TENNESSEE GAS PIPELINE COMPANY, L.L.C.

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Reports

As of December 31, 2013 and 2012,
for the Year Ended December 31, 2013
and the periods of January 1, 2012 to May 24, 2012,
and May 25, 2012 to December 31, 2012

TENNESSEE GAS PIPELINE COMPANY, L.L.C. AND SUBSIDIARIES
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Report of Independent Auditors

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

In our opinion, the accompanying consolidated statements of income and of comprehensive income, of member's equity and of cash flows for the period from January 1, 2012 to May 24, 2012, present fairly, in all material respects, the results of operations and cash flows of Tennessee Gas Pipeline Company, L.L.C. and its subsidiaries (the "Predecessor Company") for the period from January 1, 2012 to May 24, 2012, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Predecessor Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, in connection with the acquisition of El Paso Corporation by Kinder Morgan, Inc., a new basis of accounting was established as of May 25, 2012.

PricewaterhouseCoopers LLP

April 26, 2013

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Tennessee Gas Pipeline Company, L.L.C. and its subsidiaries (the "Successor Company"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012 and the related consolidated statements of income and comprehensive income, of member's equity and of cash flows for the year ended December 31, 2013 and for the period from May 25, 2012 to December 31, 2012.

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 Successor 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 Successor 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 Successor Company at December 31, 2013 and 2012 and the results of their operations and their cash flows for the year ended December 31, 2013 and for the period from May 25, 2012 to December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 2 to the **c**onsolidated financial statements, in connection with the acquisition of El Paso Corporation by Kinder Morgan, Inc., a new basis of accounting was established as of May 25, 2012. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

April 18, 2014

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

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Revenues	$ 1,058	$ 602	$ 414
Operating Costs and Expenses			
Operations and maintenance	298	228	154
(Gain) loss on sale of fixed assets	(36)	—	125
Depreciation and amortization	167	101	83
Taxes, other than income taxes	55	29	24
Total Operating Costs and Expenses	484	358	386
Operating Income	574	244	28
Other Income (Expense)			
Earnings from equity investment	12	8	5
Interest expense, net	(134)	(79)	(55)
Affiliated interest income, net	—	4	5
Other, net	14	6	3
Total Other Income (Expense)	(108)	(61)	(42)
Income (Loss) Before Income Taxes	466	183	(14)
Income Tax (Expense) Benefit	(1)	(1)	5
Net Income (Loss)	465	182	(9)
Other Comprehensive Income			
Adjustments to postretirement benefit plan	3	3	—
Comprehensive Income (Loss)	$ 468	$ 185	$ (9)

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

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

	Successor	
	December 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ 6
Accounts receivable, net	123	102
Note receivable from affiliate, net	40	35
Inventories	47	48
Assets held for sale	—	32
Regulatory assets	17	14
Natural gas imbalance receivable	53	7
Other current assets	1	6
Total current assets	281	250
Property, plant and equipment, net	4,291	3,865
Goodwill	3,253	3,249
Note receivable from affiliate	—	79
Investment	60	58
Regulatory assets	258	188
Deferred charges and other assets	419	433
Total Assets	$ 8,562	$ 8,122
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 204	$ 88
Accrued taxes, other than income	27	24
Contractual deposits	22	17
Asset retirement obligations	18	21
Accrued interest	32	32
Other current liabilities	26	15
Total current liabilities	329	197
Long-term liabilities and deferred credits		
Long-term debt	1,790	1,790
Debt fair value adjustments	366	401
Note payable to affiliate	63	—
Other long-term liabilities and deferred credits	44	47
Total Liabilities	2,592	2,435
Commitments and contingencies (Notes 2 and 10)		
Member's Equity	5,964	5,684
Accumulated other comprehensive income	6	3
Total Member’s Equity	5,970	5,687
Total Liabilities and Member’s Equity	$ 8,562	$ 8,122

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

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

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Cash Flows From Operating Activities			
Net income (loss)	$ 465	$ 182	$ (9)
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	167	101	83
Deferred income tax expense	—	10	(5)
Earnings from equity investment	(12)	(8)	(5)
Distributions from equity investment	10	6	6
(Gain) loss on sale of fixed assets	(36)	—	125
Other	(6)	(5)	(1)
Changes in components of working capital:			
Accounts receivable	(21)	(56)	48
Accounts payable	33	37	(65)
Accrued taxes	(2)	(38)	(3)
Regulatory liabilities	3	(3)	(40)
Other current assets and liabilities	(27)	(7)	(48)
Other long-term assets and liabilities	32	2	1
Net Cash Provided by Operating Activities	606	221	87
Cash Flows From Investing Activities			
Capital expenditures	(560)	(131)	(94)
Net change in note receivable from affiliate	114	(96)	11
Proceeds from sale of assets	31	17	—
Costs from disposal of property, plant and equipment, net of salvage	(38)	(11)	(3)
Other	3	3	2
Net Cash Used in Investing Activities	(450)	(218)	(84)
Cash Flows From Financing Activities			
Contributions from Member	325	—	—
Distributions to Member	(510)	—	—
Net change in note payable to affiliate	23		
Net Cash Used in Financing Activities	(162)	—	—
Net (decrease) increase in Cash and Cash Equivalents	(6)	3	3
Cash and Cash Equivalents, beginning of period	6	3	—
Cash and Cash Equivalents, end of period	$ —	$ 6	$ 3

Non-cash Investing Activities						
Increase (decrease) in property, plant and equipment accruals and contractor retainage	$	59	$	—	$	(21)
Supplemental Cash Flow Information						
Cash paid during the period for interest (net of capitalized interest)	$	129	$	75	$	56
Income tax payments		—		11		—

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

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

	Member's Equity	Accumulated Other Comprehensive Income	Total Member's Equity
Predecessor			
Balance at December 31, 2011	$ 3,179	$ 4	$ 3,183
Net loss	(9)		(9)
Balance at May 24, 2012	$ 3,170	$ 4	$ 3,174

	Member's Equity	Accumulated Other Comprehensive Income	Total Member's Equity
Successor			
Balance at May 25, 2012	$ 5,258	$ —	$ 5,258
Net income	182		182
Other comprehensive income		3	3
Non-cash contribution from Member	244		244
Balance at December 31, 2012	5,684	3	5,687
Net income	465		465
Contributions from Member	325		325
Distributions to Member	(510)		(510)
Other comprehensive income		3	3
Balance at December 31, 2013	$ 5,964	$ 6	$ 5,970

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

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

1. General

We are a Delaware limited liability company, originally formed in 1947 as a corporation. Effective October 1, 2011, we converted our legal structure to a limited liability company and changed our name to Tennessee Gas Pipeline Company, L.L.C. When we refer to “us,” “we,” “our,” or “ours,” we are describing Tennessee Gas Pipeline Company, L.L.C. and/or our subsidiaries. In August 2012, Kinder Morgan Energy Partners, L.P. (KMP), a master limited partnership, acquired the full ownership interest in us from Kinder Morgan, Inc. (KMI) and we became an indirect wholly owned subsidiary of KMP. KMP is controlled by its general partner, Kinder Morgan G.P., Inc., a wholly owned subsidiary of 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.

Our primary business consists of the interstate transportation and storage of natural gas. Our natural gas pipeline system consists of approximately 11,840 miles of pipeline with a design capacity of approximately 8.5 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 section of the U.S., including the metropolitan areas of New York City and Boston. Our system connects with multiple pipelines (including interconnects at the U.S.-Mexico border and the U.S.-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: (i) the Haynesville shale formation in northern Louisiana and Texas; (ii) the Marcellus shale formation in Pennsylvania; (iii) the Utica shale formation that spans an area from Ohio to Pennsylvania; and (iv) the previously discussed Eagle Ford shale formation, located in South Texas. Along our pipeline system, we have 94 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.

We made a revision of $25 million on our previously reported Consolidated Statement of Cash Flows for the successor period from May 25, 2012 to December 31, 2012 to correctly reflect the activity within the "Net change in note receivable from affiliate" included in the Net Cash Used in Investing Activities instead of activity within Net Cash Provided by Operating Activities. Management believes this correction is not material to the previously issued financial statements.

Management has 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 generally accepted accounting principles in the United States of America (GAAP) 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.

On May 25, 2012, our senior unsecured notes and debentures were deregistered with the United States Securities and Exchange Commission (SEC) and our reporting obligation to the SEC was terminated.

Business Combination Accounting

KMI's May 25, 2012 acquisition of El Paso Holdco LLC (El Paso) was accounted for by KMI using business combination accounting. Under this method, the purchase price paid by the acquirer was assigned to the assets acquired and liabilities assumed as of the acquisition date based on their fair value. By the application of “push-down” accounting,

our assets, liabilities and equity were accordingly adjusted to fair value on May 25, 2012. Determining the fair value of certain assets and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions. See Note 3 for a discussion of the estimated fair values of assets and liabilities recorded in connection with KMI's acquisition of El Paso.

Due to the application of "push-down" accounting, our financial statements and certain footnote disclosures are presented in two distinct periods to indicate the application of two different bases of accounting. The period prior to May 25, 2012 is identified herein as "Predecessor," while the periods subsequent to KMI's acquisition of El Paso are identified as "Successor." As a result of the change in the basis of accounting from historical cost to reflect KMI's purchase cost, the financial statements for the Predecessor period are not comparable to the Successor periods.

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 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 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, 2013 and 2012 and the 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 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 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 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 the 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 salvage value. We do not recognize gains or losses unless we sell or retire land or an entire operating unit, as determined by the FERC. We generally include gains or losses on dispositions of land and operating units in "Operations and maintenance" in our Consolidated Statements of Income and Comprehensive Income (Loss). 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 12 for information related to a regulatory asset that 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 income statement or defer the loss as a regulatory asset on our 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 the average cost of debt. The equity portion is calculated based on the most recent FERC approved rate of return. Interest and equity amounts capitalized are included as a reduction to "Interest expense, net" and "Other, net", respectively, on our Consolidated Statements of Income and Comprehensive Income (Loss).

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. See Note 6 for a further discussion of our asset retirement obligations.

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 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. We have a 50% ownership interest in Bear Creek, a joint venture equally owned with SNG, our affiliate. We accounted for our investment in Bear Creek using the equity method of accounting. We and SNG provide storage services to our customers utilizing the Bear Creek storage facilities.

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 as "Goodwill" on our Consolidated Balance Sheets. Our total goodwill, which resulted from the application of "push-down" accounting associated with KMI's acquisition of El Paso on May 25, 2012, was $3,253 million and $3,249 million as of December 31, 2013 and 2012, respectively. During the second quarter of 2013, we made a $4 million final purchase price allocation adjustment related to our pre-acquisition sales and use tax liability, resulting in an increase in goodwill. 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, 2013 impairment testing and no event indicating an impairment has occurred subsequent to May 31, 2013. During 2012, we performed a qualitative assessment and determined there were no indicators of impairment during the period from the May 25, 2012 acquisition date to our May 31, 2012 impairment assessment date.

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 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 10.

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 range of potential outcomes and there is no better estimate within the range, we accrue the amount at the low end of the range. To the extent that actual outcomes differ from our estimates, or additional facts and circumstances cause us to revise our estimates, our earnings will be affected. For more information on our legal disclosures, see Note 10.

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. This plan requires them to make contributions to fund the benefits to be paid out under the plan. These contributions are invested until the benefits are paid out to plan participants. The net benefit cost of the plan is recorded in our Consolidated Statements of Income and Comprehensive Income (Loss) 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 8.

In accounting for our postretirement benefit plan, we record an asset or liability based on 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 either a regulatory asset or liability or recorded as "Other comprehensive income” until those gains or losses are recognized on our Consolidated Statements of Income and Comprehensive Income (Loss).

Income Taxes

Prior to KMI's acquisition of El Paso, El Paso maintained a tax accrual policy to record both regular and alternative minimum taxes for companies included in its consolidated federal and state income tax returns. The policy provided, among other things, that (i) each company in a taxable income position would accrue a current expense equivalent to its federal and state income taxes, and (ii) each company in a tax loss position would accrue a benefit to the extent its deductions, including general business credits, could be utilized in the consolidated returns. El Paso paid all consolidated U.S. federal and state income taxes directly to the appropriate taxing jurisdictions and, under a separate tax billing agreement, El Paso could bill or refund its subsidiaries for their portion of these income tax payments. Prior to our conversion to a limited liability company, which is further discussed below, we filed and paid taxes directly to certain state taxing authorities.

Effective October 1, 2011, we changed our tax entity status from a corporation to a limited liability company. Prior to KMP's acquisition further discussed below, we continued to record federal income taxes on a separate return basis as a single member limited liability company. Pursuant to El Paso's policy, we recorded current income taxes based on our taxable income and we provided for deferred income taxes to reflect estimated future tax payments and receipts. Deferred taxes represented the tax impacts of differences between the financial statement and tax bases of assets and liabilities and carryovers as of each year end. We accounted for tax credits under the flow-through method, which reduced the provision for income taxes in the year the tax credits first became available. We reduced deferred tax assets by a valuation allowance when, based on our estimates, it was more likely than not that a portion of those assets would not be realized in a future period. The estimates utilized in the recognition of deferred tax assets were subject to revision, either up or down, in future periods based on new facts or circumstances.

Effective with KMP's acquisition of us on August 1, 2012, we are no longer subject to either federal income taxes or generally to state income taxes. As a result of this acquisition, we settled our current and deferred tax balances with recoveries of our note receivable from KMI under its cash management program pursuant to our tax sharing agreement with El Paso. See Notes 5 and 9 for further discussion of our income taxes.

Regulated Operations

Our natural gas pipeline and storage operations are subject to the jurisdiction of the FERC and follow the Financial Accounting Standards Board 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 in periods prior to 2011 when our rate case was settled, losses on reacquired debt, losses on sale of certain long-lived assets, taxes related to an equity return component on regulated capital projects in periods prior to August 1, 2012, when we became 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. See Note 12 for additional information related to our regulatory assets and liabilities.

3. KMI's Acquisition of El Paso

KMI's acquisition of El Paso was effective on May 25, 2012. The acquisition was accounted for using business combination accounting under applicable accounting principles. Business combination accounting requires, among other things, that assets acquired and liabilities assumed be recognized on the balance sheet at their fair values as of the acquisition date.

The purchase price allocation was finalized in the second quarter of 2013, at which time, we made a $4 million final purchase price allocation adjustment related to our pre-acquisition sales and use tax liability, resulting in an increase in goodwill. We used appraisers to assist in the determination of fair value of certain assets. The table below represents the fair value of our tangible and intangible assets and liabilities as of May 25, 2012 (in millions):

Current assets	$	132
Property, plant and equipment, net(a)		4,070
Goodwill(b)		3,253
Other non-current assets(c)		1,089
Long-term debt(d)		(2,211)
Deferred income taxes(e)		(732)
Other liabilities		(343)
Total purchase price	$	5,258

(a) Property, plant and equipment includes a $1.9 billion reduction to record our business at its regulatory value in conformity with our accounting policy.

(b) Goodwill of $3.2 billion represents the excess of consideration paid over the fair value of the assets acquired and liabilities assumed.

(c) Other non-current assets include a purchase price adjustment of $442 million to record a deferred charge offset to the fair value of debt purchase price adjustment described in footnote (d) below.

(d) Our long-term debt assumed in the acquisition was recorded at its fair market value resulting in a $442 million purchase price adjustment. This purchase price adjustment has been reported as “Debt fair value adjustments” on our Consolidated Balance Sheets.

(e) Deferred income taxes include a purchase price reduction adjustment of $722 million which primarily consisted of an adjustment to reduce deferred tax liabilities associated with the tax effects of purchase price adjustments described herein.

The goodwill resulting from the acquisition is primarily due to expected commercial and operational synergies and is not deductible for tax purposes.

Expenses Related to KMI's Acquisition of El Paso

We incurred acquisition-related expenses of $4 million and $45 million in the Successor periods in 2013 and 2012, respectively, primarily related to allocated severance costs which are included in “Operations and maintenance” in our Consolidated Statements of Income and Comprehensive Income (Loss).

4. Divestiture

On July 26, 2012, we filed an application with the FERC seeking authority to abandon by sale of certain natural gas facilities located offshore in the Gulf of Mexico and onshore in the state of Louisiana, as well as a related offer of settlement that addressed the proposed rate and accounting treatment associated with the sale. The offer of settlement provided for a rate adjustment to our maximum tariff rates upon the transfer of the assets and established a regulatory asset for a portion of the unrecovered net book value of the facilities to be sold. Effective September 1, 2013, following the FERC’s approval of both the requested abandonment authorization and the offer of settlement, we sold these assets for an aggregate consideration of $32 million in cash. We recognized both a $93 million increase in regulatory assets and a $36 million gain from the sale of assets in 2013. We included the cash proceeds from the sale within “Proceeds from sale of assets” within the investing section of our accompanying Consolidated Statements of Cash Flows for the year ended December 31, 2013, and we included the gain from the sale within “(Gain) loss on long-lived assets” on our accompanying Consolidated Statements of Income and Comprehensive Income (Loss) for the year ended December 31, 2013. The regulatory asset of the deferred losses on sale of assets is amortized over twenty years.

Prior to the sale, during the second quarter of 2012, we classified these assets as held for sale at fair value which approximates the sales price of $32 million. The fair value was based on observable market data which is a Level 2 measurement. We also recorded a regulatory asset of approximately $113 million for the portion of the loss that we expect to recover through our jurisdictional transportation rates. Additionally, we recorded a $125 million charge to earnings in 2012 to write down the book value of certain of the offshore assets, representing the portion of the loss for which we had not reached agreement with customers to be recovered through the rate making process at the time, and we included the loss amount within “(Gain) loss on long-lived assets” on our accompanying Consolidated Statements of Income and Comprehensive Income (Loss).

5. Income Taxes

Effective October 1, 2011, we changed our tax entity status from a corporation to a limited liability company. Prior to KMP's acquisition further discussed below, we continued to record federal income taxes on a separate return basis and reflected current and deferred income taxes in our financial statements as a single member limited liability company.

Effective with KMP's acquisition of us on August 1, 2012, we are no longer subject to either federal income taxes or generally to state income taxes. As a result of this acquisition, we settled our net current and deferred income tax liability balances of $745 million, pursuant to our tax sharing agreement with El Paso with recoveries of our accounts and note receivable from KMI of $501 million and a non-cash contribution from KMP of $244 million during 2012.

Components of Income Tax Expense

The following table reflects the components of income tax expense included in net income for each of the periods presented below (in millions):

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Current			
Federal	$ —	$ —	$ —
State	1	(9)	—
	1	(9)	—
Deferred			
Federal	—	9	(5)
State	—	1	—
	—	10	(5)
Total income tax expense (benefit)	$ 1	$ 1	$ (5)

Effective Tax Rate Reconciliation

Our income tax expense differs from the amount computed by applying the statutory federal income tax rate of 35% for the following reasons for each of the periods presented below (in millions, except for rates):

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Income tax expense at the statutory federal rate of 35%	$ 163	$ 64	$ (5)
State income taxes, net of federal income tax effect	2	1	—
Non-taxable earnings	(163)	(55)	—
Uncertain tax positions reversal	(1)	(9)	—
Income tax expense (benefit)	$ 1	$ 1	$ (5)
Effective tax rate	—%	1%	38%

For the years ended December 31, 2013 and 2012, we recognized a state income tax benefit of $1 million and $9 million, respectively, due to the statute expiration of uncertain tax positions.

6. 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	Successor	
	(%)	December 31, 2013	December 31, 2012
Transmission and storage facilities	1.2 - 6.67	$ 4,144	$ 3,319
General plant	3.1 - 24.0	170	173
Intangible plant	3.1 - 14.0	102	102
Other		21	238
Accumulated depreciation and amortization(a)		(235)	(103)
		4,202	3,729
Land		10	10
Construction work in progress		79	126
Property, plant and equipment, net		$ 4,291	$ 3,865

(a) The composite weighted average depreciation rate for the year ended December 31, 2013, the Successor period in 2012 and the Predecessor period in 2012 was approximately 2.2% for each period.

Additional Acquisition Costs

In the periods prior to KMI's acquisition of El Paso, our property, plant and equipment balances included additional acquisition costs assigned to utility plant, which represented the excess of allocated purchase costs over the historical costs of the facilities. These additional acquisition costs were being amortized on a straight-line basis over 62 years and were not recoverable in our rates under FERC policies. Our amortization expense related to these additional acquisition costs was approximately $16 million for the predecessor period in 2012. As a result of KMI's May 25, 2012 acquisition of El Paso and the application of "push-down" accounting, these additional acquisition costs were removed from property, plant and equipment. The reduction was to record our property, plant and equipment at its regulatory value in conformity with our accounting policy.

Capitalized Costs During Construction

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Allowance for debt amounts capitalized	$ 5	$ 2	$ 1
Allowance for equity amounts capitalized	12	4	2

Asset Retirement Obligations

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. We continue to evaluate our asset retirement obligations and future developments could impact the amounts we record.

Where we can reasonably estimate the asset retirement obligation, 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. We intend on operating and maintaining our natural gas pipeline and storage systems 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 natural gas pipeline and storage system assets because these assets have indeterminate lives.

The net asset retirement obligation reported on our balance sheets under current and other long-term liabilities, and the changes in the net liability for each of the periods presented below were as follows (in millions):

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Net asset retirement obligation at beginning of period	$ 22	$ 42	$ 23
Liabilities settled	(26)	(3)	(3)
Liabilities incurred	8	—	18
Changes in estimate	15	(17)	4
Net asset retirement obligation at end of period(a)	$ 19	$ 22	$ 42

(a) As of December 31, 2013 and 2012, approximately $18 million and $21 million were reflected as current "Asset retirement obligations" on our Consolidated Balance Sheets, respectively.

7. 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. These costs are then amortized as interest expense in our Consolidated Statements of Income and Comprehensive Income (Loss). The following table summarizes the net carrying value of our outstanding debt, excluding debt fair value adjustments, as of December 31 (in millions):

	Successor	
	2013	2012
8.0% Notes due February 2016	$ 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 long-term debt	$ 1,790	$ 1,790

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 year ended December 31, 2013, the Successor period in 2012 and the Predecessor period in 2012, we were in compliance with our debt-related covenants.

8. 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 allocation rate to its affiliates.

Postretirement Benefits Plan

We provide postretirement medical benefits for a closed group of retirees. These benefits 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 2014. We made no contributions in the Successor and Predecessor periods in 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 in "Accumulated other comprehensive income" a component of "Member's equity" until those gains and losses are recognized in our Consolidated Statements of Income and Comprehensive Income (Loss).

The table below provides information about our postretirement benefit plan for each of the periods presented (in millions):

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Change in accumulated postretirement benefit obligation:			
Accumulated postretirement benefit obligation - beginning of period	$ 16	$ 18	$ 18
Participant contributions	1	—	—
Plan amendments	2	(2)	—
Benefits paid(a)	(2)	(1)	(1)
Actuarial (gain) loss	(2)	1	—
Accumulated postretirement benefit obligation - end of period	$ 15	$ 16	$ 17
Change in plan assets:			
Fair value of plan assets - beginning of period	$ 48	$ 45	$ 44
Actual return on plan assets	5	4	1
Participant contributions	1	—	—
Benefits paid	(2)	(1)	(1)
Fair value of plan assets - end of period	$ 52	$ 48	$ 44
Reconciliation of funded status:			
Fair value of plan assets	$ 52	$ 48	
Less: accumulated postretirement benefit obligation	15	16	
Net asset at December 31(b)	$ 37	$ 32	

(a) Amounts shown are net of a subsidy of less than $1 million for each of the periods presented above 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.

Components of Accumulated Other Comprehensive Income

The amount recognized in “Accumulated other comprehensive income” as of December 31, 2013 and 2012 of $6 million and $3 million, respectively, is primarily related to unrecognized 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 2014.

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 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. 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 $2 million, a fixed income mutual fund with a fair value of $15 million and limited partnership funds with equity strategies with a fair value of

$35 million. For the domestic equity securities, mutual fund and $18 million of the limited partnership funds, 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 $17 million of the limited partnership balance is comprised of a limited partnership fund, for which 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 a mutual fund with a fair value of $2 million and common/collective trust funds with a fair value of $46 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. The 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 exist for these common/collective trust funds where the issuer reserves the right to temporarily delay withdrawals in certain situations such as market conditions or at the issuer's discretion. We do 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, 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	$ 2
2015	2
2016	1
2017	1
2018	1
2019 - 2023	5

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 obligations and net benefit costs.

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
	(%)		(%)
Assumptions related to benefit obligations at period end:			
Discount rate	4.05	3.13	4.30
Assumptions related to benefit costs for the period:			
Discount rate(a)	3.40	4.08	4.30
Expected return on plan assets(b)	7.50	7.50	7.50

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

(b) The expected return on plan assets listed in the table above is a pre-tax rate of return based on our portfolio of investments. We utilize an after-tax expected return on plan assets to determine our benefit costs, which is based on unrelated business income taxes with a weighted average rate of 24% for calendar year 2013 and a rate of 22% for calendar year 2012.

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%, gradually decreasing to 5% by the year 2019. A one-percentage point change would not have had a significant effect on the accumulated postretirement benefit obligation or interest costs for the year ended December 31, 2013, the Successor period in 2012 and the Predecessor period in 2012.

Components of Net Benefit Income

For periods presented, the components of net benefit income are as follows (in millions):

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Interest cost	$ —	$ —	$ —
Expected return on plan assets	(3)	(2)	(1)
Net benefit income	$ (3)	$ (2)	$ (1)

9. Related Party Transactions

Non-cash Contribution and Distributions

Effective August 1, 2012, KMP acquired the full ownership interest in us from KMI. In conjunction with this acquisition, we settled our net current and deferred income tax liability balances of $745 million with a non-cash contribution of $244 million from KMP and recoveries of our accounts and note receivable from KMI of $501 million as of July 31, 2012.

Income Taxes

Effective with KMP's acquisition of us on August 1, 2012, we are no longer subject to either federal income taxes or generally to state income taxes.

Cash Management Program

We participate in the cash management program with KMI and its affiliates (and El Paso's prior to KMI's acquisition of El Paso), which matches short-term cash surpluses and needs of participating affiliates, thus minimizing total borrowings from outside sources. KMI and its affiliates use the cash management program to settle intercompany transactions between participating affiliates. As of December 31, 2013, we had a net note payable to KMI and its affiliates of $23 million, and as of December 31, 2012, we had a net note receivable from KMI and its affiliates of $114 million. The interest rate on this note was variable and was 0.3% and 0.5% as of December 31, 2013 and 2012, respectively. In conjunction with KMP's acquisition of us on August 1, 2012, we settled the outstanding note receivable from KMI under the cash management program for $466 million.

Other Affiliate Balances

We enter into transactions with our affiliates within the ordinary course of our business and the services are based on the same terms as non-affiliates. In addition, we store natural gas in an affiliated storage facility and utilize the pipeline system of an affiliate to transport some of our natural gas.

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

profit component to us. Prior to KMI's acquisition of El Paso, we were allocated costs from El Paso. We also allocated costs to our pipeline affiliates, for their proportionate share of our pipeline services. The allocation from El Paso was based on the estimated level of effort devoted to our operations and the relative size of our earnings before interest expense and income taxes, gross property and payroll. The costs allocated from KMI, El Paso and their affiliates are included in "Operations and maintenance" on our Consolidated Statements of Income and Comprehensive Income (Loss).

The following table summarizes our other balance sheet affiliate balances at December 31(in millions):

	Successor	
	2013	2012
Accounts receivable	$ 4	$ 8
Accounts payable	54	18

The following table shows revenues, expenses and reimbursements from our affiliates for each of the periods presented (in millions):

	Successor		Predecessor
	Year Ended December 31, 2013	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Revenues	$ 4	$ 4	$ 11
Operation and maintenance expense(a)	151	144	120
Reimbursements of operating expense	—	15	27

(a) Includes severance costs of $4 million and $45 million for the Successor periods ended December 31, 2013 and 2012, respectively, allocated to us from El Paso as a result of KMI's acquisition of El Paso.

10. Litigation, Environmental and Other Contingencies

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

Legal Proceedings

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

On October 16, 2013, Plains Gas Solutions, LLC (Plains) filed a petition in the 151 st 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 its 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. The case was removed to the U.S. District Court for the Southern District of Texas, and plaintiff has filed a motion to remand the suit to state court. Under the Amended

and Restated Purchase and Sale Agreement with Kinetica, Kinetica has agreed to indemnify us in connection with the gas commitment and reporting claims. We intend to vigorously defend the suit.

General

As of December 31, 2013 and 2012, we had approximately $8 million and $16 million, respectively, accrued for our outstanding legal proceedings.

Environmental Matters

We are subject to environmental cleanup and enforcement actions from time to time. Our operations are subject to federal, state and local laws and regulations relating to protection of environment, Although we believe our operations are in substantial compliance with applicable environmental law and regulations, risk of additional costs and liabilities and 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.

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 approximately $5 million accrued for our environmental matters.

For 2014, we estimate that our total remediation expenditures will be approximately $1 million, 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 $32 million in the aggregate for the years of 2014 through 2018, including capital expenditures associated with air permitting and compliance at the state and federal level.

Polychlorinated Biphenyls (PCB) Cost Recoveries and Refund

Since 1994, we have been conducting remediation activities at certain of our compressor stations associated with PCBs and other hazardous materials. We have collected amounts, substantially in excess of remediation costs incurred to date, through a surcharge to our customers under a settlement approved by the FERC in November of 1995. In November 2009, the FERC approved an amendment to the 1995 settlement that provides for interim refunds over a three-year period of approximately $157 million of our collected amounts plus interest of 8%. As of April 2012, all of the interim refunds including interest have been made to our customers.

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 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. Accruals for these matters are included in the environmental reserve discussed above.

Other Matters

Administrative Order and Notice of Civil Administrative Penalty Assessment (AONOCAPA)

On March 28, 2013, the New Jersey Department of Environmental Protection (NJDEP), Division of Compliance and Enforcement issued an AONOCAPA against us for $175,000 and an action plan to address alleged deficiencies in our reforestation efforts following the 300 Line Project, which we placed into commercial operations on November 1, 2011. We evaluated the AONOCAPA, requested an administrative hearing and submitted a corrective action plan. Following discussions with the NJDEP, we reached an agreement to resolve the AONOCAPA, including a reduced penalty amount and monetary compensation in lieu of reforestation.

Pennsylvania Department of Environmental Protection Notice of Alleged Violations

The Pennsylvania Department of Environmental Protection (PADEP) has notified us of alleged violations of certain conditions to the construction permits issued to us for the construction of 300 Line Project in 2011. The alleged violations arise from field inspections performed during construction by county conservation districts, as delegates of the PADEP, and generally involve the alleged failure by us to implement and maintain best practices to achieve sufficient erosion and sediment controls, stabilization of the right of way, and prevention of potential discharge of sediment into the waters of the commonwealth during construction and before placing the line into service. To resolve such alleged violations, the PADEP initially proposed a collective penalty of approximately $1.5 million. We and the PADEP are seeking to reach a mutually agreeable resolution of the alleged notices of violations, including an agreed penalty amount.

Southeast Louisiana Flood Protection Litigation

On July 24, 2013, the Board of Commissioners of the Southeast Louisiana Flood Protection Authority - East (Flood Protection Authority) 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 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.

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. On December 18, 2013, defendants removed the case to the U.S. District Court for the Eastern District of Louisiana. On January 14, 2014, the plaintiff filed a motion to remand the case to state court and such motion remains pending.

Other Commitments

Capital Commitments

As of December 31, 2013, we have commitments for purchases of plant, property and equipment of $118 million, which we expect to spend during 2014. We have other planned capital 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 systems. 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 $227 million as of December 31, 2013. Our annual obligations under these purchase obligations are $30 million in 2014, $27 million in 2015, $24 million in 2016, $19 million in 2017, $19 million in 2018, and $108 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, 2013, were as follows (in millions):

Year	Commitment
2014	$ 1
2015	1
2016 and thereafter	1
Total	$ 3

Rental expense on our lease obligations for the year ended December 31, 2013, the Successor period in 2012 and the Predecessor period in 2012 was approximately $1 million for each period, and is reflected in "Operations and maintenance" on our Consolidated Statements of Income and Comprehensive Income (Loss).

11. Fair Value

The following table reflects the carrying amount and estimated fair value of our long-term debt (in millions):

	Successor			
	December 31, 2013		December 31, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt(a)	$ 2,156	$ 2,163	$ 2,191	$ 2,392

(a) Carrying amounts include $366 million in 2013 and $401 million in 2012 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 year ended December 31, 2013, the Successor period in 2012 and the Predecessor

period in 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 are classified.

As of December 31, 2013 and 2012, the carrying amounts of cash and cash equivalents, accounts receivable, net and accounts payable represent their fair values based on the short-term nature of these instruments. The carrying amount of our affiliate note receivable and payable approximates its fair value due to the note being due on demand and its market-based interest rate.

12. 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-five years. Below are the details of our regulatory assets and liabilities as of December 31 (in millions):

	Successor	
	2013	2012
Current regulatory assets		
Difference between gas retained and gas consumed in operations	$ 5	$ 10
Unamortized loss on sale of assets	10	—
Other	2	4
Total current regulatory assets	17	14
Non-current regulatory assets		
Taxes on capitalized funds used during construction	48	50
Unamortized loss on reacquired debt	18	22
Unamortized loss on sale of assets	189	113
Other	3	3
Total non-current regulatory assets	258	188
Total regulatory assets	$ 275	$ 202
Current regulatory liabilities		
Other	$ 5	$ 2
Total current regulatory liabilities(a)	5	2
Non-current regulatory liabilities		
Environmental	8	7
Property and plant retirements	17	11
Total non-current regulatory liabilities(b)	25	18
Total regulatory liabilities	$ 30	$ 20

(a) Included in “Other current liabilities” on our Consolidated Balance Sheets.
(b) 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 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.

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. See Note 4 for further information regarding our divestiture.

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.

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. For a further discussion of this PCB environmental matter, see Note 10.

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 2013 was $17 million, which primarily consisted of (i) $7 million of the deferred losses on sale of assets included in "Depreciation and amortization" and (ii) $4 million of the deferred losses on reacquired debt included in "Interest expense, net" on our Consolidated Statement of Income and Comprehensive Income (Loss).

Regulatory Matters

Below is a brief description of our ongoing regulatory matters, including any material developments that occurred during the year ended December 31,2013, the Successor period in 2012, and the Predecessor period in 2012.

Rate Case

In December 2011, the FERC approved our settlement that resolved the outstanding rate issues arising from our general rate case filing. The settlement provides for, among other things, (i) an increase in our base tariff rates effective June 1, 2011, (ii) implementation of cost trackers for fuel and pipeline safety and greenhouse gas, (iii) significant contract extensions to October 2014, (iv) a filing requirement for our next general rate case to be effective no earlier than April 2014 but no later than November 2015, and (v) a revenue sharing mechanism with certain of our customers for certain revenues above an annual threshold. In addition, as part of the settlement, we refunded approximately $69 million, including interest, to our customers in March 2012.

Northeast Upgrade Project (Docket No. CP11-161-000)

On May 29, 2012, the FERC issued an order authorizing the expansion of our pipeline facilities in Pennsylvania and New Jersey that will provide needed infrastructure to support continued development of Marcellus shale natural gas production and increase our delivery capacity in the region by approximately 636 thousand dekatherm per day. The capital cost of the project was approximately $504 million and the capacity is fully subscribed under long term contracts. The project was completed and placed into service on November 1, 2013.

MPP Project (Docket No. CP12-28-000)

On August 9, 2012, the FERC issued an order authorizing the expansion of our pipeline facilities in northwestern Pennsylvania that will provide needed infrastructure to support continued development of Marcellus shale natural gas production and increase our delivery capacity in the region by approximately 240 thousand dekatherm per day. The capital cost of the project was approximately $54 million, and the capacity is fully subscribed under long term contracts. The project was completed and placed into service on November 1, 2013.

Rose Lake Expansion Project (Docket No. CP13-03-000)

On September 19, 2013, the FERC issued an order authorizing the expansion of our pipeline capacity in northern Pennsylvania through the installation and modification of new and existing compression facilities that will result in increased capacity of approximately 230 thousand dekatherm per day and will improve the efficiency and reduce emissions by replacing certain older existing compression facilities. The project will further support continued development of Marcellus shale natural gas production in the region. The estimated capital cost of the project is approximately $83 million and the capacity is fully subscribed under long term contracts. Subject to receipt of final FERC and other regulatory agency approvals, the project is anticipated to be placed in service on November 1, 2014.

13. Transactions with Major Customers

For the year ended December 31, 2013, revenues from one non-affiliate customer was approximately $112 million, which exceeded 10% of our operating revenues. For the Successor period in 2012, revenues from two non-affiliate customers were approximately $70 million and $63 million, each of which exceeded 10% of our operating revenues. For the Predecessor period in 2012, revenues from two non-affiliate customers were approximately $52 million and $45 million, each of which exceeded 10% of our operating revenues.

14. 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 $45 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 were short-term assets that generally settled 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). Our ability to recover the deferred purchase price was based solely on the collection of the underlying receivables. The tables below contain information related to our accounts receivable sales program (in millions).

	Successor	Predecessor
	Period from Acquisition May 25, 2012 to December 31, 2012	Period from January 1, 2012 to May 24, 2012
Accounts receivable sold to the third-party financial institution(a)	$ 69	$ 381
Cash received for accounts receivable sold under the program	45	180
Deferred purchase price related to accounts receivable sold(b)	24	201
Cash received related to the deferred purchase price	—	248
Cash paid in conjunction with terminated program	45	—

(a) During the Successor period in 2012 and the Predecessor period in 2012, losses recognized on the sale of accounts receivable were immaterial.

(b) There were no balances outstanding as of December 31, 2012, since all balances were settled in June 2012 when the accounts receivable sales program was 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 “Net Cash Provided by Operating Activities” on our Consolidated Statement of Cash Flows for 2012. 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 Successor period in 2012 and the Predecessor period in 2012.