Southern Natural Gas Company, L.L.C.

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report

For the Years Ended December 31, 2013 and 2012

SOUTHERN NATURAL GAS COMPANY, L.L.C. AND SUBSIDIARIES
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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") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, 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 the Company and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 18, 2014

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

	Year Ended December 31,	
	2013	**2012**
Revenues	$ 596	$ 584
Operating Costs and Expenses		
Operations and maintenance	151	152
Depreciation and amortization	82	65
Taxes, other than income taxes	38	34
Total Operating Costs and Expenses	271	251
Operating Income	325	333
Other Income (Expense)		
Earnings from equity investment	12	13
Interest expense, net	(79)	(79)
Other, net	5	7
Total Other Income (Expense)	(62)	(59)
Net Income	$ 263	$ 274

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, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	—	$ 1
Accounts receivable, net	66	69
Inventories	18	18
Regulatory assets	15	34
Other current assets	9	3
Total current assets	108	125
Property, plant and equipment, net	2,505	2,501
Investment	60	58
Note receivable from affiliate	183	215
Regulatory assets	58	75
Deferred charges and other assets	43	10
Total Assets	$ 2,957	$ 2,984
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 34	$ 33
Accrued interest	19	19
Accrued taxes, other than income	10	7
Regulatory liabilities	9	1
Contractual deposits	4	4
Other current liabilities	3	7
Total current liabilities	79	71
Long-term liabilities and deferred credits		
Long-term debt	1,210	1,210
Other long-term liabilities and deferred credits	45	20
Total long-term liabilities and deferred credits	1,255	1,230
Total Liabilities	1,334	1,301
Commitments and Contingencies (Note 8)		
Member's Equity	1,623	1,683
Total Liabilities and Member's Equity	$ 2,957	$ 2,984

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,	
	2013	2012
Cash Flows From Operating Activities		
Net Income	$ 263	$ 274
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	82	65
Earnings from equity investment	(12)	(13)
Distributions from equity investment earnings	10	12
Other non-cash items	6	7
Changes in components of working capital:		
Accounts receivable	4	(38)
Regulatory assets	19	(12)
Accounts payable	(9)	(16)
Regulatory liabilities	8	—
Accrued taxes, other than income	1	1
Other current assets and liabilities	—	(10)
Other long-term assets and liabilities	(5)	13
Net Cash Provided by Operating Activities	367	283
Cash Flows From Investing Activities		
Capital expenditures	(71)	(58)
Proceeds from sale of assets	—	50
Net change in note receivable from affiliate	31	16
Other	(5)	(9)
Net Cash Used in Investing Activities	(45)	(1)
Cash Flows From Financing Activities		
Distributions to Member	(323)	(284)
Net Cash Used in Financing Activities	(323)	(284)
Net decrease in Cash and Cash Equivalents	(1)	(2)
Cash and Cash Equivalents, beginning of period	1	3
Cash and Cash Equivalents, end of period	$ —	$ 1
Non-cash Investing Activities		
Increase (decrease) in property, plant and equipment accruals and contractor retainage	$ 6	$ (4)
Supplemental Cash Flow Information		
Cash paid during the period for interest (net of capitalized interest)	$ 75	$ 74

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, 2011	$ 1,693
Net Income	274
Distributions	(284)
Balance at December 31, 2012	1,683
Net Income	263
Distributions	(323)
Balance at December 31, 2013	$ 1,623

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/or our subsidiaries. We are wholly owned by El Paso Pipeline Partners Operating Company, L.L.C., a wholly owned subsidiary of El Paso Pipeline Partners, L.P. (EPB), a master limited partnership, an indirect 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 tariff 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 pipeline facilities servicing the southeastern markets in Alabama, Georgia and South Carolina. We own 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. We operate both the Muldon and Bear Creek storage facilities which have a combined working natural gas storage capacity of approximately 64 billion cubic feet (Bcf) and peak withdrawal capacity of 1.2 Bcf per day. Bear Creek is a joint venture equally owned by us and our affiliate, Tennessee Gas Pipeline Company, L.L.C. (TGP).

We have evaluated subsequent events through April 18, 2014, 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 Accounting Standards Codification, the single source of 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.

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

We establish provisions for losses on accounts receivable and for natural gas imbalances due from shippers and operators if we determine that it is probable we may 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, 2013 and 2012 and the related bad debt expense for the years ended December 31, 2013 and 2012 were not significant.

Inventories

Our inventories, which consist of materials and supplies, are valued at the lower of cost or market value with cost determined using the average cost method.

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 to be delivered or received. We value these imbalances due to or from shippers and operators at current index prices. Imbalances are settled in cash or in-kind, subject to the terms of our tariff. Imbalances due from customers and affiliates are reported in our Consolidated Balance Sheets as "Other current assets." Imbalances owed to customers and affiliates are reported in our 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 service. For constructed assets, we capitalize all construction-related direct labor and material costs, as well as indirect 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 (group) method to depreciate property, plant and equipment. Under this method, assets with similar lives and 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 redevelop our transportation and storage rates to file with the FERC for an increase or decrease in 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 an entire operating unit, as determined by the FERC. We generally include gains or losses on dispositions of operating units in “Operations and maintenance” in 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 3 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 in 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 the most recent FERC approved rate of return. Equity amounts capitalized are included in "Other, net" on our Consolidated Statements of Income.

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 less than $1 million as of December 31, 2013 and 2012.

Asset and Investment Divestitures/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.

We classify assets (or groups of assets) to be disposed of as held for sale when specific criteria have been met. The lower of the carrying value or the estimated fair value less the cost to sell those assets is considered to determine if recognition of an impairment is required. We cease depreciation and amortization of the assets in the period they are considered held for sale.

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 refunds as of December 31, 2013 and 2012.

Environmental Matters

We expense or capitalize, as appropriate, environmental expenditures that relate to current operations. We expense 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 8.

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 disclosure, see Note 8.

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.

Postretirement Benefits

We maintain a postretirement benefit plan covering certain of our former employees. The plan requires us to make contributions to fund the benefits to be paid under the plan. These contributions are invested until the benefits are paid to plan participants. The net benefit cost of this plan is recorded in 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 6.

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, as a limited liability company, are not subject to federal or state income taxes. Accordingly, no provision for federal or state income taxes has been recorded in our financial statements. The tax effects of our activities accrue to our sole Member, whose activities accrue to EPB who reports on its individual federal income tax returns its share of revenues and expenses but who, as a partnership, also is not subject to federal or state income taxes.

Regulated Operations

Our natural gas pipeline and storage operations are subject to the jurisdiction of the FERC and follow the Financial Accounting Standard Board’s accounting standards for 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 10 for further discussion regarding our regulated operations.

3. Divestiture

In September 2011, we entered into an agreement to sell certain offshore and onshore assets (including pipeline, platforms and other related assets located in the Gulf of Mexico and Louisiana) for approximately $50 million. We deferred the estimated loss as a regulatory asset. On June 21, 2012, the FERC issued an order approving the sale, which occurred on November 1, 2012. The regulatory asset balance as of December 31, 2012 of $36 million represented the difference between the net book value and the $50 million sales price amortized by a fixed monthly rate pursuant to the settlement of our rate case. As of December 31, 2013, the regulatory asset balance was $23 million. In accordance with the settlement of our rate case, which was approved by the FERC on July 12, 2013, the recovery of the total regulatory asset will occur over a three-year period ending October 31, 2015.

4. Property, Plant and Equipment

Classes of Assets and Depreciation Rates

As of December 31, 2013 and 2012, our property, plant and equipment consisted of the following (in millions, except for %):

	Annual Depreciation Rates	December 31,	
	(%)	2013	2012
Transmission and storage facilities	0.9-2.25	$ 3,454	$ 3,398
General plant	3.33-20.0	26	26
Intangible plant	5.0-10.0	63	62
Other		124	133
Accumulated depreciation and amortization (a)		(1,191)	(1,145)
		2,476	2,474
Land		12	12
Construction work in progress		17	15
Property, plant and equipment, net		$ 2,505	$ 2,501

(a) The composite weighted average depreciation rate for the years ended December 31, 2013 and 2012 were 2.0 % and 1.7%, respectively.

Capitalized Costs During Construction

The allowance for debt interest amounts capitalized during the years ended December 31, 2013 and 2012 were less than $1 million and $1 million, respectively. The allowance for equity amounts capitalized during each of the years ended December 31, 2013 and 2012 were $1 million and $2 million, respectively.

5. 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 in our Consolidated Statements of Income. The following table summarizes the net carrying value of our outstanding debt as of December 31 (in millions):

	2013	2012
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, 2013 and 2012, 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.

6. 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 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 loading 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. To the extent actual costs differ from the amounts recovered in rates, a regulatory asset or liability is recorded. We expect to make no contribution to our postretirement benefit plan in 2014. Contributions of approximately $1 million were made to the post retirement benefit plan for each of the years ended December 31, 2013 and 2012.

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, 2013	December 31, 2012
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation - beginning of period	$ 59	$ 50
Interest cost	2	2
Participant contributions	1	1
Plan amendments	(19)	—
Actuarial (gain) loss	(3)	10
Benefits paid (a)	(3)	(4)
Accumulated postretirement benefit obligation - end of period	$ 37	$ 59
Change in plan assets:		
Fair value of plan assets - beginning of period	$ 61	$ 56
Actual return on plan assets	8	7
Employer contributions	1	1
Participant contributions	1	1
Benefits paid	(4)	(4)
Fair value of plan assets - end of period	$ 67	$ 61
Reconciliation of funded status:		
Fair value of plan assets	$ 67	$ 61
Less: accumulated postretirement benefit obligation	37	59
Net asset at December 31 (b)	$ 30	$ 2

(a) Amounts shown net of a subsidy of $1 million for the year ended December 31, 2013 and less than $1 million for the year ended December 31, 2012 related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

(b) Net asset amounts are included in "Deferred charges and other assets" in 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, 2013, assets were comprised of domestic equity securities with a fair value of $3 million, a fixed income mutual 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, mutual fund 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. Approximately $21 million of the limited partnership balance is comprised of a non-exchange-traded limited partnership fund, 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, 2012, assets were comprised of an exchange-traded mutual fund with a fair value of $2 million and common/collective trust funds with a fair value of $59 million. The mutual fund invests primarily in dollar-denominated securities, and its fair value (which is considered a Level 1 measurement) is determined based on the price quoted for the fund in actively traded markets. Our common/collective trust funds are invested in approximately 65% equity and 35% fixed income securities, and their fair values (which are considered Level 2 measurements) are 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, 2013 and 2012.

Expected Payment of Future Benefits

As of December 31, 2013, we expect the following benefit payments under our plan (in millions):

Year Ending December 31,	Expected Payments
2014	$ 4
2015	4
2016	3
2017	3
2018	3
2019 - 2023	13

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.

	2013	2012
	(%)	
Assumptions related to benefit obligations at December 31:		
Discount rate	4.17	3.49
Assumptions related to benefit costs for the year ended December 31:		
Discount rate (a)	3.65	4.27
Expected return on plan assets (b)	7.50	7.50

(a) The discount rates related to benefit costs were 4.45% for the period from January 1, 2012 to May 24, 2012 and 4.14% for the period from May 25, 2012 to December 31, 2012.
(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 24% for 2013 and a rate of 22% for 2012.

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 5% by the year 2019. A one-percentage point change would not have a significant effect on interest costs in 2013 or 2012. A one-percentage point change in assumed health care trends would not have a significant effect on the accumulated postretirement benefit obligation as of December 31, 2013 and would have the following effect as of December 31, 2012 (in millions):

	2012
One percentage point increase:	
Accumulated postretirement benefit obligation	$ 6
One percentage point decrease:	
Accumulated postretirement benefit obligation	$ (5)

Components of Net Benefit Income

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

	2013	2012
Interest cost	$ 2	$ 2
Expected return on plan assets	(5)	(4)
Net benefit income	$ (3)	$ (2)

7. Related Party Transactions

Distributions

In January 2014, we paid a cash distribution of $75 million to our Member.

Cash Management Program

We participate in EPB's cash management program which matches our short-term cash surpluses and needs of participating affiliates, thus minimizing our total borrowings from outside sources. EPB uses the cash management program to settle intercompany transactions between participating affiliates. At December 31, 2013 and 2012, we had a note receivable from EPB of approximately $183 million and $215 million, respectively. The interest rate on this note is variable and was 1.9% and 2.0% at December 31, 2013 and 2012, respectively.

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 affiliates under long-term contracts and various operating agreements.

We do not have employees. Employees of KMI and its affiliates provide services to us and our subsidiaries. We are managed and operated by the officers of KMI and its affiliates. Under an omnibus agreement with El Paso Holdco LLC (El Paso) and other policies with KMI and its affiliates, we reimburse KMI and its affiliates without a profit component of various general and administrative services for our benefit and for direct expenses incurred by KMI or its affiliates on our behalf. KMI bills us directly for certain general and administrative costs and allocates a portion of its general and administrative costs to us. Prior to KMI's acquisition of El Paso, we were allocated costs from TGP, our affiliate, associated with our pipeline services. These allocations were based on the estimated level of effort devoted to our operations and the relative size of our earnings before interest expense, gross property and payroll.

The following table summarizes our other affiliate balances on our Consolidated Balance Sheets (in millions):

	December 31,	
	2013	2012
Accounts receivable, net	$ 1	$ 5
Natural gas imbalance receivable (a)	1	—
Accounts payable	—	3
Natural gas imbalance payable (b)	—	2

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

The following table shows overall revenues, expenses and reimbursements from our affiliates for the years ended December 31 (in millions):

	Year Ended December 31,	
	2013	2012
Revenues	$ 8	$ 8
Operation expenses (a)	74	104
Reimbursements of operating expenses	—	1

(a) Includes severance costs of $1 million and $15 million for the years ended December 31, 2013 and 2012, respectively, allocated to us from El Paso as a result of KMI's acquisition of El Paso.

8. Litigation, Environmental and Other Contingencies

Legal Matters

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. As of December 31, 2013 and 2012, our total reserve for legal proceedings amounted to $2 million.

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 filed a petition for damages and injunctive relief in state district court for Orleans Parish, Louisiana (Case No. 13-6911) against us, and approximately one hundred 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. On December 18, 2013, a hearing was conducted on the remand motion and it remains under consideration by the court.

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, 2013 and 2012, we had less than $1 million accrued for our environmental matters.

Other Commitments

Capital Commitments

At December 31, 2013, we had capital commitments of approximately $5 million related to Southeast Supply Header (SESH), all of which will be spent in 2014. We also have commitments for the purchase of plant, property and equipment of $8 million, which we expect to spend during 2014. 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 $8 million at December 31, 2013, most of which are related to storage capacity contracts with our affiliate, Bear Creek, which we expect to spend during 2014.

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, 2013, are as follows (in millions):

Year	Commitment
2014	$ 2
2015	2
2016	2
2017	1
2018	2
Thereafter	21
Total	$ 30

Rent expense on our lease obligations for each of the years ended December 31, 2013 and 2012 was $1 million and $3 million, respectively, 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 our parent, KMI. Our share of the rent expense is approximately 11% of the total KMI obligation.

9. Fair Value

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

	As of December 31,			
	2013		2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	1,210	$1,383	$1,210	$1,494

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, 2013 and 2012, 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, 2013 and 2012, the carrying amounts of cash and cash equivalents, current receivables and payables represent fair values because of the short-term nature of these instruments.

We are exposed to changes in interest income or expense based on changes to the variable interest rate of our interest bearing note receivable from EPB as discussed in Note 7. The fair value of this note approximates its carrying value due to the note being due on demand and the market-based nature of the interest rate.

10. 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, 2013, substantially all of our regulatory assets are being recovered as cost of service in our rates over a period of approximately one year to twenty-eight years. Below are the details of our regulatory assets and liabilities as of December 31 (in millions):

	2013	2012
Current regulatory assets		
Difference between gas retained and gas consumed in operations	$ 2	$ 20
Unamortized loss on sale of assets	13	13
Other	—	1
Total current regulatory assets	15	34
Non-current regulatory assets		
Taxes on capitalized funds used during construction	26	27
Unamortized loss on reacquired debt	20	23
Unamortized loss on sale of assets	10	23
Other	2	2
Total non-current regulatory assets	58	75
Total regulatory assets	$ 73	$ 109
Current regulatory liabilities		
Difference between gas retained and gas consumed in operations	$ 9	$ —
Other	—	1
Total current regulatory liabilities	9	1
Non-current regulatory liabilities		
Postretirement benefits	35	10
Other	7	6
Total non-current regulatory liabilities (a)	42	16
Total regulatory liabilities	$ 51	$ 17

(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. These regulatory asset balances were established to offset the deferred tax for the equity component of the allowance for funds used during the construction of long-lived assets. Taxes on capitalized funds used during construction and the offsetting deferred income taxes are included in the rate base and are recovered over the depreciable lives of the long lived asset to which they relate. These balances were established prior to our conversion to non-taxable entity in 2007.

Unamortized loss on reacquired debt. Amount represents 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. See Note 3 for further discussion regarding our asset divestiture.

Postretirement Benefits. Amount represents unrecognized gains or losses related to our postretirement benefit plan.

Regulatory Assets Amortization

Our amortization of the regulatory assets for 2013 totaled $18 million, which primarily consisted of (i) $12 million of the deferred losses on sale of offshore assets included in "Depreciation and amortization" and (ii) $3 million of the deferred losses on reacquired debt included in "Interest expense, net" on our Consolidated Statement 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.

11. Transactions with Major Customers

For the year ended December 31, 2013, revenues from two non-affiliate customers were approximately $155 million and $104 million, each of which exceeded 10% of our operating revenues. For the year ended December 31, 2012, revenues from three non-affiliate customers were approximately $160 million, $100 million and $59 million, each of which exceeded 10% of our operating revenues.

12. Accounts Receivable Sales Program

We participated in an accounts receivable sales program where we sold receivables in their entirety to a third party financial institution (through a wholly-owned special purpose entity). On June 20, 2012, we terminated the accounts receivable sales program and paid $25 million to the third-party financial institution, which consisted of sales proceeds received up front and servicing fees. The sale of these accounts receivable (which are short-term assets that generally settle within 60 days) qualified for sale accounting. The third party financial institution involved in our accounts receivable sales program acquired interests in various financial assets and issued commercial paper to fund those acquisitions. We did not consolidate the third party financial institution because we did not have the power to control, direct, or exert significant influence over its overall activities since our receivables did not comprise a significant portion of its operations.

In connection with our accounts receivable sales, we received a portion of the sales proceeds up front and received an additional amount upon the collection of the underlying receivables, which we referred to as a deferred purchase price. During 2012, we sold $250 million of accounts receivable to the third-party financial institution, for which we received $140 million of cash up front and had a deferred purchase price of $110 million. We received $123 million of cash when the underlying receivables were collected during 2012. Losses recognized on the sale of accounts receivable were immaterial for the year ended December 31, 2012. There were no deferred purchases as of December 31, 2012 since all balances were settled in June 2012 when the accounts receivable sales programs were terminated.

Because the cash received up front and the deferred purchase price related to the sale or ultimate collection of the underlying receivables, and were not subject to significant other risks given their short term nature, we reflected all cash flows under the accounts receivable sales program as “Cash Provided by Operating Activities” on our Statements of Cash Flows. Under the accounts receivable sales program, we serviced the underlying receivables for a fee. The fair value of these servicing agreements, as well as the fees earned, were not material to our financial statements for the year ended December 31, 2012.