for PEPL and Trunkline for 1996, 1995 and 1994 (volumes in TBtu).

	1996	% TOTAL	1995	% TOTAL	1994	% TOTAL
	-----	-----	-----	-----	-----	-----
Market Area						
PEPL.....	654	50	619	52	582	49
Trunkline.....	529	40	403	34	449	38
	-----	---	-----	---	-----	---
Total.....	1,183	90	1,022	86	1,031	87
	-----	---	-----	---	-----	---
Supply Area						
PEPL.....	33	2	44	4	44	4
Trunkline.....	103	8	116	10	111	9
	-----	---	-----	---	-----	---
Total.....	136	10	160	14	155	13
	-----	---	-----	---	-----	---
Total Volumes.....	1,319	100	1,182	100	1,186	100
	=====	===	=====	===	=====	===
Summary by Pipeline (Total Volumes)						
PEPL (1).....	687	52	663	56	626	53
Trunkline (2).....	632	48	519	44	560	47
	-----	---	-----	---	-----	---
Total.....	1,319	100	1,182	100	1,186	100
	=====	===	=====	===	=====	===

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- (1) PEPL volumes include 28 TBtu, 22 TBtu and 45 TBtu in deliveries to TETCO during 1996, 1995 and 1994, respectively.
  - (2) Trunkline volumes include 28 TBtu, 21 TBtu and 43 TBtu in deliveries to TETCO during 1996, 1995 and 1994, respectively.

Demand for gas transmission on the Company's interstate pipeline system is seasonal, with the highest throughput occurring during the colder periods in the first and fourth quarters -- the winter heating season.

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PEPL's market volumes are concentrated among approximately 20 utilities located in the Midwest market area that encompasses large portions of Michigan, Ohio, Indiana, Illinois and Missouri. PEPL's total deliveries increased 4% in 1996.

Trunkline's major customers include eight utilities located in portions of Tennessee, Missouri, Illinois, Indiana and Michigan. Trunkline's total throughput increased 22% in 1996.

PEPL and TETCO signed contracts to provide 50 BBtu/d of firm service to a new market, the greater Cincinnati area, starting in November 1996. The contracts with the Cincinnati Gas & Electric Co call for firm transportation service by TETCO and firm transportation and storage service by PEPL. Also, Trunkline will provide interruptible transportation service.

In April 1996, PEPL and Trunkline began providing 85 BBtu/d of additional firm transportation service to CoEnergy Trading Company for its Michigan customers under five-year contracts.

Trunkline filed with FERC in late 1996 for an expansion of its Terrebonne system with a planned 1998 in-service date, targeting expanding natural gas production in the Gulf of Mexico.

#### Storage

PEPL owns and operates three underground storage fields located in Illinois, Michigan and Oklahoma. Trunkline owns and operates one storage field in Louisiana. The combined maximum working gas capacity is 44 Bcf. Additionally, PEPL, through its Pan Gas Storage Company ("Pan Gas") subsidiary, is the owner of a storage field in Kansas with an estimated maximum capacity of 26 Bcf. PEPL is the operator of the field. Since the implementation of the Order 636 restructuring, PEPL, Trunkline and Pan Gas all offer firm and interruptible storage on an open-access basis. In addition to owning storage fields, PEPL also leases storage capacity. PEPL and Trunkline have retained the right to use up to 15 Bcf and 10 Bcf, respectively, of their storage capacity for system needs. In January 1997, PEPL filed with FERC to transfer its storage facilities to Pan Gas.

#### Northern Border Partners, L.P.

A PEPL subsidiary owns an approximate 8% interest (a 33% voting interest) in Northern Border Partners, L.P. ("Northern Border MLP"), consisting of general partner and subordinated limited partner interests. Northern Border MLP owns a 70% interest in Northern Border Pipeline Company ("Northern Border Pipeline"), which owns and operates a transmission system consisting of 969 miles of pipeline extending from the Canadian border through Montana to Iowa. Northern Border Pipeline transports natural gas both under traditional long-term contracts and on an open-access basis. It has a certificated transport capacity of 975 MMcf/d.

#### REGULATION

PEPL, Trunkline and Pan Gas are "natural gas companies" under the NGA and NGPA and, as such, are subject to the jurisdiction of FERC.

The NGA grants to FERC 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 such facilities. PEPL and its subsidiaries hold required certificates of public convenience and necessity issued by FERC, authorizing them to construct and operate the pipelines, facilities and properties now in operation for which certificates are required, and to transport and store natural gas in interstate commerce.

FERC also has authority to regulate rates and charges for natural gas transported in or stored for interstate commerce or sold by a natural gas company in interstate commerce for resale. PEPL and its subsidiaries file with FERC applications for changes in transportation and storage rates and charges. These changes are normally allowed to become effective after a suspension period, subject to refund, until such time as FERC authorizes the actual level of rates and charges.

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PEPL and Trunkline operate as open-access transporters of natural gas. In 1992, FERC issued Order 636, which requires open-access pipelines to provide firm and interruptible transportation services on an equal basis for all gas supplies, whether purchased from the pipeline or from another gas supplier. To implement this requirement, Order 636 provides, among other things, for mandatory unbundling of services that have historically been provided by pipelines into separate open-access transportation, sales and storage services.

Order 636 provided for the use of the straight fixed-variable rate design, which assigns return on equity, related taxes and other fixed costs to the reservation component of rates. In addition, Order 636 allows pipelines to recover eligible costs resulting from implementation of Order 636 ("transition costs"). On July 16, 1996, the U.S. Court of Appeals for the District of Columbia upheld, in general, all aspects of Order 636 and remanded certain issues, including recovery of gas supply realignment costs, for further explanation. This decision is on appeal to the U.S. Supreme Court. On February 27, 1997, FERC issued an order reaffirming the right of interstate pipelines to recover 100% of gas supply realignment costs. In addition, this matter is substantially mitigated by PEPL's transition cost settlements.

Regulation of the importation and exportation of natural gas is vested in the Secretary of Energy, who has delegated various aspects of this jurisdiction to FERC and the Office of Fossil Fuels of the Department of Energy.

PEPL and its subsidiaries are subject to the Natural Gas Pipeline Safety Act of 1968, which regulates gas pipeline safety requirements and to federal and state environmental legislation.

#### RATES AND REGULATORY PROCEEDINGS

When rate cases are pending final FERC approval, a portion of the revenues collected by the Company's natural gas pipelines is subject to possible refund. A summary of the status of significant pending rate cases and related regulatory matters involving PEPL and Trunkline is contained in Note 4 of the Notes to Consolidated Financial Statements on pages 44 and 45 of the Annual Report, which are incorporated herein by reference.

#### COMPETITION

PEPL and Trunkline 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. PEPL and Trunkline continue to offer selective discounting to maximize revenues from existing capacity.

PEPL and Trunkline compete directly with ANR Pipeline Company, Natural Gas Pipeline Company of America and Texas Gas Transmission Corporation in the Midwest market area.

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

## ENVIRONMENTAL MATTERS

For a discussion of environmental matters involving the Company, see Notes 11 and 12 of the Notes to Consolidated Financial Statements, which are incorporated herein by reference. Except as set forth therein, compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise protecting the environment, are not expected to have a material effect upon the capital expenditures, earnings or financial position of the Company.

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## GENERAL MATTERS

During 1996, no single customer accounted for 10% or more of the Company's consolidated revenues.

While the Company does engage in some research and development activities, no such activities conducted during the past three years have been material to the Company's business, nor have there been any material customer-sponsored research activities during that period relating to the Company's business activities.

PEPL and Trunkline are members of and provide support to the Gas Research Institute ("GRI"), which plans and manages research and development efforts for the gas industry. The funds used to support GRI are derived from a surcharge on the pipelines' rates pursuant to FERC authorization. Payments amounted to approximately \$3.1 million, \$5.1 million and \$8.5 million in 1996, 1995 and 1994, respectively.

Foreign operations and export sales are not material to the Company's business as a whole.

As of December 31, 1996, the Company had approximately 1,100 employees.

## ITEM 2. PROPERTIES

PEPL's transmission system, which consists of four large-diameter parallel pipelines and 13 mainline compressor stations, extends a distance of approximately 1,300 miles from producing areas in the Anadarko Basin of Texas, Oklahoma and Kansas through the states of Missouri, Illinois, Indiana and Ohio into Michigan.

Trunkline's transmission system extends approximately 1,400 miles from the Gulf Coast areas of Texas and Louisiana through the states of Arkansas, Mississippi, Tennessee, Kentucky, Illinois and Indiana to a point on the Indiana-Michigan border near Elkhart, Indiana. The system consists principally of three large-diameter parallel pipelines and 18 mainline compressor stations.

Trunkline also owns and operates two offshore Louisiana gas supply systems consisting of 337 miles of pipeline extending approximately 81 miles into the Gulf of Mexico.

For information concerning natural gas storage properties, see "Natural Gas Transmission -- Storage" under Item 1, which is incorporated herein by reference.

## ITEM 3. LEGAL PROCEEDINGS

For information concerning material legal proceedings, see Notes 3, 11 and 12 of the Notes to Consolidated Financial Statements, which are incorporated herein by reference.

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[Map of PanEnergy Corp  
Showing Pipelines, Storage Facilities,  
Principal Supply Areas and Proposed Pipelines.]

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

All of PEPL's outstanding common stock, without par value, is owned by PanEnergy. In December 1996, July 1996 and December 1995, PEPL declared and paid dividends on common stock of \$100 million, \$100 million and \$400 million, respectively, in the form of promissory notes due PanEnergy bearing interest at prime rates.

## ITEM 6. SELECTED FINANCIAL DATA

Selected consolidated financial and operating data is presented on Page F-17, which is incorporated herein by reference.

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

The following information is provided to facilitate increased understanding of the 1996 and 1995 consolidated financial statements and accompanying notes of the Company, and should be read in conjunction therewith and with the information set forth under Item 1. Because all of the outstanding capital stock of PEPL is owned by PanEnergy, the following discussion has been prepared in accordance with the reduced disclosure format permitted by Form 10-K for issuers that are wholly-owned subsidiaries of reporting companies under the Securities Exchange Act of 1934.

## OPERATING ENVIRONMENT

PEPL and Trunkline continue to advance projects that provide expanded services to meet the specific needs of customers. In 1996, Trunkline filed with FERC for a \$50 million expansion of its Terrebonne system, with a planned 1998 in-service date, targeting expanding natural gas production in the Gulf of Mexico. In addition, PEPL and Trunkline offer selective discounting to maximize revenues from existing capacity.

## RESULTS OF OPERATIONS

The Company reported consolidated net income of \$87.7 million in 1996 compared with \$100.7 million in 1995.

## OPERATING INCOME AND EARNINGS BEFORE INTEREST AND TAX ANALYSIS

## PANHANDLE EASTERN PIPE LINE COMPANY\*

MILLIONS	1996	1995
- - - - -	- - - - -	- - - - -
Transportation Revenue.....	\$278.2	\$304.8
Storage Revenue.....	39.7	47.3
Other Revenue.....	20.6	19.6
	-----	-----
TOTAL REVENUES.....	338.5	371.7
Operating Expenses.....	167.8	193.1
Depreciation and Amortization.....	30.1	34.7
	-----	-----
OPERATING INCOME.....	140.6	143.9
Equity in Earnings of Northern Border Partners, L.P.....	4.4	7.2
Other Income, Net of Deductions.....	4.3	(1.9)
	-----	-----
EARNINGS BEFORE INTEREST AND TAX.....	\$149.3	\$149.2
	=====	=====
VOLUMES, TBtu		
Market area.....	654	619
Supply area.....	33	44
	-----	-----
Total Deliveries.....	687	663

\* Includes PEPL and other natural gas transmission entities owned by PEPL, exclusive of Trunkline.

Operating income for 1996 was \$140.6 million, compared to \$143.9 million for 1995. Earnings before interest and tax for PEPL remained steady at \$149.3 million in 1996. Earnings in 1996 included \$19.6 million of income for the resolution of regulatory matters as compared to \$25.5 million for similar resolutions in 1995. Higher earnings in 1996 from increased rate realization and colder weather combined with lower operating expenses more than offset \$9.5 million of severance expense recorded in 1996. Revenue declines due to the transfer of gathering assets to an affiliate in August 1995 were substantially offset by related operating and depreciation expense reductions.

TRUNKLINE GAS COMPANY

MILLIONS	1996	1995
- - - - -	- - - - -	- - - - -
Transportation Revenue.....	\$171.2	\$151.2
Storage Revenue.....	2.1	2.4
Other Revenue.....	5.6	6.5
	-----	-----
TOTAL REVENUES.....	178.9	160.1
Operating Expenses.....	108.2	92.1
Depreciation and Amortization.....	23.5	22.4
	-----	-----
OPERATING INCOME.....	47.2	45.6
Other Income, Net of Deductions.....	(0.4)	2.3
	-----	-----
EARNINGS BEFORE INTEREST AND TAX.....	\$ 46.8	\$ 47.9
	=====	=====
VOLUMES, TBtu		
Market area.....	529	403
Supply area.....	103	116
	-----	-----
Total Deliveries.....	632	519
	=====	=====

Operating income for Trunkline increased \$1.6 million in 1996 as compared with 1995. Higher transportation revenue from new contracts and colder weather in 1996 offset increased expenses resulting from the recognition of \$10.3 million of nonrecurring additional lease expense and \$5 million of severance expense in 1996. Earnings before interest and tax decreased \$1.1 million in 1996 as compared with 1995.

ELIMINATIONS

Included in the amounts outlined above are several intercompany transactions that do not impact consolidated earnings before interest and tax.

INTEREST EXPENSE

Consolidated interest expense increased \$24.2 million, or 64%, in 1996 compared with 1995 primarily a result of higher average debt balances outstanding due PanEnergy.

INCOME TAX

The effective tax rates for 1996 and 1995 differed from the statutory federal income tax rates primarily because of the effect of state income taxes.

## CAPITAL EXPENDITURES

Capital expenditures totaled \$51.6 million in 1996, compared with \$64.6 million in 1995. The Company currently expects to invest approximately \$90 million in 1997 capital expenditures, with the majority of expenditures related to market expansion projects. Funding for 1997 capital expenditures is expected to be provided by cash from operations, periodic sales of customer accounts with limited recourse and/or the collection of intercompany amounts owed the Company. In addition, PEPL has an effective shelf registration statement with the Securities and Exchange Commission for the issuance of \$100 million of unsecured debt securities.

## INTERCOMPANY FINANCING ACTIVITY

Net intercompany advances are carried as open accounts and are not segregated between current and non-current amounts. Effective January 1, 1995, intercompany advances do not bear interest. Increases and decreases in advances result from the movement of funds to provide for operations, capital expenditures and debt payments of PanEnergy and its subsidiaries. The collection of advances receivable is subject to the availability of funds to PanEnergy, whose major sources of internally-generated funds include dividends and advances from subsidiaries. Advances and note receivable-parent aggregated \$652.9 million and \$566.9 million at December 31, 1996 and 1995, respectively.

In December 1996, July 1996 and December 1995, PEPL declared and paid dividends on common stock of \$100 million, \$100 million and \$400 million, respectively, in the form of promissory notes due PanEnergy bearing interest at prime rates.

## FORWARD-LOOKING INFORMATION

This report may contain certain forward-looking information regarding the Company, including projections, estimates, forecasts, plans and objectives. Although management believes that all such statements are based upon reasonable assumptions, no assurance can be given that the actual results will not differ materially from those contained in such forward-looking statements.

Important factors that could cause actual results to differ include, but are not limited to, general economic conditions, natural gas and liquids prices, competition from other pipelines and alternative fuels, weather conditions, state and federal regulation, legal and regulatory proceedings, the development of new markets, services and products, and the condition of the capital markets utilized by the Company.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to "Index -- Financial Statements" under Item 14(a)(1).

See the consolidated quarterly financial data on page F-16, which is incorporated herein by reference.

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

None.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this report or incorporated herein by reference:

(1) The Consolidated Financial Statements of Panhandle Eastern Pipe Line Company and Subsidiaries are listed on the Index, page 11.

(2) Exhibits filed herewith are designated by an asterisk (\*); all exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

EXHIBIT NUMBER -----	DESCRIPTION -----	ORIGINALLY FILED AS EXHIBIT -----	FILE NUMBER -----
3.01	Restated Certificate of Incorporation of Panhandle Eastern Pipe Line Company, dated October 25, 1993	3.01 to Form 10-K of PEPL for the year ended December 31, 1993	1-2921
3.02	By-Laws of Panhandle Eastern Pipe Line Company, effective July 23, 1986	19(a) to Form 10-Q of PEPL for quarter ended September 30, 1986	1-2921
4.01	Indenture, dated as of February 1, 1993, between Panhandle Eastern Pipe Line Company and Morgan Guaranty Trust Company of New York	4 to Form S-3 of PEPL filed February 19, 1993	33-58552
4.02	Letter, dated February 24, 1994, from Nations Bank of Texas, National Association accepting its appointment as successor Trustee with respect to all securities issued or to be issued under the Indenture dated as of February 1, 1993, included as Exhibit 4.05	4.06 to Form 10-K of PEPL for the year ended December 31, 1993	1-2921
10.01	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated November 1, 1989, and Amendment, dated November 1, 1989	10.41 to Form 10-K of PEC for the year ended December 31, 1989	1-8157
10.02	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated November 1, 1991	10.47 to Form 10-K of PEC for year ended December 31, 1991	1-8157
10.03	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated September 1, 1993	10.3 to Form 10-K of PEPL for the year ended December 31, 1993	1-2921
*23	Consent of KPMG Peat Marwick LLP		
*24	Powers of Attorney		
*27	Financial Data Schedule for December 31, 1996		

The total amount of securities of the Registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an Exhibit does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments.

(b) Reports on Form 8-K

No Reports on Form 8-K were filed during the fourth quarter of 1996.

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PANHANDLE EASTERN PIPE LINE COMPANY AND SUBSIDIARIES

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FINANCIAL STATEMENTS AND SCHEDULES

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FINANCIAL STATEMENTS

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All Schedules are omitted because they are not applicable, not required or the information is included in the Consolidated Financial Statements or the Notes thereto.

INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Panhandle Eastern Pipe Line Company:

We have audited the accompanying consolidated balance sheets of Panhandle Eastern Pipe Line Company and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, common stockholder's equity and cash flows for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Panhandle Eastern Pipe Line Company and Subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996 in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Houston, Texas  
January 16, 1997

PANHANDLE EASTERN PIPE LINE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

MILLIONS	YEARS ENDED DECEMBER 31		
	1996	1995	1994
OPERATING REVENUES			
Transportation and storage of natural gas.....	\$510.1	\$516.8	\$535.9
Sales of natural gas.....	--	--	177.9
Other.....	23.5	23.2	26.1
Total (Notes 2, 3 and 5).....	533.6	540.0	739.9
COSTS AND EXPENSES			
Natural gas purchased.....	--	--	177.9
Operating and maintenance.....	177.2	190.9	198.4
General and administrative.....	83.5	72.2	86.3
Depreciation and amortization (Note 8).....	57.8	59.2	51.7

Miscellaneous taxes.....	27.0	27.8	27.9
Total (Note 2).....	345.5	350.1	542.2
Operating Income.....	188.1	189.9	197.7
OTHER INCOME AND DEDUCTIONS			
Equity in earnings of unconsolidated affiliates (Note 7).....	5.7	7.5	5.3
Miscellaneous income.....	16.9	10.7	2.7
Miscellaneous deductions (Note 3).....	(12.9)	(10.7)	(6.5)
Total.....	9.7	7.5	1.5
Earnings Before Interest and Tax.....	197.8	197.4	199.2
Interest Income -- Parent.....	--	--	42.6
INTEREST EXPENSE			
Long-term debt.....	26.0	36.9	45.0
Parent.....	34.8	(0.3)	--
Other.....	1.0	1.0	2.5
Total (Note 9).....	61.8	37.6	47.5
Earnings Before Income Tax.....	136.0	159.8	194.3
Income Tax (Note 4).....	48.3	59.1	75.8
NET INCOME.....	\$ 87.7	\$100.7	\$118.5

See accompanying notes to consolidated financial statements

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PANHANDLE EASTERN PIPE LINE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

MILLIONS	DECEMBER 31	
	1996	1995
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 0.1	\$ 0.2
Accounts receivable		
Customers (Note 5).....	48.6	58.7
Affiliates (Note 2).....	5.0	6.1
Other.....	4.5	3.4
Inventory and supplies (Note 6).....	44.3	55.3
Current deferred income tax (Note 4).....	8.6	13.0
Other (Notes 3 and 6).....	57.4	46.1
Total.....	168.5	182.8
INVESTMENTS		
Advances and note receivable -- parent (Note 2).....	652.9	566.9
Other (Note 7).....	51.7	48.3
Total.....	704.6	615.2
PLANT, PROPERTY AND EQUIPMENT		
Original cost (Note 8).....	2,672.2	2,782.1
Accumulated depreciation and amortization.....	(1,749.6)	(1,818.8)
Net plant, property and equipment.....	922.6	963.3

DEFERRED CHARGES (Notes 1 and 3).....	104.2	155.1
	-----	-----
TOTAL ASSETS.....	\$ 1,899.9	\$ 1,916.4
	=====	=====

See accompanying notes to consolidated financial statements

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PANHANDLE EASTERN PIPE LINE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDER'S EQUITY

MILLIONS -----	DECEMBER 31	
	1996	1995
	-----	-----
CURRENT LIABILITIES		
Long-term debt due within one year (Note 9).....	\$ --	\$ 4.5
Notes payable -- parent (Note 9).....	600.0	400.0
Rate refund provisions (Note 3).....	37.0	53.3
Accounts payable		
Trade.....	10.8	10.6
Affiliates (Note 2).....	19.6	20.4
Accrued income tax -- parent (Note 4).....	63.4	55.3
Other accrued taxes.....	23.0	18.8
Other (Note 6).....	87.9	88.1
	-----	-----
Total.....	841.7	651.0
	-----	-----
DEFERRED LIABILITIES AND CREDITS		
Deferred income tax (Note 4).....	83.5	176.5
Rate refund provisions (Note 3).....	81.5	66.4
Other.....	98.3	115.3
	-----	-----
Total.....	263.3	358.2
	-----	-----
LONG-TERM DEBT (Note 9).....	299.2	299.2
	-----	-----
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 3, 5, 7, 10, 11, 12 and 13)		
COMMON STOCKHOLDER'S EQUITY		
Common stock, one thousand shares authorized, issued and outstanding, no par value.....	1.0	1.0
Paid-in capital.....	465.9	465.9
Retained earnings.....	28.8	141.1
	-----	-----
Total.....	495.7	608.0
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY.....	\$1,899.9	\$1,916.4
	=====	=====

See accompanying notes to consolidated financial statements

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PANHANDLE EASTERN PIPE LINE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMMON STOCKHOLDER'S EQUITY

MILLIONS -----	YEARS ENDED DECEMBER 31		
	1996	1995	1994
COMMON STOCK.....	\$ 1.0	\$ 1.0	\$ 1.0
PAID-IN CAPITAL			
Balance at beginning of year.....	465.9	471.8	471.8
Other.....	--	(5.9)	--
Balance at end of year.....	465.9	465.9	471.8
RETAINED EARNINGS			
Balance at beginning of year.....	141.1	440.4	621.9
Net income.....	87.7	100.7	118.5
Common stock dividends paid.....	(200.0)	(400.0)	(300.0)
Balance at end of year.....	28.8	141.1	440.4
TOTAL COMMON STOCKHOLDER'S EQUITY.....	\$ 495.7	\$ 608.0	\$ 913.2

See accompanying notes to consolidated financial statements

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PANHANDLE EASTERN PIPE LINE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

MILLIONS -----	YEARS ENDED DECEMBER 31		
	1996	1995	1994
OPERATING ACTIVITIES			
Net income.....	\$ 87.7	\$ 100.7	\$ 118.5
Adjustments to reconcile net income to operating cash flows			
Depreciation and amortization.....	57.8	59.2	51.7
Deferred income tax expense (benefit).....	(87.9)	(3.7)	16.1
Interest income -- parent.....	--	--	(42.6)
Regulatory resolutions.....	(16.2)	(20.7)	(27.3)
Other non-cash items in net income.....	19.3	(1.1)	(3.5)
Net change in operating assets and liabilities (detail below).....	43.4	17.7	49.7
Net Cash Flows Provided by Operating Activities.....	104.1	152.1	162.6
INVESTING ACTIVITIES			
Capital expenditures.....	(51.6)	(64.6)	(83.5)
Net decrease (increase) in advances and note receivable -- parent.....	(84.2)	25.6	271.4
Property retirements and other.....	29.7	13.4	25.6
Net Cash Flows Provided by (Used in) Investing Activities.....	(106.1)	(25.6)	213.5
FINANCING ACTIVITIES			
Retirement of debt.....	--	(125.1)	(175.1)
Issuance of debt.....	--	--	99.9
Dividends paid.....	--	--	(300.0)
Net increase (decrease) in accounts payable -- banks.....	1.9	(1.6)	0.2
Other.....	--	--	(1.1)
Net Cash Flows Provided by (Used in) Financing Activities.....	1.9	(126.7)	(376.1)
NET CHANGE IN CASH			
Decrease in cash and cash equivalents.....	(0.1)	(0.2)	--
Cash and cash equivalents, beginning of year.....	0.2	0.4	0.4

	-----	-----	-----
Cash and Cash Equivalents, End of Year.....	\$ 0.1	\$ 0.2	\$ 0.4
	=====	=====	=====
NET CHANGE IN OPERATING ASSETS AND LIABILITIES			
Accounts receivable.....	\$ (31.0)	\$ (11.4)	\$ 47.6
Inventory and supplies.....	11.0	10.4	3.8
Income tax -- parent.....	8.2	(13.7)	(12.0)
Other current assets.....	(1.5)	24.1	20.9
Rate refund provisions.....	6.7	15.3	47.7
Accounts payable.....	(2.5)	2.7	(35.2)
Other current liabilities.....	23.2	(3.8)	(14.8)
Transition cost recoveries (payments), net.....	11.9	(0.1)	9.9
Other deferred charges and liabilities, net.....	17.4	(5.8)	(18.2)
	-----	-----	-----
Total.....	\$ 43.4	\$ 17.7	\$ 49.7
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES			
Cash paid for interest (net of amount capitalized).....	\$ 62.2	\$ 39.7	\$ 43.0
Cash paid for income tax (including intercompany amounts).....	59.8	78.9	103.0

See accompanying notes to consolidated financial statements

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PANHANDLE EASTERN PIPE LINE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. ACCOUNTING POLICIES SUMMARY

The accounting policies are presented to assist the reader in evaluating the consolidated financial statements of Panhandle Eastern Pipe Line Company (PEPL) and its subsidiaries (the Company), including Trunkline Gas Company (Trunkline). PEPL is a wholly-owned subsidiary of PanEnergy Corp (PanEnergy). Certain amounts for prior years have been reclassified in the consolidated financial statements to conform to the current presentation.

The Company is primarily involved in the interstate transportation and storage of natural gas. The interstate gas transmission and storage operations of PEPL and Trunkline are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC). PEPL and Trunkline meet the criteria and, accordingly, follow the reporting and accounting requirements of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, certain net costs totaling \$104.9 million have been deferred as regulatory assets for amounts recoverable from customers, including costs related to environmental matters, Order 636 transition, certain employee benefits and the early retirement of debt. PEPL and Trunkline regularly evaluate the continued applicability of SFAS No. 71, considering such factors as regulatory changes and the impact of competition.

Principles of Consolidation. The consolidated financial statements include the accounts of PEPL and all subsidiaries. Significant intercompany items have

been eliminated in consolidation. Investments in 20% to 50%-owned affiliates and in less than 20%-owned affiliates where the Company has general partnership interests and significant influence over operations are accounted for on the equity method. See Note 7.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts in the financial statements. Actual results could differ from those estimates.

Revenue Recognition. The Company recognizes transportation and storage revenues in the period service is provided. When rate cases are pending final FERC approval, a portion of the revenues collected by each interstate natural gas pipeline is subject to possible refund. The Company has established adequate reserves where required for such cases. See Note 3 for a summary of pending rate cases before FERC and related regulatory matters.

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

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Plant, Property and Equipment. Plant, property and equipment is stated at original cost, which does not purport to represent replacement or realizable value. Assets are grouped and evaluated for potential impairment based on the ability to identify separate cash flows generated therefrom.

At the time FERC-regulated properties are retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation and amortization. When entire FERC-regulated operating units are sold or non-regulated properties are retired or sold, the plant and related accumulated depreciation and amortization accounts are reduced and any gain or loss is credited or charged to income, unless otherwise required by FERC. Depreciation of plant, property and equipment is computed using the straight-line method. See Note 8.

Early Retirement of Debt. The Company defers certain costs and losses, as permitted by FERC, related to the early retirement of long-term debt and amortizes such amounts as they are recovered through rates. At December 31, 1996 and 1995, other deferred charges included \$12.5 million and \$15.3 million, respectively, of such costs.

Interest Cost Capitalization. The Company capitalizes interest on major projects during construction. The rates used by PEPL and Trunkline are calculated pursuant to FERC rules and include an allowance for equity funds.

Deferred Income Tax. The Company follows the asset and liability method of accounting for income tax. Under this method, the effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the rate change is enacted. See Note 4.

## 2. TRANSACTIONS WITH AFFILIATES

A summary of transactions with affiliates included in the consolidated statement of income follows:

MILLIONS	YEARS ENDED DECEMBER 31		
	1996	1995	1994
Transportation of natural gas.....	\$ 30.2	\$ 33.4	\$ 38.4
Other operating revenues.....	8.8	10.7	16.2
Natural gas purchased.....	--	--	58.3
Operating expenses			
Billed to affiliates.....	2.5	2.4	2.2
Billed from affiliates.....	3.7	2.6	6.5
General and administrative expenses			
Billed to affiliates.....	4.8	4.2	3.0
Billed from affiliates.....	64.2	45.9	55.7
Interest expense.....	34.8	(0.3)	--
Interest income.....	--	--	42.6

During 1994, net intercompany advances bore interest at variable rates based on LIBOR (London Interbank Offered Rates). Effective January 1, 1995, intercompany advances do not bear interest. Advances are carried as open accounts and are not segregated between current and non-current amounts. Increases and decreases in advances result from the movement of funds to provide for operations, capital expenditures and debt payments of PanEnergy and its subsidiaries. The collection of advances receivable is subject to the availability of funds to PanEnergy, whose major sources of internally-generated funds include dividends and advances from subsidiaries.

See Notes 4, 7 and 13 for discussion of other specific transactions with affiliates.

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### 3. NATURAL GAS REVENUES AND REGULATORY MATTERS

#### FERC Order 636 and Transition Costs

PEPL and Trunkline primarily provide transportation and storage services pursuant to FERC Order 636. Order 636 allows pipelines to recover eligible costs resulting from implementation of the order (transition costs). On July 16, 1996, the U.S. Court of Appeals for the District of Columbia upheld, in general, all aspects of Order 636 and remanded certain issues, including recovery of gas supply realignment (GSR) costs, for further explanation. This decision is on appeal to the U.S. Supreme Court. On February 27, 1997, FERC issued an order reaffirming the right of interstate pipelines to recover 100% of GSR costs. In addition, this matter is substantially mitigated by PEPL's transition cost settlements with customers.

In 1993, the U.S. Department of the Interior (the Department) announced its intention to seek additional royalties from gas producers as a result of payments received by such producers in connection with past take-or-pay settlements, and buyouts and buydowns of gas sales contracts with natural gas pipelines. PEPL 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. On August 27, 1996, the U.S. Court of Appeals for the District of Columbia overturned a lower court ruling in favor of the government in litigation brought on behalf of producers. The Department's petition for rehearing was denied in November 1996. The Department may continue to seek further appellate review. If PEPL and Trunkline ultimately have to reimburse or indemnify the producers, they will file with FERC to recover a portion of these costs from pipeline customers. The Company believes the resolution of this matter will not have a material adverse effect on the Company's consolidated financial position.

#### Jurisdictional Transportation and Sales Rates

PEPL. On April 1, 1992 and November 1, 1992, PEPL placed into effect, subject to refund, general rate increases. On September 12, 1996, PEPL filed a settlement proposal relating to both rate proceedings on behalf of itself and the majority of its largest customers. On December 20, 1996 and February 26, 1997, FERC approved PEPL's settlement agreement which resolves refund matters and establishes prospective rates for settling parties. The agreement, which remains subject to rehearing, terminates other actions relating to these proceedings as well as PEPL's restructuring of rates and transition cost recoveries related to Order 636. The settlement requires refunds to customers by PEPL of approximately \$38 million for the period from April 1, 1992 through March 31, 1997, including principal and interest, and will not have a material impact on future operating revenues.

As a result of the resolution of matters in certain proceedings, PEPL recorded pre-tax earnings of \$8 million, \$20.6 million and \$25 million in 1996, 1995 and 1994, respectively.

Trunkline. Effective August 1, 1996, Trunkline placed into effect a general rate increase, subject to refund. The rate proceeding is in the discovery phase with hearings scheduled to commence in the third quarter of 1997.

Other. At December 31, 1996 and 1995, regulatory assets of \$9.9 million and \$0.3 million (1996), and \$9.5 million and \$4.3 million (1995), were included in other current assets and deferred charges, respectively, related to gas purchase and transportation contract settlements in prior years.

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4. INCOME TAX

The Company's taxable income is included in a consolidated federal income tax return with PanEnergy. Therefore, income tax has been provided in accordance with PanEnergy's tax allocation policy, which requires regulated subsidiaries to calculate federal income tax as if separate taxable income, as defined, was reported.

Income tax as presented in the consolidated statement of income is summarized as follows:

MILLIONS - - - - -	YEARS ENDED DECEMBER 31		
	1996	1995	1994
Current			
Federal.....	\$123.1	\$54.0	\$50.8
State.....	13.1	8.8	8.9
Total current.....	136.2	62.8	59.7
Deferred			
Federal.....	(75.6)	2.3	11.1
State.....	(12.3)	(6.0)	5.0
Total deferred.....	(87.9)	(3.7)	16.1
Total income tax.....	\$ 48.3	\$59.1	\$75.8

Total income tax differs from the amount computed by applying the federal income tax rate to income before income tax. The reasons for this difference are as follows:

MILLIONS - - - - -	YEARS ENDED DECEMBER 31		
	1996	1995	1994
Federal income tax rate.....	35%	35%	35%
Income tax, computed at the statutory rate.....	\$47.6	\$55.9	\$68.0
Adjustments resulting from			
State income tax, net of federal income tax effect.....	0.5	1.8	9.1
Other items, net.....	0.2	1.4	(1.3)
Total income tax.....	\$48.3	\$59.1	\$75.8
Effective tax rate.....	35.5%	37.0%	39.0%

The tax effects of temporary differences that resulted in deferred income tax assets and liabilities, and a description of the significant financial statement items that created these differences, are as follows:

MILLIONS	DECEMBER 31	
	1996	1995

- - - - -		
Deferred liabilities and credits.....	\$ 114.2	\$ 69.9
Rate refund provisions.....	13.3	16.2
Other.....	8.8	9.0
	-----	-----
Total deferred income tax assets.....	136.3	95.1
	-----	-----
Plant, property and equipment.....	(129.8)	(149.1)
Deferred charges.....	(46.8)	(63.2)
Investments.....	(16.0)	(16.7)
State deferred income tax, net of federal tax effect.....	(5.1)	(13.4)
Other current assets.....	(7.3)	(7.0)
Other.....	(6.2)	(9.2)
	-----	-----
Total deferred income tax liabilities.....	(211.2)	(258.6)
	-----	-----
Net deferred income tax liability, net of current amounts...	\$ (74.9)	\$ (163.5)
	=====	=====

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## 5. FINANCIAL INSTRUMENTS AND CREDIT RISK

### Financial Instruments

MILLIONS - - - - -	BOOK VALUE	APPROXIMATE
		FAIR VALUE
	-----	-----
	ASSETS (LIABILITIES)	
DECEMBER 31, 1996		
Cash.....	\$ 0.1	\$ 0.1
Other current receivables.....	4.5	4.5
Notes payable -- parent..... Note 9	(600.0)	(600.0)*
Long-term debt..... Note 9	(299.2)	(302.6)*
DECEMBER 31, 1995		
Cash.....	\$ 0.2	\$ 0.2
Other current receivables.....	3.4	3.4
Note payable -- parent..... Note 9	(400.0)	(400.0)*
Long-term debt..... Note 9	(303.7)	(318.0)*

\* Based on quoted market prices for the same or similar issues, discounted cash flows and/or rates currently available to the Company for debt with similar terms and remaining maturities.

PanEnergy's four interstate natural gas pipelines have implemented an agreement to sell with limited recourse, on a continuing basis, current accounts receivable at a discount. At December 31, the Company had a \$34 million liability recorded for collections by the Company of accounts receivable sold in December 1996. In 1993, the Company sold liquefied natural gas (LNG) project settlement receivables, with limited recourse. At December 31, 1996, \$29.9 million remained outstanding on the LNG settlement receivables sold. In the opinion of management, the probability that the Company will be required to perform under either of the above recourse provisions is remote.

The following financial instruments have no book value associated with them and there are no fair values readily determinable since quoted market prices are not available: recourse provisions of the LNG project settlement and trade accounts receivable sales agreements, and the Northern Border Pipeline Company (Northern Border Pipeline) transportation agreement guarantee (Note 7). The fair values of advances and note receivable-parent are not readily determinable since such amounts are carried as open accounts. See Note 2.

Significant Customers and Concentrations. Customer billings that exceeded 10% of consolidated revenues during the years ended December 31, 1996, 1995 or 1994 were those to Consumers Power Company totaling \$48.5 million, \$54.5 million and \$251.7 million, respectively.

The Company's primary market area is located in the Midwest region of the United States. The Company has a concentration of receivables due from gas and electric utilities in this area, which may affect the Company's overall credit risk in that certain customers may be similarly affected by changes in economic, regulatory or other factors. Trade receivables are generally not collateralized; however, the Company analyzes customers' credit positions, establishes credit limits and monitors the appropriateness of those limits on an ongoing basis.

6. INVENTORY AND GAS IMBALANCES

Inventory and supplies, which include gas held for operations, are recorded using the average cost and last-in first-out methods (\$31.1 million and \$13.2 million, respectively, at December 31, 1996, and \$33.1 million and \$22.2 million, respectively, at December 31, 1995) and do not exceed recoverable cost. The consolidated balance sheet includes in-kind balances as a result of differences in gas volumes received and delivered. At December 31, 1996 and 1995, other current assets and other current liabilities included \$20.4 million and \$14.1 million (1996), and \$11.1 million and \$11.2 million (1995), respectively, for these imbalances.

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7. INVESTMENTS

Northern Border Partners, L.P. Northern Border Partners, L.P. is a master limited partnership (MLP) that owns 70% of Northern Border Pipeline, a partnership operating a pipeline transporting natural gas from Canada to the Midwest area of the United States. The Company has general partner interests as well as subordinated limited partnership interests, totaling 8%, in Northern Border Partners, L.P., and through the MLP, an effective 6% ownership interest in Northern Border Pipeline.

Under the terms of a settlement related to a transportation agreement between PEPL and Northern Border Pipeline, PEPL guarantees payment to Northern Border Pipeline under a transportation agreement by an affiliate of Pan-Alberta Gas Limited. The transportation agreement requires estimated total payments of \$94.4 million for 1997 through 2001. In the opinion of management, the probability that PEPL will be required to perform under this guarantee is remote.

Westana Gathering Company. Westana Gathering Company is a joint venture that provides gathering, processing and marketing services for natural gas producers in Oklahoma.

Undistributed earnings of investments in affiliates were \$15.5 million and \$16.8 million at December 31, 1996 and 1995, respectively. Distributions and dividends received by the Company amounted to \$6.9 million in 1996 and \$5 million in both 1995 and 1994.

8. PLANT, PROPERTY AND EQUIPMENT

A summary of plant, property and equipment by classification follows:

MILLIONS	DEPRECIATION RATES	DECEMBER 31	
		1996	1995
Transmission.....	2%	\$1,933.0	\$1,972.0
Gathering.....	1% - 7%	215.6	294.9
Underground storage.....	3% - 4%	319.5	319.2
General plant.....	4% - 13%	180.4	171.7
Construction work in progress.....	--	23.7	24.3
		-----	-----
Total plant, property and equipment.....		\$2,672.2	\$2,782.1
		=====	=====

9. DEBT AND CREDIT FACILITIES

A summary of long-term debt follows:

MILLIONS - - - - -	DECEMBER 31	
	1996	1995
Notes		
4% maturing 1996.....	\$ --	\$ 4.5
7 7/8% maturing 2004.....	100.0	100.0
Debentures		
7.95% maturing 2023.....	100.0	100.0
7.2% maturing 2024.....	100.0	100.0
Unamortized Discount.....	(0.8)	(0.8)
Less Current Maturities.....	--	(4.5)
	-----	-----
Total Long-term Debt.....	\$299.2	\$299.2
	=====	=====

The interest rates indicated were in effect on principal balances outstanding at December 31, 1996. Interest costs capitalized in 1996, 1995 and 1994 were \$0.3 million each year.

In December 1996, PEPL declared and paid a dividend on common stock of \$100 million in the form of a promissory note due PanEnergy bearing interest at prime rate and maturing on June 30, 1997. In July 1996 and December 1995, PEPL declared and paid dividends on common stock of \$100 million and \$400 million,

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respectively, in the form of promissory notes due PanEnergy maturing on December 31, 1996 and June 30, 1996, respectively. In 1996, these notes were cancelled and a new note was issued for \$500 million bearing interest at prime rate and maturing on June 30, 1997.

PEPL has an effective shelf registration statement with the Securities and Exchange Commission for the issuance of \$100 million of unsecured debt securities.

#### 10. LEASES

The Company utilizes assets under operating leases in several areas of operations. Consolidated rental expense for these leases and for lease expenses allocated from affiliates amounted to \$29.6 million, \$16.8 million and \$13.2 million in 1996, 1995 and 1994, respectively. Minimum rental payments under the Company's various operating leases for the years 1997 through 2001 are \$23 million, \$9.5 million, \$8.7 million, \$7.3 million and \$4.6 million, respectively. Thereafter, payments aggregate \$1.7 million.

#### 11. ENVIRONMENTAL MATTERS

The Company has identified environmental contamination at certain sites on the PEPL and Trunkline systems and is undertaking cleanup programs at these sites. The contamination resulted from the past use of lubricants containing PCBs (polychlorinated biphenyls) and the prior use of wastewater collection facilities and other on-site disposal areas. Soil and sediment testing, to date, has detected no significant off-site contamination. The Company has communicated with the Environmental Protection Agency and appropriate state regulatory agencies on these matters. Environmental cleanup programs are expected to continue until 2002.

The Company previously accrued amounts related to remaining estimated cleanup costs. Those amounts represent an estimate of probable gross cleanup costs to be incurred by the Company, have not been discounted or reduced by customer recoveries and do not include fines, penalties or third-party claims.

The federal and state cleanup programs are not expected to interrupt or diminish the Company's ability to deliver natural gas to customers. The Company believes the resolution of matters relating to the environmental issues discussed above will not have a material adverse effect on consolidated results of operations or financial position due to customer settlements and past

experience with environmental cleanup costs.

## 12. LITIGATION

On August 31, 1995, Midwest Gas Storage, Inc. (Midwest) filed suit against PEPL and PanEnergy in the 58th Judicial District Court, Jefferson County, Texas, alleging that PEPL breached an interconnection agreement with Midwest and used its superior bargaining position to force Midwest to accept terms and conditions which were not in the original agreement. Amended petitions filed in 1996 further allege that PEPL and PanEnergy, through economic coercion, have attempted to drive Midwest out of business. Asserting fraud and violations of Texas anti-trust laws, among other counts, Midwest seeks compensatory and punitive damages in unspecified amounts. On February 21, 1997, the defendants removed the case to the U.S. District Court for the Eastern District of Texas, Beaumont Division. The Company believes the resolution of this matter will not have a material adverse effect on the Company's consolidated results of operations or financial position.

A lawsuit filed in the United States District Court for the District of Columbia by natural gas producer Jack Grynberg was served in July 1996 naming PEPL, Trunkline and certain affiliated companies as defendants, among others. The action was brought under the federal False Claims Act against 70 defendants, including every major pipeline, asserting that the defendants intentionally underreported volumes and heating content of gas purchased from producers on federal and Indian lands, with the result that the United States was underpaid royalties. The plaintiff seeks recovery of royalty amounts due the United States, treble damages and civil penalties. Because this matter is in the early stages of litigation, the Company cannot estimate the effect of this issue based on information currently available.

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The Company is also involved in various other legal actions and claims arising in the normal course of business. Based upon its current assessment of the facts and the law, management does not believe that the outcome of any such action or claim will have a material adverse effect upon the consolidated results of operations or financial position of the Company. However, these actions and claims in the aggregate seek substantial damages against the Company and are subject to the uncertainties inherent in any litigation. The Company is defending itself vigorously in all the above suits.

## 13. PENSION AND OTHER BENEFITS

Pension Benefits. PanEnergy has, and the Company participates in, a non-contributory trustee pension plan covering eligible employees with a minimum of one year vesting service. The plan provides pension benefits for eligible employees of the Company that are generally based on an employee's years of benefit accrual service and highest average eligible earnings. PanEnergy's policy is to fund amounts, as necessary, on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members.

The components of the Company's net pension benefit, allocated by PanEnergy, are as follows:

MILLIONS	YEARS ENDED DECEMBER 31		
	1996	1995	1994
Actual return on plan assets.....	\$ 42.2	\$ 56.3	\$ (0.7)
Amount deferred.....	(17.5)	(32.8)	23.6
Expected return on plan assets.....	24.7	23.5	22.9
Service cost benefits earned during the period.....	(4.6)	(4.0)	(4.6)
Interest cost on projected benefit obligations.....	(11.5)	(11.6)	(11.1)
Net amortization.....	2.4	2.7	2.7
Net pension benefit.....	\$ 11.0	\$ 10.6	\$ 9.9

Assumptions used in the Company's pension and other postretirement benefits

accounting are as follows:

PERCENT	DECEMBER 31		
	1996	1995	1994
Discount rate.....	7.5	7.5	8.5
Rate of increase in compensation levels.....	5.0	5.0	5.0
Expected long-term rate of return on plan assets.....	9.5	9.5	9.5
Assumed tax rate, where applicable.....	39.6	39.6	39.6

PanEnergy also sponsors, and the Company participates in, an employee savings plan which covers substantially all employees. The Company expensed plan contributions of \$3.4 million, \$3.8 million and \$4.3 million in 1996, 1995 and 1994, respectively.

Other Postretirement Benefits. The Company's postretirement benefits, in conjunction with PanEnergy, consist of certain health care and life insurance benefits. Substantially all of the Company's employees may become eligible for these benefits when they reach retirement age while working for the Company and have attained 10 years of specified service. The benefits are provided through contributory and noncontributory trustee benefit plans.

The Company accrues such benefit costs over the active service period of employees to the date of full eligibility for the benefits. The net unrecognized transition obligation, resulting from the implementation of accrual accounting in 1993, is being amortized over approximately 20 years.

It is the Company's and PanEnergy's general policy to fund accrued postretirement health care costs. PanEnergy's retiree life insurance plan is fully funded based on actuarially-determined requirements. FERC policy generally allows, subject to individual pipeline proceedings, for current rate recovery of funded accrued postretirement benefit costs including amortization of the transition obligation. PEPL's and Trunkline's postretirement costs are included in current tariff rates.

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The components of the Company's net postretirement benefits cost, allocated by PanEnergy, are as follows:

MILLIONS	YEARS ENDED DECEMBER 31		
	1996	1995	1994
Actual return on plan assets.....	\$ 6.3	\$13.6	\$ --
Amount deferred.....	(0.5)	(8.2)	5.3
Expected return on plan assets.....	5.8	5.4	5.3
Service cost benefits earned during the period.....	(0.8)	(0.7)	(0.9)
Interest cost on accumulated obligations.....	(8.5)	(8.8)	(8.5)
Net amortization and deferral.....	(3.6)	(2.2)	(2.3)
Net postretirement benefits cost.....	\$ (7.1)	\$ (6.3)	\$ (6.4)

The assumed health care cost trend rate used to estimate postretirement benefits was 7% for 1997. The health care cost trend rate is expected to decrease, with a 5.5% ultimate trend rate expected to be achieved by 1999. The effect of a 1% increase in the assumed health care cost trend rate for each future year is \$0.4 million on the annual aggregate postretirement benefit cost and \$5.5 million on PanEnergy's accumulated postretirement benefit obligation attributable to the Company at December 31, 1996.

Other Postemployment Benefits. The Company accrues such benefit costs

provided by the Company to certain former or inactive employees. PEPL has received permission from FERC to defer such costs, pending future rate filings requesting recovery. Trunkline is recovering such costs in current tariff rates over a ten-year period.

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PANHANDLE EASTERN PIPE LINE COMPANY AND SUBSIDIARIES

CONSOLIDATED QUARTERLY FINANCIAL DATA

MILLIONS	QUARTERS ENDED			
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
1996				
Operating revenues.....	\$151.4	\$118.4	\$123.2	\$140.6
Operating expenses.....	98.0	73.9	88.3	85.3
Operating income.....	53.4	44.5	34.9	55.3
Other income, net of deductions.....	0.9	3.3	12.2	(6.7)
Earnings before interest and tax.....	54.3	47.8	47.1	48.6
Interest expense.....	15.0	14.4	15.5	16.9
Earnings before income tax.....	39.3	33.4	31.6	31.7
Income tax.....	15.3	12.9	12.3	7.8
Net income.....	\$ 24.0	\$ 20.5	\$ 19.3	\$ 23.9
1995				
Operating revenues.....	\$142.4	\$124.9	\$140.4	\$132.3
Operating expenses.....	91.1	87.8	88.0	83.2
Operating income.....	51.3	37.1	52.4	49.1
Other income, net of deductions.....	0.5	(0.5)	2.4	5.1
Earnings before interest and tax.....	51.8	36.6	54.8	54.2
Interest expense.....	10.4	9.8	10.0	7.4
Earnings before income tax.....	41.4	26.8	44.8	46.8
Income tax.....	16.3	10.5	17.7	14.6
Net income.....	\$ 25.1	\$ 16.3	\$ 27.1	\$ 32.2

Certain amounts for the prior year have been reclassified to conform to the current reporting presentation.

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PANHANDLE EASTERN PIPE LINE COMPANY AND SUBSIDIARIES

SUMMARY OF SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

MILLIONS	YEARS ENDED DECEMBER 31				
	1996	1995	1994	1993	1992
OPERATING REVENUES.....	\$ 533.6	\$ 540.0	\$ 739.9	\$ 870.5	\$ 972.0(1)
COSTS AND EXPENSES					
Natural gas purchased.....	--	--	177.9	281.3	359.0
Operating and maintenance.....	177.2	190.9	198.4	232.6	244.7
Depreciation and amortization...	57.8	59.2	51.7	55.6	72.8
Other costs and expenses.....	110.5	100.0	114.2	123.2	138.5

OPERATING INCOME.....	\$ 188.1	\$ 189.9	\$ 197.7	\$ 177.8	\$ 157.0
EARNINGS BEFORE INTEREST AND TAX.....	\$ 197.8	\$ 197.4	\$ 199.2	\$ 234.2	\$ 153.1
INTEREST EXPENSE.....	\$ 61.8	\$ 37.6	\$ 47.5	\$ 55.7	\$ 57.4
NET INCOME.....	\$ 87.7	\$ 100.7	\$ 118.5	\$ 120.1 (2)	\$ 62.5 (1)
PLANT, PROPERTY AND EQUIPMENT.....	\$ 2,672.2	\$ 2,782.1	\$ 2,742.8	\$ 2,685.2	\$ 2,873.0
Accumulated depreciation and amortization.....	(1,749.6)	(1,818.8)	(1,763.2)	(1,709.4)	(1,799.6)
Net plant, property and equipment.....	\$ 922.6	\$ 963.3	\$ 979.6	\$ 975.8	\$ 1,073.4
TOTAL ASSETS.....	\$ 1,899.9	\$ 1,916.4	\$ 1,983.6	\$ 2,265.1	\$ 2,501.2
CAPITAL STRUCTURE					
Long-term debt, including current maturities.....	\$ 299.2	\$ 303.7	\$ 428.5	\$ 503.3	\$ 573.9
Notes payable.....	600.0	400.0	--	--	50.0
Common stockholder's equity.....	495.7	608.0	913.2	1,094.7	974.9
TOTAL CAPITALIZATION.....	\$ 1,394.9	\$ 1,311.7	\$ 1,341.7	\$ 1,598.0	\$ 1,598.8
OPERATING CASH FLOW.....	\$ 104.1	\$ 152.1	\$ 162.6	\$ 234.4	\$ 106.5
CAPITAL EXPENDITURES.....	\$ 51.6	\$ 64.6	\$ 83.5	\$ 93.5	\$ 63.3
NATURAL GAS TRANSMISSION VOLUMES, TBtu(3)					
Transports.....	1,319	1,182	1,186	1,084	1,045
Sales(4).....	--	--	--	90	159
Total.....	1,319	1,182	1,186	1,174	1,204

Certain amounts for the prior years have been reclassified to conform to the current reporting presentation.

- (1) Includes \$19.9 million in operating revenues and \$15.9 million in net income related to a settlement with PanEnergy Corp's liquefied natural gas project.
- (2) Includes a gain of \$48.2 million (\$28.7 million after tax) resulting from the sale of a partial interest in Northern Border Partners, L.P.
- (3) Trillion British thermal units.
- (4) Excludes 92 TBtu and 42 TBtu for 1994 and 1993, respectively, which are reported as transports.

See the Notes to Consolidated Financial Statements for a discussion of material contingencies

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#### SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

PANHANDLE EASTERN PIPE LINE COMPANY

By /s/ ROBERT W. REED

(Robert W. Reed, Secretary)

Dated: March 26, 1997

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES INDICATED ON MARCH 26, 1997.

NAME AND SIGNATURE  
-----

TITLE  
-----

(i) Principal executive officer:\*

/s/ STEVEN M. ROVERUD President  
-----  
(Steven M. Roverud)

(ii) Principal financial officer:\*

/s/ PAUL F. FERGUSON, JR. Senior Vice President and  
----- Chief Financial Officer  
(Paul F. Ferguson, Jr.)

(iii) Principal accounting officer:\*

/s/ SANDRA P. MEYER Vice President and Treasurer  
-----  
(Sandra P. Meyer)

(iv) Directors:\*

PAUL M. ANDERSON  
DENNIS R. HENDRIX  
STEVEN M. ROVERUD

\* Signed on behalf of each of these persons:

By /s/ ROBERT W. REED  
-----  
(Robert W. Reed, Attorney-in-Fact)

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	ORIGINALLY FILED AS EXHIBIT	FILE NUMBER
3.01	Restated Certificate of Incorporation of Panhandle Eastern Pipe Line Company, dated October 25, 1993	3.01 to Form 10-K of PEPL for the year ended December 31, 1993	1-2921
3.02	By-Laws of Panhandle Eastern Pipe Line Company, effective July 23, 1986	19(a) to Form 10-Q of PEPL for quarter ended September 30, 1986	1-2921
4.01	Indenture, dated as of February 1, 1993, between Panhandle Eastern Pipe Line Company and Morgan Guaranty Trust Company of New York	4 to Form S-3 of PEPL filed February 19, 1993	33-58552
4.02	Letter, dated February 24, 1994, from Nations Bank of Texas, National Association accepting its appointment as successor Trustee with respect to all securities issued or to be issued under the Indenture dated as of February 1, 1993, included as Exhibit 4.05	4.06 to Form 10-K of PEPL for the year ended December 31, 1993	1-2921
10.01	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated November 1, 1989, and Amendment, dated November 1, 1989	10.41 to Form 10-K of PEC for the year ended December 31, 1989	1-8157
10.02	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated November 1, 1991	10.47 to Form 10-K of PEC for year ended December 31, 1991	1-8157
10.03	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated September 1, 1993	10.3 to Form 10-K of PEPL for the year ended December 31, 1993	1-2921
*23	Consent of KPMG Peat Marwick LLP		
*24	Powers of Attorney		
*27	Financial Data Schedule for		

December 31, 1996

## ACCOUNTANTS' CONSENT

The Board of Directors  
Panhandle Eastern Pipe Line Company:

We consent to incorporation by reference in the registration statement (No. 33-72958) on Form S-3 of Panhandle Eastern Pipe line Company of our report dated January 23, 1996, relating to the consolidated balance sheets of Panhandle Eastern Pipe Line Company and Subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, common stockholder's equity, and cash flows for each of the years in the three-year period ended December 31, 1995, which report appears in the December 31, 1995 annual report on Form 10-K of Panhandle Eastern Pipe Line Company.

KPMG PEAT MARWICK LLP

Houston, Texas  
March 28, 1996

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned Officers and/or Directors of PANHANDLE EASTERN PIPE LINE COMPANY (the "Company"), a Delaware corporation, do hereby constitute and appoint PAUL F. FERGUSON, JR., CARL B. KING AND ROBERT W. REED, and each of them, their true and lawful attorney and agent to do any and all acts and things, and execute any and all instruments which, with the advice of Counsel, said attorney and agent may deem necessary or advisable to enable the Company to comply with the Securities Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with the filing under said Act of the Form 10-K Annual Report with the Securities and Exchange Commission, including specifically, but without limitation thereof, to sign their names as Officers and/or Directors of the Company to the Form 10-K Report, and to any instrument or document filed as a part of, or in connection with, said Form 10-K Report or Amendment thereto; and the undersigned do hereby ratify and confirm all that said attorney and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have subscribed these presents this 26th day of March, 1997

/s/ DENNIS HENDRIX  
 -----  
 Dennis Hendrix

/s/ PAUL M. ANDERSON  
 -----  
 Paul M. Anderson

/s/ STEVEN M. ROVERUD  
 -----  
 Steven M. Roverud

/s/ PAUL F. FERGUSON, JR.  
 -----  
 Paul F. Ferguson, Jr.  
 Senior Vice President and  
 Chief Financial Officer

/s/ SANDRA P. MEYER  
 -----  
 Sandra P. Meyer  
 Vice President, Treasurer and  
 Assistant Secretary  
 (Principal Accounting Officer)

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This schedule contains summary financial information extracted from the Panhandle Eastern Pipe Line Company Annual Report on Form 10-K for the year ended December 31, 1996 and is qualified in its entirety by reference to such financial statements.

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<F1>Not meaningful since Panhandle Eastern Pipe Line Company is a wholly-owned subsidiary.

</FN>