Southern Natural Gas Company, L.L.C.

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report

For the Years Ended December 31, 2014 and 2013

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Independent Auditor's Report

To the Member and Management of Southern Natural Gas Company, L.L.C.

We have audited the accompanying consolidated financial statements of Southern Natural Gas Company, L.L.C. (the "Company"), which comprise the balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, of member's equity and of cash flows for the years then ended.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Natural Gas Company, L.L.C. at December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6 to the consolidated financial statements, the Company has significant transactions and relationships with affiliated entities. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Houston, Texas
April 20, 2015

SOUTHERN NATURAL GAS COMPANY, L.L.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Millions)

	Year Ended December 31,	
	2014	**2013**
Revenues	$ 571	$ 576
Operating Costs and Expenses		
Operations and maintenance	106	105
Depreciation and amortization	95	82
General and administrative	33	34
Taxes, other than income taxes	37	38
Gain on sale of assets	(2)	(8)
Total Operating Costs and Expenses	269	251
Operating Income	302	325
Other Income (Expense)		
Earnings from equity investment	12	12
Interest expense, net	(79)	(79)
Other, net	3	5
Total Other Income (Expense)	(64)	(62)
Income Before Income Tax Expense	238	263
Income Tax Expense	(1)	—
Net Income	$ 237	$ 263

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHERN NATURAL GAS COMPANY, L.L.C. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Millions)

	December 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ —
Accounts receivable, net	56	66
Inventories	18	18
Regulatory assets	14	15
Other current assets	8	9
Total current assets	96	108
Property, plant and equipment, net	2,473	2,505
Investment	61	60
Note receivable from affiliates	166	183
Regulatory assets	49	58
Deferred charges and other assets	50	43
Total Assets	$ 2,895	$ 2,957
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 41	$ 34
Accrued interest	19	19
Accrued taxes, other than income	10	10
Regulatory liabilities	5	9
Customer deposits	6	4
Other current liabilities	3	3
Total current liabilities	84	79
Long-term liabilities and deferred credits		
Long-term debt	1,210	1,210
Other long-term liabilities and deferred credits	42	45
Total long-term liabilities and deferred credits	1,252	1,255
Total Liabilities	1,336	1,334
Commitments and Contingencies (Note 7)		
Member's Equity	1,559	1,623
Total Liabilities and Member's Equity	$ 2,895	$ 2,957

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHERN NATURAL GAS COMPANY, L.L.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	Year Ended December 31, 2014	Year Ended December 31, 2013
Cash Flows From Operating Activities		
Net Income	$ 237	$ 263
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95	82
Earnings from equity investment	(12)	(12)
Distributions from equity investment earnings	11	10
Gain on sale of assets	(2)	(8)
Other	4	6
Changes in components of working capital:		
Accounts receivable	13	4
Regulatory assets	(1)	19
Accounts payable	15	(9)
Regulatory liabilities	(5)	8
Other current assets and liabilities	3	(11)
Other long-term assets and liabilities	(20)	(5)
Net Cash Provided by Operating Activities	338	347
Cash Flows From Investing Activities		
Capital expenditures	(54)	(71)
Net change in note receivable from affiliates	17	31
Proceeds on sale of assets	—	20
Other	—	(5)
Net Cash Used in Investing Activities	(37)	(25)
Cash Flows From Financing Activities		
Distributions to Member	(301)	(323)
Net Cash Used in Financing Activities	(301)	(323)
Net Change in Cash and Cash Equivalents	—	(1)
Cash and Cash Equivalents, beginning of period	—	1
Cash and Cash Equivalents, end of period	$ —	$ —
Non-cash Investing Activities		
(Decrease) Increase in property, plant and equipment accruals and contractor retainage	$ (11)	$ 6
Supplemental Cash Flow Information		
Cash paid during the period for interest (net of capitalized interest)	$ 74	$ 75

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHERN NATURAL GAS COMPANY, L.L.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
(In Millions)

Balance at December 31, 2012	$ 1,683
Net income	263
Distributions	(323)
Balance at December 31, 2013	1,623
Net income	237
Distributions	(301)
Balance at December 31, 2014	$ 1,559

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHERN NATURAL GAS COMPANY, L.L.C. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

We are a Delaware limited liability company, originally formed in 1935 as a corporation. When we refer to "us," "we," "our," "ours," "the Company," or "SNG," we are describing Southern Natural Gas Company, L.L.C and its consolidated subsidiaries. We are an indirect wholly owned subsidiary of Kinder Morgan, Inc. (KMI). Our operations are regulated by the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 and the Energy Policy Act of 2005. The FERC approves tariffs that establish rates, cost recovery mechanisms and other terms and conditions of service to our customers.

We own a pipeline system which extends from the supply basins in Texas, Louisiana, Mississippi, Alabama and the Gulf of Mexico to market areas in Louisiana, Mississippi, Alabama, Florida, Georgia, South Carolina and Tennessee, including the metropolitan areas of Atlanta and Birmingham. We own and operate 100% of the Muldon storage facility in Monroe County, Mississippi and a 50% interest in Bear Creek Storage Company, L.L.C. (Bear Creek) in Bienville Parish, Louisiana. Our interest in Bear Creek, the Muldon storage facilities and contracted storage have a combined working natural gas storage capacity of approximately 68 billion cubic feet (Bcf) and peak withdrawal capacity of 1.3 Bcf per day. Bear Creek is a joint venture equally owned by us and our affiliate, Tennessee Gas Pipeline Company, L.L.C.

Prior to November 26, 2014, we were an indirect, wholly owned subsidiary of El Paso Pipeline Partners, L.P., a Delaware limited partnership whose common units were traded on the New York Stock Exchange (NYSE) under the symbol "EPB" (EPB), and whose general partner was an indirect wholly owned subsidiary of KMI, a Delaware corporation, whose common stock is traded on the NYSE under the symbol of "KMI". On November 26, 2014, KMI completed its acquisition of all of the outstanding common units of Kinder Morgan Energy Partners, L.P. (KMP) and EPB, and shares of Kinder Morgan Management, LLC that KMI and its subsidiaries did not already own. The transactions, valued at approximately $77 billion, are referred to collectively as the "Merger Transactions." Upon completion of the Merger Transactions, KMI, KMP and EPB and substantially all of their wholly owned subsidiaries have entered into cross guarantees with respect to the existing debt of KMI, KMP, EPB and such subsidiaries, so that KMI and those subsidiaries, including us, are liable for the debt of KMI, KMP, EPB and such subsidiaries.

On January 1, 2015, EPB and its subsidiary, El Paso Pipeline Partners Operating Company, L.L.C., merged with and into KMP, with KMP surviving the merger. As a result of such merger, we became a direct wholly owned subsidiary of KMP.

We have evaluated subsequent events through April 20, 2015, the date the financial statements were available to be issued.

2. Summary of Significant Accounting Policies

Basis of Presentation

We have prepared our accompanying consolidated financial statements in accordance with the accounting principles contained in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification, the single source of United States (U.S.) Generally Accepted Accounting Principles and referred to in this report as the Codification. Under such rules and regulations, all significant intercompany items have been eliminated in consolidation. Additionally, certain amounts from prior years have been reclassified to conform to the current presentation.

During 2014, we began presenting Gains on sale of assets separately within Operating Costs and Expenses. We previously recorded sales of recoverable cushion gas as Revenues with the associated cost as an expense within Operations and maintenance. The year ended December 31, 2013 Consolidated Statement of Income presentation of these sales has been revised to conform to the current presentation.

Principles of Consolidation

We consolidate entities when we have the ability to control or direct the operating and financial decisions of the entity or when we have a significant interest in the entity that gives us the ability to direct the activities that are significant to that entity. The determination of our ability to control, direct or exert significant influence over an entity involves the use of judgment.

Use of Estimates

Certain amounts included in or affecting our financial statements and related disclosures must be estimated, requiring us to make certain assumptions with respect to values or conditions which cannot be known with certainty at the time our financial statements are prepared. These estimates and assumptions affect the amounts we report for certain assets and liabilities, our revenues and expenses during the reporting period, and our disclosure of contingent assets and liabilities at the date of our financial statements. We evaluate these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates. Any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

In addition, we believe that certain accounting policies are of more significance in our financial statement preparation process than others. Below are the principal accounting policies we apply in the preparation of our consolidated financial statements.

Cash Equivalents

We consider short-term investments with an original maturity of less than three months to be cash equivalents.

Accounts Receivable, net

We establish provisions for losses on accounts receivable due from shippers and operators if we determine that we will not collect all or part of the outstanding balance. We regularly review collectability and establish or adjust our allowance as necessary using the specific identification method. The allowance for doubtful accounts as of December 31, 2014 and 2013 and the bad debt expense for the years ended December 31, 2014 and 2013 were not significant.

Inventories

Our inventories, which consist of materials and supplies, are valued at the lower of average cost or market.

Natural Gas Imbalances

Natural gas imbalances occur when the amount of natural gas delivered from or received by a pipeline system or storage facility differs from the scheduled amount of gas delivered or received. We value these imbalances due to or from shippers and operators at current index prices. Imbalances are settled in cash or made up in-kind, subject to the terms of our FERC tariff. Imbalances due from others are reported in the Consolidated Balance Sheets as "Other current assets." Imbalances owed to customers and affiliates are reported in the Consolidated Balance Sheets as "Other current liabilities." We classify all imbalances as current as we expect to settle them within a year.

Property, Plant and Equipment

Our property, plant and equipment is recorded at its original cost of construction or, upon acquisition, at either the fair value of the assets acquired or the cost to the entity that first placed the asset in utility service. For constructed assets, we capitalize all construction-related direct labor and material costs, as well as indirect utility construction costs. Our indirect construction costs primarily include an interest and equity return component (as more fully described below) and labor and related costs of departments associated with supporting construction activities. The indirect capitalized labor and related costs are based upon estimates of time spent supporting construction projects.

We use the composite method to depreciate property, plant and equipment. Under this method, assets with similar economic characteristics are grouped and depreciated as one asset. The FERC-accepted depreciation rate is applied to the total cost of the group until the net book value equals its salvage value. For certain general plant, the asset is depreciated to zero. We re-evaluate depreciation rates each time we file with the FERC for an increase or decrease in our rates. When property, plant and equipment is retired, accumulated depreciation and amortization is charged for the original cost of the assets in addition to the cost to remove, sell or dispose of the assets, less their salvage value. We do not recognize gains or losses unless we sell or retire land or an entire operating unit (as approved by the FERC). We generally include gains or losses on dispositions of land and operating units in "Operations and maintenance" on our Consolidated Statements of Income. In those instances where we receive recovery in rates related to losses on dispositions of operating units, we record a regulatory asset for the estimated recoverable amount. See Note 9 for information related to a regulatory asset we recorded associated with the sale of certain of our assets.

Included in our property balances are base gas and working gas at our storage facilities. We periodically evaluate natural gas volumes at our storage facilities for gas losses. When events or circumstances indicate a loss has occurred, we recognize a loss on our Consolidated Statements of Income or defer the loss as a regulatory asset on our balance sheet if deemed probable of recovery through future rates charged to customers.

We capitalize a carrying cost (an allowance for funds used during construction or AFUDC) on debt and equity funds related to the construction of long-lived assets. This carrying cost consists of a return on the investment financed by debt and a return on the investment financed by equity. The debt portion is calculated based on our average cost of debt. Interest costs capitalized are included as a reduction to "Interest expense, net" on our Consolidated Statements of Income. The equity portion is calculated based on our most recent FERC approved rate of return. Equity amounts capitalized are included in "Other, net" on our Consolidated Statements of Income. The amounts of capitalized AFUDC were not significant for the years ended December 31, 2014 and 2013.

Asset Retirement Obligations

We record liabilities for obligations related to the retirement and removal of long-lived assets used in our businesses. We record, as liabilities, the fair value of asset retirement obligations on a discounted basis when they are incurred and can be reasonably estimated, which is typically at the time the assets are installed or acquired. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities increase due to the change in their present value, and the initial capitalized costs are depreciated over the useful lives of the related assets. The liabilities are eventually extinguished when the asset is taken out of service.

We are required to operate and maintain our natural gas pipelines and storage systems, and intend to do so as long as supply and demand for natural gas exists, which we expect for the foreseeable future. Therefore, we believe that we cannot reasonably estimate the asset retirement obligation for the substantial majority of our assets because these assets have indeterminate lives. We continue to evaluate our asset retirement obligations and future developments could impact the amounts we record. Our asset retirement obligations were not significant as of December 31, 2014 and 2013.

Asset and Investment Impairments

We evaluate our assets and investments for impairment when events or circumstances indicate that their carrying values may not be recovered. These events include market declines that are believed to be other than temporary, changes in the manner in which we intend to use a long-lived asset, decisions to sell an asset or investment and adverse changes in the legal or business environment such as adverse actions by regulators. If an event occurs, which is a determination that involves judgment, we evaluate the recoverability of our carrying values based on either (i) the long-lived asset's ability to generate future cash flows on an undiscounted basis or (ii) the fair value of the investment in an unconsolidated affiliate. If an impairment is indicated, or if we decide to sell a long-lived asset or group of assets, we adjust the carrying value of the asset downward, if necessary, to its estimated fair value.

Our fair value estimates are generally based on assumptions market participants would use, including market data obtained through the sales process or an analysis of expected discounted cash flows. There were no impairments as of December 31, 2014 and 2013.

Equity Method of Accounting

We account for investments, which we do not control but do have the ability to exercise significant influence, by the equity method of accounting. Under this method, our equity investments are carried originally at our acquisition costs, increased by our proportionate share of the investee's net income and by contributions made, and decreased by our proportionate share of the investee's net losses and by distributions received.

Revenue Recognition

We are subject to FERC regulations, therefore fees and rates established under our tariff are a function of our cost of providing services to our customers, including a reasonable return on our invested capital. Our revenues are primarily generated from natural gas transportation and storage services and include estimates of amounts earned but unbilled. We estimate these unbilled revenues based on contract data, regulatory information, and preliminary throughput and allocation measurements, among other items. Revenues for all services are based on the thermal quantity of gas delivered or subscribed at a price specified in the contract. For our transportation and storage services, we recognize reservation revenues on firm contracted capacity ratably over the contract period regardless of the amount of natural gas that is transported or stored. For interruptible or volumetric-based services, we record revenues when physical deliveries of natural gas are made at the agreed upon delivery point or when gas is injected or withdrawn from the storage facility. For contracts with step-up or step-down rate provisions that are not related to changes in levels of service, we recognize reservation revenues ratably over the contract life. The revenues we collect may be subject to refund in a rate proceeding. We had no reserves for potential rate refunds as of December 31, 2014 and 2013.

Environmental Matters

We capitalize or expense, as appropriate, environmental expenditures. We capitalize certain environmental expenditures required in obtaining rights-of-way, regulatory approvals or permitting as part of the construction. We expense environmental expenditures that relate to an existing condition caused by past operations, which do not contribute to current or future revenue generation. We generally do not discount environmental liabilities to a net present value, and we record environmental liabilities when environmental assessments and/or remedial efforts are probable and we can reasonably estimate the costs. Generally, our recording of these accruals coincides with our completion of a feasibility study or our commitment to a formal plan of action. We recognize receivables for anticipated associated insurance recoveries when such recoveries are deemed to be probable.

We routinely conduct reviews of potential environmental issues and claims that could impact our assets or operations. These reviews assist us in identifying environmental issues and estimating the costs and timing of remediation efforts. We also routinely adjust our environmental liabilities to reflect changes in previous estimates. In making environmental liability estimations, we consider the material effect of environmental compliance, pending legal actions against us and potential third-party liability claims. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in our income in the period in which they are reasonably determinable. For more information on our environmental disclosures, see Note 7.

Legal

We are subject to litigation and regulatory proceedings as the result of our business operations and transactions. We utilize both internal and external counsel in evaluating our potential exposure to adverse outcomes from orders, judgments or settlements. When we determine a loss is probable of occurring and is reasonably estimable, we accrue an undiscounted liability for such litigation based on our best estimate using information available at that time. If the estimated loss is a range of potential outcomes and there is no better estimate within the range, we accrue the amount at the low end of the range. To the extent that actual outcomes differ from our estimates, or additional facts and circumstances cause us to revise our estimates, our earnings will be affected. For more information on our legal disclosures, see Note 7.

Other Contingencies

We recognize liabilities for other contingencies when we have an exposure that indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Where the most likely outcome of a contingency can be reasonably estimated, we accrue an undiscounted liability for that amount. Where the most likely outcome cannot be estimated, a range of potential losses is established and if no one amount in that range is more likely than any other, the low end of the range is accrued. For more information on our other contingency disclosures, see Note 7.

Postretirement Benefits

We maintain a postretirement benefit plan covering certain of our former employees that we have made contributions to in the past. These contributions are invested until the benefits are paid to plan participants. The net benefit cost of this plan is recorded on our Consolidated Statements of Income and is a function of many factors including benefits earned during the year by plan participants (which is a function of factors such as the level of benefits provided under the plan, actuarial assumptions and the passage of time), expected returns on plan assets and amortization of certain deferred gains and losses. For a further discussion of our policies with respect to our postretirement benefit plans, see Note 5.

In accounting for our postretirement benefit plan, we record an asset or liability based on the difference between the fair value of the plan's assets and the plan's benefit obligation. Any deferred amounts related to unrecognized gains and losses or changes in actuarial assumptions are recorded as a regulatory asset or liability until those gains or losses are recognized on our Consolidated Statements of Income.

Income Taxes

We are a limited liability company and are not subject to federal income taxes or generally state income taxes. Our member is responsible for income taxes on their allocated share of taxable income which may differ from income for financial statement purposes due to differences in the tax basis and financial reporting basis of assets and liabilities. However, we are subject to Texas margin tax (a revenue based calculation), which is represented as "Income Tax Expense" on our Consolidated Statements of Income.

Regulated Operations

Our interstate natural gas pipeline and storage operations are subject to the jurisdiction of the FERC and are accounted for in accordance with Accounting Standards Codification (ASC) Topic 980, "Regulated Operations." Under these standards, we record regulatory assets and liabilities that would not be recorded for non-regulated entities. Regulatory assets and liabilities represent probable future revenues or expenses associated with certain charges or credits that are expected to be recovered from or refunded to customers through the rate making process. Items to which we apply regulatory accounting requirements include certain postretirement employee benefit plan costs, losses on reacquired debt, losses on the sale of certain long lived assets, taxes related to an equity return component on regulated capital projects prior to our change in legal structure to a non taxable entity, certain cost differences between gas retained and gas consumed in operations and other costs included in, or expected to be included in, future rates. See Note 9 for further discussion regarding our regulated operations.

3. Property, Plant and Equipment

As of December 31, 2014 and 2013, our property, plant and equipment consisted of the following (in millions, except for %):

	Annual Depreciation Rates	December 31,	
	(%)	2014	2013
Transmission and storage facilities	0.9-2.25	$ 3,480	$ 3,454
General plant	3.33-20.0	26	26
Intangible plant	5.0-10.0	16	63
Other		131	124
Accumulated depreciation and amortization (a)		(1,212)	(1,191)
		2,441	2,476
Land		12	12
Construction work in progress		20	17
Property, plant and equipment, net		$ 2,473	$ 2,505

(a) The composite weighted average depreciation rates for the years ended December 31, 2014 and 2013 were 2.4% and 2.0%, respectively.

4. Debt

We classify our debt based on the contractual maturity dates of the underlying debt instruments. We defer costs associated with debt issuance over the applicable term of the Notes. These costs are then amortized as interest expense on our Consolidated Statements of Income. The following table summarizes the net carrying value of our outstanding debt as of December 31 (in millions):

	2014	2013
5.90% Notes due April 2017	$ 500	$ 500
4.40% Notes due June 2021	300	300
7.35% Notes due February 2031	153	153
8.00% Notes due March 2032	258	258
	1,211	1,211
Less: Unamortized discount	1	1
Total long-term debt	$ 1,210	$ 1,210

Under the indentures, we are subject to a number of restrictions and covenants. The most restrictive of these include limitations on the incurrence of liens. As of December 31, 2014 and 2013, we were in compliance with our debt-related covenants.

Southern Natural Issuing Corporation (SNIC), our wholly owned finance subsidiary, is the co-issuer of certain of our outstanding debt securities. SNIC has no material assets, operations, revenues or cash flows other than those related to its service as a co-issuer of our debt securities. Accordingly, it has no ability to service obligations on our debt securities.

After the consummation of the Merger Transactions, KMI, KMP and EPB and substantially all of their respective wholly owned subsidiaries entered into a cross guarantee agreement with respect to the existing debt of KMI, KMP, EPB and such subsidiaries, so that KMI and those subsidiaries, including us, are liable for the debt of KMI, KMP, EPB and such subsidiaries.

5. Retirement Benefits

Pension and Retirement Savings Plans

KMI maintains a pension plan and a retirement savings plan covering substantially all of its U.S. employees, including certain of our former employees. The benefits under the pension plan are determined under a cash balance formula. Under its retirement savings plan, KMI contributes an amount equal to 5% of participants' eligible compensation per year. KMI is responsible for benefits accrued under its plans and allocates the related costs based on a benefit allocation rate applied on payroll charged to its affiliates.

Postretirement Benefits Plan

We provide postretirement benefits, including medical benefits for a closed group of retired employees. Medical benefits for these closed groups of retirees may be subject to deductibles, co-payment provisions, and other limitations and dollar caps on the amount of employer costs, and are subject to further benefit changes by KMI, the plan sponsor. Effective January 1, 2014, the plan was amended to provide a fixed subsidy to post-age 65 Medicare eligible participants to purchase coverage through a retiree Medicare exchange. Employees in this group who retire after June 30, 2000 continue to receive limited postretirement life insurance benefits. Our postretirement benefit plan costs are prefunded to the extent these costs are recoverable through our rates. We expect to make no contribution to our postretirement benefit plan in 2015. An affiliate transferred approximately $1 million of assets to the postretirement benefits plan in 2014 to cover the cost of the fixed subsidy provided to post-age 65 Medicare eligible participants and we made contributions of approximately $1 million in 2013 to the post retirement benefit plan.

Accumulated Postretirement Benefit Obligation, Plan Assets and Funded Status

Our postretirement benefit obligations and net benefit costs are primarily based on actuarial calculations. We use various assumptions in performing these calculations, including those related to the return that we expect to earn on our plan assets, the estimated cost of health care when benefits are provided under our plan and other factors. A significant assumption we utilize is the discount rates used in calculating the benefit obligations. We select our discount rate by matching the timing and amount of our expected future benefit payments for our postretirement benefit obligation to the average yields of various high-quality bonds with corresponding maturities.

In accounting for our postretirement benefit plan, we record an asset or liability based on the overfunded or underfunded status. Any deferred amounts related to unrecognized gains and losses or changes in actuarial assumptions are recorded as a regulatory asset or liability as allowed by the FERC.

The table below provides information about our postretirement benefit plan (in millions):

	December 31, 2014	December 31, 2013
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation - beginning of period	$ 37	$ 59
Interest cost	1	2
Participant contributions	—	1
Plan amendments	—	(19)
Actuarial (gain) loss	—	(3)
Benefits paid (a)	(3)	(3)
Accumulated postretirement benefit obligation - end of period	$ 35	$ 37
Change in plan assets:		
Fair value of plan assets - beginning of period	$ 67	$ 61
Actual return on plan assets	6	8
Employer contributions/Transfers	1	1
Participant contributions	—	1
Benefits paid	(3)	(4)
Fair value of plan assets - end of period	$ 71	$ 67
Reconciliation of funded status:		
Fair value of plan assets	$ 71	$ 67
Less: accumulated postretirement benefit obligation	35	37
Net asset at December 31(b)	$ 36	$ 30

(a) Amounts shown net of a subsidy of $1 million or less for each of the years ended December 31, 2014 and 2013 related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

(b) Net asset amounts are included in "Deferred charges and other assets" on our Consolidated Balance Sheets.

Plan Assets

The primary investment objective of our plan is to ensure that, over the long-term life of the plan, an adequate pool of sufficiently liquid assets exists to meet the benefit obligations to retirees and beneficiaries. Investment objectives are long-term in nature covering typical market cycles. Any shortfall of investment performance compared to investment objectives is generally the result of economic and capital market conditions. Although actual allocations vary from time to time from our targeted allocations, the target allocations of our postretirement plan's assets are 70% equity and 30% fixed income securities.

We use various methods to determine the fair values of the assets in our other postretirement benefit plan, which are impacted by a number of factors, including the availability of observable market data over the contractual term of the underlying assets. We separate these assets into three levels (Level 1, 2 and 3) based on our assessment of the availability of this market data and the significance of non-observable data used to determine the fair value of these assets. As of December 31, 2014, assets were comprised of domestic equity securities with a fair value of $7 million, a fixed income trust fund with a fair value of $19 million and limited partnership funds with equity strategies with a fair value of $45 million. The domestic equity securities and $20 million of the limited partnership funds are exchange traded, and the fair value (which is considered a Level 1 measurement) is determined based on the price quoted for the investment in actively traded markets. The fixed income trust fund and approximately $25 million of the limited partnership funds are non-exchange-traded, and the fair value (which is considered a Level 2 measurement) is determined primarily based on the net asset value reported by the issuer, which is based on similar assets in active markets. As of December 31, 2013, assets were comprised of domestic equity securities with a fair value of $3 million, a fixed income trust fund with a fair value of $20 million and limited partnership funds with equity strategies with a fair value of $44 million. The domestic equity securities and $23 million of the limited partnership funds are exchange traded, and the fair value (which is considered a Level 1 measurement) is determined based on the price quoted for the investment in actively traded markets. The fixed income trust fund and approximately $21 million of the limited partnership funds are non-exchange-traded, and the fair value (which is considered a Level 2 measurement) is determined primarily based on the net asset value reported by the issuer, which is based on similar assets in active markets. Certain restrictions on withdrawals existed for the limited partnerships fund where the issuer reserves the right to temporarily delay withdrawals in certain situations such as market conditions or at the issuer's discretion. The plan does not have any assets that are considered Level 3 measurements. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. There have been no changes in the methodologies used at December 31, 2014 and 2013.

Expected Payment of Future Benefits

As of December 31, 2014, we expect the following benefit payments under our plan (in millions):

Year	Expected Payments
2015	$ 3
2016	3
2017	3
2018	3
2019	3
2020 - 2024	12

Actuarial Assumptions and Sensitivity Analysis

Accumulated postretirement benefit obligations and net benefit costs are based on actuarial estimates and assumptions. The following table details the weighted average actuarial assumptions used in determining our postretirement plan's obligations and net benefit costs.

	2014	2013
	(%)	
Assumptions related to benefit obligations at December 31:		
Discount rate	3.44	4.17
Assumptions related to benefit costs for the year ended December 31:		
Discount rate(a)	4.17	3.65
Expected return on plan assets(b)	7.60	7.50

(a) We select our discount rate by matching the timing and amount of our expected future benefit payments for our postretirement benefit obligation to the average yields of various high-quality bonds with corresponding maturities.

(b) The expected return on plan assets listed in the table above is a pre-tax rate of return based on our portfolio of investments. We utilize an after-tax expected return on plan assets to determine our benefit costs, which is based on unrelated business income taxes with a weighted average rate of 21% and 24% for 2014 and 2013, respectively.

Actuarial estimates for our postretirement benefits plan assumed a weighted average annual rate of increase in the per capita costs of covered health care benefits of 7%, gradually decreasing to 4.5% by the year 2031. A one-percentage point change in assumed health care trends would not have had a significant effect on the accumulated postretirement benefit obligation or interest costs as of December 31, 2014 and 2013.

Components of Net Benefit Income

For each of the years ended December 31, the components of net benefit income are as follows (in millions):

	2014	2013
Interest cost	$ 1	$ 2
Expected return on plan assets	(4)	(4)
Amortization of prior service credit	(1)	(1)
Amortization of net actuarial gain	(1)	—
Net benefit income	$ (5)	$ (3)

6. Related Party Transactions

Distribution

In January 2015, we made a cash distribution to our Member of $78 million.

Cash Management Program

We participate in the cash management program with KMI and its affiliates, including EPB, which matches short-term cash surpluses and needs of participating affiliates, thus minimizing total borrowings from outside sources. KMI and its affiliates use the cash management program to settle intercompany transactions between participating affiliates. As of December 31, 2014 and 2013, we had a note receivable from KMI of $166 million and a note receivable from EPB of $183 million, respectively. The interest rate on these notes were variable and were 1.5% and 1.9% as of December 31, 2014 and 2013, respectively.

Other Affiliate Balances

We enter into transactions with our affiliates within the ordinary course of business and the services are based on the same terms as non-affiliates, including natural gas transportation services to and from affiliates under long-term contracts, storage contract and various operating agreements.

We do not have employees. Employees of KMI and its affiliates provide services to us. We are managed and operated by KMI and its affiliates. Under policies with KMI and its affiliates, we reimburse KMI and its affiliates without a profit component for the provision of various general and administrative services for our benefit and for direct expenses incurred by KMI or its affiliates on our behalf. Additionally, KMI allocates a portion of its general and administrative costs to us at cost.

The following table summarizes our other balance sheet affiliate balances (in millions):

	December 31,	
	2014	2013
Accounts receivable	$ 1	$ 1
Natural gas imbalance receivable (a)	1	1
Accounts payable	13	—

(a) Included in "Other current assets" on our Consolidated Balance Sheets.

The following table shows revenues and allocated costs from our affiliates for the years ended December 31 (in millions):

	2014	2013
Revenues	$ 8	$ 8
Operation, maintenance and capitalized costs	49	52
General and administrative(a)	28	28

(a) Includes severance costs of $1 million or less for each of the years ended December 31, 2014 and 2013, allocated to us from KMI.

7. Litigation, Environmental and Other Contingencies

We are party to various legal, regulatory and other matters arising from the day-to-day operations of our businesses that may result in claims against us. Although no assurance can be given, we believe, based on our experiences to date and taking into account established reserves, that the ultimate resolution of such items will not have a material adverse impact on our business, financial position, results of operations or cash flows. We believe we have meritorious defenses to the matters to which we are a party and intend to vigorously defend these matters. When we determine a loss is probable of occurring and is reasonably estimable, we accrue an undiscounted liability for such contingencies based on our best estimate using information available at that time. If the estimated loss is a range of potential outcomes and there is no better estimate within the range, we accrue the amount at the low end of the range. We disclose contingencies where an adverse outcome may be material, or in the judgment of management, we conclude the matter should otherwise be disclosed.

Legal Proceedings

Cliffs Natural Resources (Cliffs)

We are engaged in a lawsuit against Cliffs in the Circuit Court of Jefferson County, Alabama (Case No. 68-CV-2014-900533) to determine whether Cliffs' longwall coal mining operations require the relocation of a large segment of our pipelines in Jefferson County, Alabama and who will be responsible for the cost of any such relocation. Prior to the initiation of the lawsuit, Cliffs notified us of its intent to conduct underground longwall coal mining operations in the vicinity of four of our pipelines in Jefferson County. Upon being informed by Cliffs that its planned coal mining operations would cause surface subsidence of three to six feet, we determined that such level of subsidence presented a safety hazard to our pipelines and that relocating the affected pipelines may be the safest and most economical option to mitigate the safety hazard. We allege in the lawsuit that easements governing our property rights to operate our pipelines do not allow Cliffs' mining operations to proceed as planned. We also allege, among other things, that if Cliffs is allowed to proceed with its mining plan, Cliffs should be responsible for the damages incurred by us, which have yet to be determined.

General

As of December 31, 2014 and 2013, we had approximately $3 million and $2 million, respectively, accrued for our outstanding legal proceedings.

Environmental Matters

We are subject to environmental cleanup and enforcement actions from time to time. Our operations are subject to federal, state and local laws and regulations relating to protection of the environment. Although we believe our operations are in substantial compliance with applicable environmental law and regulations, risks of additional costs and liabilities are inherent in our operations, and there can be no assurance that we will not incur significant costs and liabilities. Our insurance may not cover all environmental risks and costs and/or may not provide sufficient coverage in the event an environmental claim is made against us. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies under the terms of authority of those laws, and claims for damages to property or persons resulting from our operations, could result in substantial costs and liabilities to us.

Southeast Louisiana Flood Protection Litigation

On July 24, 2013, the Board of Commissioners of the Southeast Louisiana Flood Protection Authority-East (SLFPA) filed a petition for damages and injunctive relief in state district court for Orleans Parish, Louisiana (Case No. 13-6911) against us, and approximately 100 other energy companies, alleging that defendants' drilling, dredging, pipeline and industrial operations since the 1930's have caused direct land loss and increased erosion and submergence resulting in alleged increased storm surge risk, increased flood protection costs and unspecified damages to the plaintiff. The Flood Protection Authority asserts claims for negligence, strict liability, public nuisance, private nuisance, and breach of contract. Among other relief, the petition seeks unspecified monetary damages, attorney fees, interest, and injunctive relief in the form of abatement and restoration of the alleged coastal land loss including but not limited to backfilling and re-vegetation of canals, wetlands and reef creation, land bridge construction, hydrologic restoration, shoreline protection, structural protection, and bank stabilization. On August 13, 2013, the suit was removed to the U.S. District Court for the Eastern District of Louisiana. On September 10, 2013, the Flood Protection Authority filed a motion to remand the case to the state district court for Orleans Parish. The Court denied the remand motion on June 27, 2014. Louisiana Act 544 (the Act) went into effect on June 6, 2014 and specified the political entities authorized to institute litigation for environmental damage in the coastal zone. Under the Act, which was specifically made retroactive, we contend the SLFPA is not a valid plaintiff, whereas the SLFPA contends the Act is unconstitutional. The parties filed numerous cross motions seeking a ruling on the enforceability of the Act and other potentially dispositive legal issues. On February 13, 2015, the Court granted defendants' motion to dismiss the suit for failure to state a claim, and issued an order dismissing plaintiffs' claims with prejudice.

Superfund Matters

Included in our recorded environmental liabilities are projects where we have received notice that we have been designated or could be designated as a Potentially Responsible Party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly known as Superfund, or state equivalents for one active site. Liability under the federal CERCLA statute may be joint and several, meaning that we could be required to pay in excess of our pro rata share of remediation costs. We consider the financial strength of other PRPs in estimating our liabilities.

General

Although it is not possible to predict the ultimate outcomes, we believe that the resolution of the environmental matters set forth in this note, and other matters to which we are a party, will not have a material adverse effect on our business, financial position, results of operations or cash distributions. As of December 31, 2014 and 2013, we had less than $1 million accrued for our environmental matters.

Other Commitments

Capital Commitments

At December 31, 2014, we had capital commitments of approximately $20 million for the purchase of plant, property and equipment, which we expect to spend during 2015. We have other planned capital and investment projects that are discretionary in nature, with no substantial contractual capital commitments made in advance of the actual expenditures.

Other Commercial Commitment

We hold cancelable easements or rights-of-way arrangements from landowners permitting the use of land for the construction and operation of our pipeline system. Currently, our obligations under these easements are not material to our results of operations.

Storage Commitments

We have entered into storage capacity contracts totaling $7 million at December 31, 2014, most of which are related to storage capacity contracts with our affiliate, Bear Creek, which we expect to spend during 2015. We expect annual renewal of this contract to occur into the foreseeable future.

Operating Leases

We lease property, facilities and equipment under various operating leases. Our primary commitment under operating leases is the lease of our office space in Birmingham, Alabama. KMI guarantees our obligations under these lease agreements. Our minimum future annual rental commitments under our operating leases at December 31, 2014, are as follows (in millions):

Year	Commitment
2015	$ 2
2016	2
2017	1
2018	2
2019	2
Thereafter	19
Total	$ 28

Rent expense on our lease obligations for each of the years ended December 31, 2014 and 2013 was $1 million, and is reflected in "Operations and maintenance" on our Consolidated Statements of Income. While we hold the contractual obligations for the operating leases, the rent expense, which is considered a shared services cost and allocated to various KMI subsidiaries, is administered and funded by KMI.

8. Fair Value

The following table reflects the carrying amount and estimated fair value of our financial instruments (in millions):

	As of December 31,			
	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	$1,210	$1,366	$1,210	$1,383

We separate the fair values of our financial instruments into levels based on our assessment of the availability of observable market data and the significance of non-observable data used to determine the estimated fair value. We estimate the fair values of our long-term debt primarily based on quoted market prices for the same or similar issues, a Level 2 fair value measurement. Our assessment and classification of an instrument within a level can change over time based on the maturity or liquidity of the instrument and this change would be reflected at the end of the period in which the change occurs. During the years ended December 31, 2014 and 2013, there were no changes to the inputs and valuation techniques used to measure fair value, the types of instruments, or the levels in which they were classified.

As of December 31, 2014 and 2013, the carrying amounts of current receivables and payables represent fair values based on the short-term nature of these instruments. The carrying amount of our affiliate note receivable approximates its fair value due to the note being due on demand and the market-based nature of the interest rate.

9. Accounting for Regulatory Activities

Regulatory Assets and Liabilities

Regulatory assets and liabilities represent probable future revenues or expenses associated with certain charges and credits that will be recovered from or refunded to customers through the ratemaking process. As of December 31, 2014, the regulatory assets are being recovered as cost of service in our rates over a period of approximately 1 year to 28 years. Below are the details of our regulatory assets and liabilities as of December 31 (in millions):

	2014	2013
Current regulatory assets		
Difference between gas retained and gas consumed in operations	$ 2	$ 2
Unamortized loss on sale of assets	11	13
Other	1	—
Total current regulatory assets	14	15
Non-current regulatory assets		
Taxes on capitalized funds used during construction	26	26
Unamortized loss on reacquired debt	16	20
Unamortized loss on sale of assets	—	10
Other	7	2
Total non-current regulatory assets	49	58
Total regulatory assets	$ 63	$ 73
Current regulatory liabilities		
Difference between gas retained and gas consumed in operations	$ 4	$ 9
Other	1	—
Total current regulatory liabilities	5	9
Non-current regulatory liabilities		
Postretirement benefits	35	35
Other	4	7
Total non-current regulatory liabilities (a)	39	42
Total regulatory liabilities	$ 44	$ 51

(a) Included in "Other long-term liabilities and deferred credits" on our Consolidated Balance Sheets.

Our significant regulatory assets and liabilities include:

Difference between gas retained and gas consumed in operations

These amounts reflect the value of the volumetric difference between the gas retained and consumed in our operations. These amounts are not included in the rate base, but given our tariffs, are expected to be recovered from our customers in subsequent fuel filing periods.

Taxes on capitalized funds used during construction

Amounts represent the regulatory asset balance established in periods prior to 2007 when we changed our legal structure to a non-taxable entity, to offset the deferred tax for the equity component of AFUDC. Income taxes on the equity component of AFUDC that is capitalized are included in a rate case as part of the income tax component in the cost of service and are recovered over the depreciable lives of the long lived asset to which they relate.

Unamortized loss on reacquired debt

Amounts represent the deferred and unamortized portion of loss on reacquired debt which are recovered through the cost of service over the original life of the debt issue, or in the case of refinanced debt, over the life of the new debt issue.

Unamortized loss on sale of asset

Amount represents the deferred and unamortized portion of loss on our sale of offshore assets. In accordance with the settlement of our rate case, the recovery of the total regulatory asset will occur over a three-year period ending on October 31, 2015.

Postretirement Benefits

Amount represents unrecognized gains and losses related to our postretirement benefit plan.

Regulatory Assets Amortization

Our amortization of the regulatory assets for 2014 and 2013 was $18 million for each period, which primarily consisted of (i) deferred losses on sale of offshore assets included in "Depreciation and amortization" of $13 million and $12 million, respectively, and (ii) deferred losses on reacquired debt included in "Interest expense, net" of $3 million for each respective year on our Consolidated Statements of Income.

Rate Proceeding

On January 31, 2013, the FERC approved our request to amend our January 2010 rate settlement with our customers. The amendment extended the required filing date for our rate case from February 28, 2013 to no later than May 31, 2013. On May 2, 2013, we filed a comprehensive settlement with our customers to resolve all matters relating to our rates. The FERC approved the comprehensive settlement on July 12, 2013. Under the settlement, customers must extend all firm service agreements through August 31, 2016, and we cannot file a Section 4 rate case to be effective earlier than September 1, 2016. The settlement also includes a two-phase reduction in rates. The first phase, effective on September 1, 2013, resulted in an approximately $11 million revenue reduction for 2013 and an additional revenue reduction of approximately $23 million for 2014. The second phase, effective November 1, 2015, will result in an additional revenue reduction of approximately $2 million for 2015 and an additional revenue reduction of approximately $12 million in 2016. The settlement prohibits both us and our customers from requesting a change to our rates during a three-year moratorium through August 31, 2016 and requires us to file a new rate case to be effective no later than September 1, 2018.

10. Transactions with Major Customers

For the year ended December 31, 2014, revenues from three largest non-affiliate customers were approximately $149 million, $107 million and $61 million. For the year ended December 31, 2013, revenues from two largest non-affiliate customers were approximately $155 million and $104 million.

11. Recent Accounting Pronouncements

Accounting Standards Update (ASU) No. 2014-09

On May 28, 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This ASU is designed to create greater comparability for financial statement users across industries and jurisdictions. The provisions of ASU No. 2014-09 include a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which an entity expects to be entitled in exchange for those goods or services. The standard also will require enhanced disclosures, provide more comprehensive guidance for transactions such as service revenue and contract modifications, and enhance guidance for multiple-element arrangements. ASU No. 2014-09 will be effective for U.S. public companies for annual reporting periods beginning after December 15, 2016, including interim reporting periods (January 1, 2017 for us). Early adoption is not permitted. We are currently reviewing the effect of ASU No. 2014-09 on our revenue recognition.