CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report

TENNESSEE GAS PIPELINE COMPANY, L.L.C.

As of December 31, 2015 and 2014 and
For the Years Ended December 31, 2015 and 2014

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Independent Auditor's Report

To the Management of Tennessee Gas Pipeline, L.L.C.:

We have audited the accompanying consolidated financial statements of Tennessee Gas Pipeline, L.L.C. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, of member's equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated 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 Tennessee Gas Pipeline, L.L.C. and its subsidiary as of December 31, 2015 and 2014, 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 extensive operations and relationships with affiliated entities. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Houston, Texas
April 18, 2016

TENNESSEE GAS PIPELINE COMPANY, L.L.C. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In Millions)

	Year Ended December 31,	
	2015	**2014**
Revenues	$ 1,240	$ 1,193
Operating Costs and Expenses		
Operations and maintenance	238	232
Depreciation and amortization	186	178
General and administrative	64	63
Taxes, other than income taxes	67	61
(Gain) loss on sale of long-lived assets	(1)	4
Total Operating Costs and Expenses	554	538
Operating Income	686	655
Other Income (Expense)		
Earnings from equity investment	9	12
Interest, net	(139)	(138)
Other, net	17	13
Total Other Income (Expense)	(113)	(113)
Income Before Income Taxes	573	542
Income Tax Expense	(1)	(1)
Net Income	572	541
Other Comprehensive Loss		
Adjustments to postretirement benefit plan	(12)	(1)
Comprehensive Income	$ 560	$ 540

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

TENNESSEE GAS PIPELINE COMPANY, L.L.C. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In Millions)

	December 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ —
Accounts receivable, net	141	124
Inventories	45	46
Regulatory assets	19	20
Natural gas imbalance receivable	11	82
Total current assets	216	272
Property, plant and equipment, net	4,949	4,428
Goodwill	3,250	3,252
Note receivable from affiliate	3	—
Investment	61	61
Regulatory assets	245	254
Deferred charges and other assets	332	374
Total Assets	$ 9,056	$ 8,641
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 176	$ 178
Accrued interest	32	32
Accrued taxes, other than income taxes	32	28
Regulatory liabilities	17	30
Customer deposits	15	16
Natural gas imbalance payable	8	19
Other current liabilities	33	9
Total current liabilities	313	312
Long-term liabilities and deferred credits		
Long-term debt	1,790	1,790
Debt fair value adjustments	292	330
Notes payable to affiliates	83	1
Other long-term liabilities and deferred credits	35	45
Total long-term liabilities and deferred credits	2,200	2,166
Total Liabilities	2,513	2,478
Commitments and contingencies (Notes 2 and 9)		
Member’s Equity		
Member's equity	6,550	6,158
Accumulated other comprehensive (loss) income	(7)	5
Total Member’s Equity	6,543	6,163
Total Liabilities and Member’s Equity	$ 9,056	$ 8,641

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

TENNESSEE GAS PIPELINE COMPANY, L.L.C. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	Year Ended December 31,	
	2015	**2014**
Cash Flows From Operating Activities		
Net income	$ 572	$ 541
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	186	178
Earnings from equity investment	(9)	(12)
(Gain) loss on sale of long-lived assets	(1)	4
Other non-cash items	(11)	—
Distributions from equity investment earnings	9	11
Changes in components of working capital:		
Accounts receivable	(16)	(1)
Accounts payable	(2)	15
Regulatory liabilities	(14)	25
Other current assets and liabilities	68	(26)
Other long-term assets and liabilities	(49)	(16)
Net Cash Provided by Operating Activities	733	719
Cash Flows From Investing Activities		
Capital expenditures	(613)	(314)
Net change in note receivable from affiliate	(4)	—
Sale or disposal of property, plant and equipment, net of salvage	(13)	(33)
Other, net	(6)	(3)
Net Cash Used in Investing Activities	(636)	(350)
Cash Flows From Financing Activities		
Contributions from Member	611	290
Distributions to Member	(791)	(637)
Net change in notes payable to affiliates	83	(22)
Net Cash Used in Financing Activities	(97)	(369)
Net Change in Cash and Cash Equivalents	—	—
Cash and Cash Equivalents, beginning of period	—	—
Cash and Cash Equivalents, end of period	$ —	$ —
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest (net of capitalized interest)	$ 136	$ 135

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

TENNESSEE GAS PIPELINE COMPANY, L.L.C. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
(In Millions)

	Year Ended December 31,	
	2015	**2014**
Beginning Balance	$ 6,163	$ 5,970
Net income	572	541
Contributions	611	290
Distributions	(791)	(637)
Other comprehensive loss	(12)	(1)
Ending Balance	$ 6,543	$ 6,163

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

TENNESSEE GAS PIPELINE COMPANY, L.L.C. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

We are a Delaware limited liability company, originally formed in 1947 as a corporation. When we refer to "us," "we," "our," "ours," "the Company," or "TGP," we are describing Tennessee Gas Pipeline Company, L.L.C. and its consolidated subsidiary. 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.

Our primary business consists of the interstate transportation and storage of natural gas. Our natural gas pipeline system consists of approximately 11,800 miles of pipeline with a design capacity of approximately 9.74 billion cubic feet per day for natural gas. This multiple-line system begins in the natural gas producing regions of Louisiana, the Gulf of Mexico and south Texas and extends to the northeast region of the United States (U.S.), including the metropolitan areas of New York City and Boston. Our system connects with multiple pipelines (including interconnects at the U.S. and Mexico border and the U.S. and Canada border) that provide customers with access to diverse sources of supply and various natural gas markets. Our system is also connected to four major shale formations, providing customers with access to diverse resources of supply and various natural gas markets. Along our pipeline system, we have 99 billion cubic feet of underground working natural gas storage capacity through partially owned facilities or long-term contracts. Of this total storage capacity, 29.6 billion cubic feet is contracted from Bear Creek Storage Company, L.L.C. (Bear Creek) located in Bienville Parish, Louisiana. Bear Creek is a joint venture equally owned by us and Southern Natural Gas Company, L.L.C. (SNG), an affiliate. The facility has 59.2 billion cubic feet of working natural gas storage capacity that is committed equally to SNG and us.

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 Generally Accepted Accounting Principles (GAAP) and referred to in this report as the Codification. Additionally, certain amounts from the prior year have been reclassified to conform to the current presentation.

Management has evaluated subsequent events through April 18, 2016, the date the financial statements were available to be issued.

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. All significant intercompany items have been eliminated in consolidation.

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 assets and liabilities, our revenues and expenses during the reporting period, and our disclosures, including as it relates to 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, and set out below are the principal accounting policies we apply in the preparation of our consolidated financial statements.

Cash Equivalents

We define cash equivalents as all highly liquid short-term investments with original maturities of three months or less.

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, 2015 and 2014 was 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 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 made up in-kind, subject to the terms of the applicable FERC tariff. Imbalances due from customers and affiliates are reported on our accompanying Consolidated Balance Sheets in "Natural gas imbalance receivable." Imbalances owed to customers and affiliates are reported on our accompanying Consolidated Balance Sheets in "Natural gas imbalance payable." We classify all imbalances as current as we expect to settle them within a year.

Property, Plant and Equipment, net

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 construction costs. Our indirect construction costs primarily include an interest and equity return component (as more fully described below) and labor and related costs 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 the salvage value. For certain general plant, the asset is depreciated to zero. As a part of periodic filings with the FERC, we also re-evaluate and receive approval for our depreciation 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 salvage value. We do not recognize gains or losses unless we sell land or sell or retire an entire operating unit, (as approved by the FERC). 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. For more information on our regulatory asset that we recorded associated with the sale of certain of our assets, see Note 8.

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 accompanying Consolidated Statements of Income and Comprehensive Income or defer the loss as a regulatory asset on our accompanying Consolidated Balance Sheets 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 in "Interest, net" on our accompanying Consolidated Statements of Income and Comprehensive 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 accompanying Consolidated Statements of Income and Comprehensive Income. For more information on our AFUDC, see Note 3.

Asset Retirement Obligations (ARO)

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 ARO 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 ARO for the substantial majority of our assets because these assets have indeterminate lives. We continue to evaluate our ARO, and future developments could impact the amounts we record. For more information on our ARO, see Note 3.

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 market conditions or 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 future cash flows. There were no significant impairments for the years ended December 31, 2015 and 2014.

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 cost, 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.

Goodwill

Goodwill represents the excess of the cost of an acquisition price over the fair value of acquired net assets, and such amounts are reported separately in "Goodwill" on our accompanying Consolidated Balance Sheets. Our total goodwill, which resulted from the application of "push-down" accounting associated with KMI's acquisition of El Paso Corporation (El Paso) on May 25, 2012, was \$3,250 million and \$3,252 million as of December 31, 2015 and 2014, respectively. Goodwill is not amortized, but instead is tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value.

We perform our goodwill impairment test on May 31 of each year. There were no impairment charges resulting from our May 31, 2015 impairment testing and no event indicating an impairment has occurred subsequent to May 31, 2015.

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 services 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, 2015 and 2014.

For the year ended December 31, 2015, revenue from our largest non-affiliate customer was approximately $132 million, which exceeded 10% of our operating revenues.

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 accrue and expense environmental costs that relate to an existing condition caused by past operations. 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 matters, see Note 9.

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 that we have made contributions to in the past. These contributions are invested until the benefits are paid out to plan participants. The net benefit cost of the plan is recorded on our accompanying Consolidated Statements of Income and Comprehensive 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 more information on our policies with respect to our postretirement benefit plan, 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 on our accompanying Consolidated Balance Sheets in “Accumulated other comprehensive (loss) income” until those gains or losses are recognized on our accompanying Consolidated Statements of Income and Comprehensive Income.

Income Taxes

We are a limited liability company and are not subject to either federal income taxes or state income taxes. Our member is responsible for income taxes on its 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 presented as “Income Tax Expense” on our accompanying Consolidated Statements of Income and Comprehensive 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 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 losses on reacquired debt, losses on 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, and certain cost differences between gas retained and gas consumed in operations and other costs included in, or expected to be included in, future rates. For more information on our regulatory operations, see Note 8.

3. Property, Plant and Equipment, net

Classes and Depreciation Rates

Our property, plant and equipment, net consisted of the following (in millions, except for %):

	Annual Depreciation Rates %	December 31, 2015	December 31, 2014
Transmission and storage facilities	1.2 - 6.67	$ 4,652	$ 4,283
General plant	3.1 - 24	159	160
Intangible plant	3.1 - 14	96	99
Other		75	29
Accumulated depreciation and amortization(a)		(463)	(314)
		4,519	4,257
Land		10	11
Construction work in progress		420	160
Property, plant and equipment, net		$ 4,949	$ 4,428

(a) The composite weighted average depreciation rate for both years ended December 31, 2015 and 2014 was approximately 3.8%.

Capitalized Costs During Construction

	Year Ended December 31, 2015	Year Ended December 31, 2014
	(in millions)	
AFUDC - debt	$ 6	$ 2
AFUDC - equity	15	4

ARO

We have legal obligations associated with the retirement of our natural gas pipeline, transmission facilities and storage wells. We have obligations to plug storage wells when we no longer plan to use them and when we abandon them. Our legal obligations associated with our natural gas transmission facilities primarily involve purging, sealing and possibly removing the facilities if they are abandoned. We also have obligations to remove hazardous materials associated with our natural gas transmission facilities if they are ever demolished or replaced.

Where we can reasonably estimate the ARO, we accrue a liability based on an estimate of the timing and amount of settlement. Current obligations are measured at the expected cost to complete the asset retirements. We record changes in these estimates based on changes in the expected amount and timing of payments to settle our obligations.

The net ARO reported on our accompanying Consolidated Balance Sheets in "Other long-term liabilities and deferred credits", and the changes in the net liability for each of the periods presented below were as follows (in millions):

	Year Ended December 31,	
	2015	2014
Beginning balance	$ 1	$ 19
Liabilities settled	—	(8)
Changes in estimate	—	(10)
Ending balance(a)	$ 1	$ 1

(a) As of December 31, 2015 and 2014, there were no current portions of ARO.

4. Debt

The following table summarizes the net carrying value of our outstanding debt, excluding debt fair value adjustments (in millions):

	December 31,	
	2015	2014
8.0% Notes due February 2016(a)	$ 250	$ 250
7.5% Debentures due April 2017	300	300
7.0% Debentures due March 2027	300	300
7.0% Debentures due October 2028	400	400
8.375% Notes due June 2032	240	240
7.625% Debentures due April 2037	300	300
Total debt	$ 1,790	$ 1,790

(a) As of December 31, 2015, we included $250 million of our 8.0% senior notes due February 2016 within the caption "Long-term debt" on our consolidated Balance Sheets because we repaid this debt using proceeds received from a long-term promissory note with KMI. For more information, see Note 6.

KMI and substantially all of its domestic subsidiaries, including us, are a party to a cross guarantee agreement whereby each party to the agreement unconditionally guarantees, jointly and severally, the payment of specified indebtedness of each other party to the agreement.

Debt Covenants

Under our various financing documents, we are subject to a number of restrictions and covenants. The most restrictive of these include limitations on the incurrence of liens and limitations on sale-leaseback transactions. For the years ended December 31, 2015 and 2014, we were in compliance with our debt-related covenants.

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 certain 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 retirees. Medical benefits for this closed group 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. In addition, certain former employees continue to receive limited postretirement life insurance benefits. Our postretirement benefit plan costs were prefunded and were recoverable under prior rate case settlements. Currently, there is no cost recovery or related funding that is required as part of our current FERC approved rates, however, we can seek to recover any funding shortfall that may be required in the future. We do not expect to make any contributions to our postretirement benefit plan in 2016 and there were no contributions made in 2015 and 2014. KMI's postretirement plans have been merged. We are permitted to use combined plan assets under the structure of the plans of our affiliated entities to fund participant benefits, including participants of affiliated entities.

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. For 2015, we selected 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.

Effective January 1, 2016, we changed our estimate of the service and interest cost components of net periodic benefit cost (credit) for our other postretirement benefit plan. The new estimate utilizes a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to their underlying projected cash flows. The new estimate provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and their corresponding spot rates. The change does not affect the measurement of our postretirement benefit obligation and it is accounted for as a change in accounting estimate, which is applied prospectively. The change in the service and interest costs going forward will not be significant.

In accounting for our postretirement benefit plan, we record an asset based on its overfunded status. Any deferred amounts related to unrecognized gains and losses or changes in actuarial assumptions are recorded in "Accumulated other comprehensive (loss) income" until those gains and losses are recognized on our accompanying Consolidated Statements of Income and Comprehensive Income.

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

	December 31,	
	2015	2014
Change in postretirement benefit obligation:		
Postretirement benefit obligation - beginning of period	$ 14	$ 15
Interest cost	—	1
Benefits paid(a)	(1)	(1)
Actuarial gain	—	(1)
Postretirement benefit obligation - end of period	$ 13	$ 14
Change in plan assets:		
Fair value of plan assets - beginning of period	$ 54	$ 52
Actual return on plan assets	(9)	2
Employer contributions/transfers	—	1
Benefits paid	(1)	(1)
Fair value of plan assets - end of period	$ 44	$ 54
Reconciliation of funded status:		
Fair value of plan assets	$ 44	$ 54
Less: postretirement benefit obligation	13	14
Net asset at December 31(b)	$ 31	$ 40

(a) Amounts shown are net of a subsidy of less than $1 million for each of the years ended December 31, 2015 and 2014 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 accompanying Consolidated Balance Sheets.

Components of Accumulated Other Comprehensive (Loss) Income

The amount recognized in "Accumulated other comprehensive (loss) income" as of December 31, 2015 and 2014 of $(7) million and $5 million, respectively, is primarily related to unrecognized (losses) and gains. We anticipate that less than $1 million of "Accumulated other comprehensive income" will be recognized as part of our net periodic benefit income in 2016.

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 the targeted allocations, the target allocations of our postretirement plan's assets are 30% equity, 30% fixed income and 40% master limited partnerships.

We use various methods to determine the fair values of the assets in our postretirement benefit plan, which is impacted by a number of factors, including the availability of observable market data over the contractual term of the underlying assets. Generally, 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, 2015, assets were comprised of a money market fund with a fair value of $1 million, domestic equity securities with a fair value of $1 million and master limited partnerships with a fair value of $10 million. As of December 31, 2014, assets were comprised of domestic equity securities with a fair value of $5 million and master limited partnerships with a fair value of $15 million. Money market funds are valued at amortized cost, which approximates fair value (which is considered a Level 2 measurement). The domestic equity securities and the master limited partnerships 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. In 2015, we adopted Accounting Standards Update (ASU) No. 2015-07, *"Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)."* This ASU removes the requirement to include investments in the fair value hierarchy for which the fair value is measured at Net Asset Value (NAV) using the practical expedient under Topic 820. Plan assets with fair values that are based on NAV per share, or its equivalent, as reported by the issuers, are determined based on the fair value of the underlying securities as of the valuation date and include fixed income trusts and limited partnerships which are primarily invested in global equity securities. The fair value of the fixed income trusts as of December 31, 2015 and 2014 is $15 million. The fair value of the limited partnerships as of December 31, 2015 and 2014 is $17 million and $19 million, respectively. 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, and there have been no changes in the methodologies used as of December 31, 2015 and 2014.

Expected Payment of Future Benefits

As of December 31, 2015, we expect the following benefit payments under our plan (in millions):

Year	Total
2016	$ 1
2017	1
2018	1
2019	1
2020	1
2021 - 2025	4

Actuarial Assumptions and Sensitivity Analysis

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 obligations and net benefit costs.

	2015	2014
	(%)	
Assumptions related to benefit obligations at December 31:		
Discount rate	3.84	3.45
Assumptions related to benefit costs for the year ended December 31:		
Discount rate	3.45	4.05
Expected return on plan assets(a)	7.25	7.60

(a) 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% for both 2015 and 2014.

Actuarial estimates for our postretirement benefit plan assumed a weighted average annual rate of increase in the per capita costs of covered health care benefits of 7.4%, gradually decreasing to 4.5% by the year 2038. A one-percentage point change in assumed health care trends would not have had a significant effect on the postretirement benefit obligation or interest costs for the years ended December 31, 2015 and 2014.

Components of Net Benefit Income

The components of net benefit costs (income) are as follows (in millions):

	Year Ended December 31,	
	2015	2014
Interest cost	$ —	$ 1
Expected return on plan assets	(3)	(3)
Amortization of prior service credit	—	(1)
Net benefit income	$ (3)	$ (3)

6. Related Party Transactions

Construction Management Agreements (CMA) and Lease and Operating Agreements (LOA)

On November 24, 2014, we entered into a CMA and a LOA with Northeast Expansion LLC (Northeast Expansion), an affiliate, to develop, construct, lease and operate certain pipeline facilities (Market Project), and on December 14, 2015, we entered into a CMA and an LOA with Northeast Supply Pipeline LLC (Northeast Supply), an affiliate, to develop, construct, lease and operate certain other pipeline facilities (Supply Project). Pursuant to each CMA and LOA, Northeast Expansion and Northeast Supply will own and fund the Market Project and Supply Project, respectively, and we will lease the facilities and act as the construction manager. The term of each CMA ends when the applicable assets are placed into service. Under the provisions of the LOAs, which commence upon the in service date of each of the Market Project and Supply Project and extends for a period of 99 years, we will lease and operate the applicable pipeline facilities. We will be reimbursed by Northeast Expansion and Northeast Supply for operations and maintenance services pursuant to the LOAs.

In the event either or both of Northeast Expansion or Northeast Supply elect to not continue developing or otherwise cancel the Market Project or Supply Project, respectively, Northeast Expansion and/or Northeast Supply may terminate the applicable CMAs and LOAs at their discretion. If these agreements are terminated, our obligation under the Affiliate Notes described below would also be terminated, our obligations will be deemed satisfied in full, and the costs incurred to date on the applicable project will be derecognized along with the Affiliate Notes.

Affiliate Notes

Cash Management Program

We participate in KMI's cash management program, which matches short-term cash surpluses and needs of participating affiliates, thus minimizing total borrowings from outside sources. KMI uses the cash management program to settle intercompany transactions between participating affiliates. As of December 31, 2015 and 2014, we had a note receivable of $3 million and note payable of $1 million with KMI, respectively. The interest rate on the note was variable and was 1.0% and 1.5% as of December 31, 2015 and 2014, respectively.

Other Affiliate Notes

On November 24, 2014, we entered into a Construction Loan Agreement with Northeast Expansion, and on December 14, 2015, we entered into a Construction Loan Agreement with Northeast Supply. The interest rate on the outstanding principal amount of advances received from each of Northeast Expansion and Northeast Supply is 10.9%, subject to adjustments to equal our AFUDC rate, and interest payments are due quarterly during the development and construction period of the applicable pipeline facilities. Satisfaction of the loans by us will occur at time the Market Project or Supply Project, respectively, are placed into service through the lease payment by us to Northeast Expansion and/or Northeast Supply. As noted above, to the extent the CMAs and LOAs are terminated by either or both of Northeast Expansion or Northeast Supply, the notes will also be terminated, and our obligations will be deemed satisfied in full and derecognized. As of December 31, 2015, our note payable balance to Northeast Expansion was $83 million.

Other Affiliate Balances and Activities

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 contracts and various operating agreements.

We do not have employees. Employees of KMI provide services to us. We are managed and operated by KMI. Under policies with KMI, we reimburse KMI without a profit component for the provision of various general and administrative services for our benefit and for direct expenses incurred by KMI on our behalf. Additionally, KMI bills us directly for certain general and administrative costs and 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,	
	2015	2014
Accounts receivable	$ 6	$ 16
Accounts payable	1	62

The following table shows revenues and costs from our affiliates (in millions):

	Year Ended December 31,	
	2015	2014
Revenues	$ 4	$ 4
Operation, maintenance and capitalized costs	142	113
General and administrative	56	54

Subsequent Events

On February 1, 2016, we entered into a $250 million promissory note agreement, due February 1, 2019, with KMI. Borrowings under this note agreement bear an annual interest rate of 4.75% and may be prepaid in whole or in part at any time, and from time-to-time, without premium or penalty. Proceeds from this note were used to repay our $250 million, 8.0% Notes, due February 2016.

In March 2016, we made a cash distribution to our Member of $205 million and received a capital contribution from our Member of $64 million.

7. Fair Value

The following table reflects the carrying amount and estimated fair value of our outstanding debt balances (in millions):

	As of December 31,			
	2015		2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Total debt(a)	$ 2,082	$ 1,741	$ 2,120	$ 2,169

(a) As of December 31, 2015 and 2014, carrying amounts include $292 million and $330 million, respectively, of unamortized excess fair value adjustment resulting from the application of “push-down” accounting associated with KMI’s acquisition of El Paso on May 25, 2012.

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 estimated 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, 2015 and 2014, 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 are classified.

As of December 31, 2015 and 2014, the carrying amounts of our affiliate notes receivable and payable approximates its fair value due to the nature of the interest rate.

8. 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, 2015, substantially all of our regulatory assets are being recovered as cost of service in our rates over a period of approximately one year to 23 years.

Below are the details of our regulatory assets and liabilities (in millions):

	December 31, 2015	December 31, 2014
Current regulatory assets		
Unamortized loss on sale of assets	$ 10	$ 10
Other	9	10
Total current regulatory assets	19	20
Non-current regulatory assets		
Taxes on capitalized funds used during construction	46	47
Unamortized loss on reacquired debt	11	15
Unamortized loss on sale of assets	168	184
Other	20	8
Total non-current regulatory assets	245	254
Total regulatory assets	$ 264	$ 274
Current regulatory liabilities		
Difference between gas retained and gas consumed in operations	$ 9	$ 22
Other	8	8
Total current regulatory liabilities	17	30
Non-current regulatory liabilities		
Environmental	6	6
Property and plant retirements	16	18
Total non-current regulatory liabilities(a)	22	24
Total regulatory liabilities	$ 39	$ 54

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

Our significant regulatory assets and liabilities include:

Unamortized loss on sale of assets

Amount represents the deferred and unamortized portion of losses on our sale of assets. We expect to recover this loss through our jurisdictional natural gas transportation rates.

Taxes on capitalized funds used during construction

These regulatory asset balances were established to offset the deferred tax for the equity component of the AFUDC capitalized in 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 on our pipeline prior to our conversion to a non-taxable entity.

Unamortized loss on reacquired debt

Amount represents the deferred and unamortized portion of losses 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.

Difference between gas retained and gas consumed in operations

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

Environmental

Includes amounts collected, substantially in excess of certain PCB environmental remediation costs incurred to date, through a surcharge to our customers under a settlement approved by the FERC in November of 1995. This environmental liability was not deducted from the rate base on which we are allowed to earn a return.

Property and plant retirements

Amount represents the deferral of customer-funded amounts for costs of future asset retirements.

Regulatory Assets Amortization

Our amortization of the regulatory assets for both 2015 and 2014 was $19 million, which for both periods primarily consisted of (i)deferred losses on sale of assets included in "Depreciation and amortization" of $10 million and (ii) deferred losses on reacquired debt included in "Interest, net" of $3 million on our accompanying Consolidated Statements of Income and Comprehensive Income.

Regulatory Matter

On July 1, 2015, the FERC approved our settlement with our customers that resolved all matters relating to our rates. The settlement includes a phased reduction in rates, beginning with a three percent reduction from our currently effective rates, effective on November 1, 2015. The settlement also provides for subsequent rate reductions of an additional two percent as of November 1, 2018, and if certain conditions are met, two additional rate reductions of one percent as of November 1, 2020 and November 1, 2022. The settlement prohibits both us and our customers from requesting a change to our rates during a four-year moratorium period until November 1, 2019. The settlement does not require us to file a new rate case in the future, but provides that we will file cost-revenue studies on November 1, 2021 and on November 1, 2024, to provide shippers and the FERC an opportunity to evaluate our rates if a Natural Gas Act Section 4 or Section 5 proceeding has not already been initiated. The settlement also provided for rate refunds to non-contesting parties, to the extent the effective date of the settlement fell after November 1, 2015. On October 8, 2015, the FERC approved our compliance filing to implement the terms of the settlement effective November 1, 2015. As such, no refunds were required pursuant to the settlement.

9. Litigation, Environmental and Commitments

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 the Company. 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 the Company. 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 Proceeding

Plains Gas Solutions, LLC v. Tennessee Gas Pipeline Company, L.L.C. et al

On October 16, 2013, Plains Gas Solutions, LLC (Plains) filed a petition in the 151st Judicial District Court for Harris County, Texas (Case No. 62528) against us, Kinetica Partners, LLC and two other Kinetica entities. The suit arises from the sale of the Cameron System in Louisiana to Kinetica Partners, LLC on September 1, 2013. Plains alleges that defendants breached a straddle agreement requiring that gas on the Cameron System be committed to Plains' Grand Chenier gas-processing facility, that requisite daily volume reports were not provided, that we improperly assigned our obligations under the straddle agreement to Kinetica, and that defendants interfered with Plains' contracts with producers. The petition alleges damages of at least $100 million. Under the Amended and Restated Purchase and Sale Agreement with Kinetica, Kinetica is obligated to defend and indemnify us in connection with the gas commitment and reporting claims. After agreeing initially to defend and indemnify us against such claims, Kinetica withdrew its defense and disputed its indemnity obligation. We intend to vigorously defend the suit and pursue Kinetica, if necessary, for indemnity and costs of defense.

General

As of December 31, 2015 and 2014, we had approximately $4 million and $7 million, respectively, accrued for our outstanding legal proceedings.

Environmental Matters

We are subject to environmental cleanup and enforcement actions from time to time. In particular, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) generally imposes joint and several liability for cleanup and enforcement costs on current and predecessor owners and operators of a site, among others, without regard to fault or the legality of the original conduct, subject to the right of a liable party to establish a "reasonable basis" for apportionment of costs. Our operations are also 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 SLFPA 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 February 13, 2015, the Court granted defendants' motion to dismiss the suit for failure to state a claim, and issued an order dismissing the SLFPA's claims with prejudice. The SLFPA filed a notice of appeal on February 20, 2015. On February 29, 2016, the U.S. Court of Appeals for the Fifth Circuit heard oral argument, and we await the court's decision.

Plaquemines Parish Louisiana Coastal Zone Litigation

On November 8, 2013, the Parish of Plaquemines, Louisiana filed a petition for damages in the state district court for Plaquemines Parish, Louisiana (Docket No. 60-999) against us and 17 other energy companies, alleging that defendants' oil and gas exploration, production and transportation operations in the Bastian Bay, Buras, Empire and Fort Jackson oil and gas fields of Plaquemines Parish caused substantial damage to the coastal waters and nearby lands (Coastal Zone) within the Parish, including the erosion of marshes and the discharge of oil waste and other pollutants which detrimentally affected the quality of state waters and plant and animal life, in violation of the State and Local Coastal Resources Management Act of 1978 (Coastal Zone Management Act). As a result of such alleged violations of the Coastal Zone Management Act, Plaquemines Parish seeks, among other relief, unspecified monetary relief, attorney fees, interest, and payment of costs necessary to restore the allegedly affected Coastal Zone to its original condition, including costs to clear, vegetate and detoxify the Coastal Zone. In connection with this suit we have made two tenders for defense and indemnity: (1) to Anadarko, as successor to the entity that purchased our oil and gas assets in Bastian Bay, and (2) to Kinetica, which purchased our pipeline assets in Bastian Bay in 2013. Anadarko has accepted our tender (limited to oil and gas assets), and Kinetica rejected our tender. We responded to Kinetica by reasserting our demand for defense and indemnity and reserving our rights. On November 12, 2015, the Plaquemines Parish Council adopted a resolution directing its legal counsel in all its Coastal Zone cases to take all actions necessary to cause the dismissal of all such cases. By the end of 2015, the Parish's legal counsel had not taken any action to dismiss the cases, and the defendants in the cases, including us in the instant case, filed motions to dismiss on the basis of the Parish Council's November 12, 2015 resolution. After the filing of the motions to dismiss, the Louisiana Department of Natural Resources and Attorney General filed petitions in intervention. On April 14, 2016, the Parish Council passed a resolution rescinding its November 12, 2015 resolution that had directed its counsel to dismiss the Coastal Zone cases. This action renders moot our pending motion to dismiss. We intend to continue to vigorously defend the suit.

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 CERCLA, commonly known as Superfund, or state equivalents for three active sites. 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 and our subsidiary are a party, will not have a material adverse effect on our business, financial position, results of operations or cash flows. As of December 31, 2015 and 2014, we had approximately $8 million and $9 million, respectively, accrued for our environmental matters.

We expect to make payments for our remediation activities of approximately $6 million in the aggregate for the next 26 years, most of which will be expended under government directed clean-up plans. In addition, we expect to make capital expenditures for environmental matters of approximately $48 million in the aggregate for the years 2016 through 2020, including capital expenditures associated with air permitting and compliance at the state and federal level.

Commitments

Capital Commitments

As of December 31, 2015, we have commitments for purchases of plant, property and equipment of $173 million, which we expect to spend during 2016. 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 Commitments

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. Our obligations under these easements are not material to our results of operations.

Purchase Obligations

We have entered into unconditional purchase obligations primarily for transportation, storage and other services, totaling $383 million as of December 31, 2015. Our annual obligations under these purchase obligations are $45 million in 2016, $39 million in 2017, $35 million in 2018, $31 million in 2019, $31 million in 2020, and $202 million in total thereafter.

Operating Leases

We lease property, facilities and equipment under various operating leases. Future minimum annual rental commitments under our operating leases as of December 31, 2015 are less than $1 million in 2016 and each year thereafter.

Rental expense on our lease obligations for the years ended December 31, 2015 and 2014 was approximately $2 million and $1 million, respectively, and is reflected in "Operations and maintenance" on our accompanying Consolidated Statements of Income and Comprehensive Income.

10. Recent Accounting Pronouncement

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 us

January 1, 2018. Early adoption is permitted for the interim periods within the adoption year. We are currently reviewing the effect of ASU No. 2014-09 on our revenue recognition and assessing the timing of our adoption.