CONSOLIDATED FINANCIAL STATEMENTS
With Report of Independent Auditors

COLORADO INTERSTATE GAS COMPANY, L.L.C.

As of December 31, 2018 and 2017 and
For the Years Ended December 31, 2018 and 2017

COLORADO INTERSTATE GAS COMPANY, L.L.C. AND SUBSIDIARY
TABLE OF CONTENTS

	Page Number
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Statements of Income and Comprehensive Income	2
Consolidated Balance Sheets	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Member's Equity	5
Notes to Consolidated Financial Statements	6

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Report of Independent Auditors

To the Management of Colorado Interstate Gas Company, L.L.C.:

We have audited the accompanying consolidated financial statements of Colorado Interstate Gas Company, L.L.C. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related 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.

Auditors' 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 Colorado Interstate Gas Company, L.L.C. and its subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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
March 29, 2019

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

	Year Ended December 31,	
	2018	**2017**
Revenues (Note 7)	$ 338	$ 295
Operating Costs and Expenses		
Operation and maintenance	71	70
Depreciation and amortization	45	46
General and administrative	16	16
Taxes, other than income taxes	16	19
Total Operating Costs and Expenses	148	151
Operating Income	190	144
Other Income (Expense)		
Interest, net	(50)	(52)
Other, net	3	(2)
Total Other Income (Expense)	(47)	(54)
Income Before Income Taxes	143	90
Income Tax Expense	—	(1)
Net Income	143	89
Other Comprehensive Income		
Adjustments to postretirement benefit plan	(2)	—
Comprehensive Income	$ 141	$ 89

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

COLORADO INTERSTATE GAS COMPANY, L.L.C. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In Millions)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ —
Accounts receivable	34	34
Inventories	5	5
Regulatory assets	6	5
Natural gas imbalance receivable	7	4
Total current assets	52	48
Property, plant and equipment, net	1,199	1,219
Note receivable from affiliate	46	2
Deferred charges and other assets	40	42
Total Assets	$ 1,337	$ 1,311
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Current portion of debt	$ 6	$ 6
Accounts payable	18	11
Accrued interest	6	6
Accrued taxes, other than income taxes	15	17
Customer deposits	21	5
Natural gas imbalance payable	6	2
Other current liabilities	5	1
Total current liabilities	77	48
Long-term liabilities and deferred credits		
Long-term debt, net of debt issuance costs	620	624
Other long-term liabilities and deferred credits	39	38
Total long-term liabilities and deferred credits	659	662
Total Liabilities	736	710
Commitments and contingencies (Notes 2 and 9)		
Member's Equity		
Member's equity	598	596
Accumulated other comprehensive income	3	5
Total Member's Equity	601	601
Total Liabilities and Member's Equity	$ 1,337	$ 1,311

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

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

	Year Ended December 31,	
	2018	2017
Cash Flows From Operating Activities		
Net income	$ 143	$ 89
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45	46
Changes in components of working capital:		
Accounts receivable	—	1
Regulatory assets	(1)	1
Accounts payable	4	(5)
Accrued taxes, other than income taxes	(2)	—
Other current assets and liabilities	17	(5)
Other long-term assets and liabilities	1	32
Net Cash Provided by Operating Activities	206	159
Cash Flows From Investing Activities		
Capital expenditures	(24)	(9)
Net change in note receivable from affiliate	(44)	2
Other, net	6	3
Net Cash Used in Investing Activities	(62)	(4)
Cash Flows From Financing Activities		
Payments of debt	(6)	(6)
Contributions from Member	15	2
Distributions to Member	(156)	(152)
Advances from joint venture partner	3	1
Net Cash Used in Financing Activities	(144)	(155)
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)	$ 51	$ 52

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

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

	Year Ended December 31,	
	2018	**2017**
Beginning Balance	$ 601	$ 662
Net income	143	89
Contributions	15	2
Distributions	(156)	(152)
Other comprehensive loss	(2)	—
Ending Balance	$ 601	$ 601

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

COLORADO INTERSTATE GAS COMPANY, L.L.C. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

We are a Delaware limited liability company, originally formed in 1927 as a corporation. When we refer to “us,” “we,” “our,” “ours,” “the Company,” or “CIG” we are describing Colorado Interstate Gas 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 (NGA) of 1938, the Natural Gas Policy Act of 1978 and the Energy Policy Act of 2005. The FERC approves tariffs that establish rates, cost recovery mechanisms and other terms and conditions of service to our customers.

We own a pipeline system which consists of approximately 4,280 miles of pipeline with a design capacity of approximately 5.15 billion cubic feet (Bcf) per day. We deliver natural gas from production areas in the Rocky Mountains and the Anadarko Basin directly to customers in Colorado and Wyoming and indirectly to the Midwest, Southwest, California and the Pacific Northwest. Along our pipeline system, we own interests in five storage facilities in Colorado and Kansas with approximately 38 Bcf of underground working natural gas storage capacity, which includes approximately 7 Bcf of storage capacity from the Totem storage facility (Totem), which is owned by WYCO Development LLC (WYCO), a joint venture in which we have a 50% ownership interest. WYCO also owns High Plains pipeline (High Plains), which represents approximately 1.2 Bcf per day of the overall transportation capacity of our system. Under a long-term agreement with WYCO, we operate Totem and High Plains.

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 March 29, 2019, 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.

Adoption of New Accounting Pronouncements

On January 1, 2018, we adopted Accounting Standards Update (ASU) No. 2014-09, “*Revenue from Contracts with Customers*” and the series of related accounting standard updates that followed (collectively referred to as “Topic 606”). We utilized the modified retrospective method to adopt Topic 606, which required us to apply the new revenue standard to (i) all new revenue contracts entered into after January 1, 2018 and (ii) revenue contracts which were not completed as of January 1, 2018. In accordance with this approach, our revenues for periods prior to January 1, 2018 were not revised. There was no cumulative adjustment as of January 1, 2018 resulting from the adoption of Topic 606. For more information, see “—*Revenue Recognition*” below and Note 7.

On January 1, 2018, we adopted ASU No. 2017-07, “*Compensation - Retirement Benefits (Topic 715)*.” This ASU requires an employer to disaggregate the service cost component from the other components of net benefit cost, allows only the service cost component of net benefit cost to be eligible for capitalization and establishes how to present the service cost component and the other components of net benefit cost in the income statement. Topic 715 required us to retrospectively reclassify $1 million of other components of net benefit credits from “General and administrative” to “Other, net” in our accompanying Consolidated Statement of Income for the year ended December 31, 2017. We prospectively applied Topic 715 related to net benefit costs eligible for capitalization.

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. We had no allowance for doubtful accounts as of December 31, 2018 and 2017.

Inventories

Our inventories, which consist primarily of materials and supplies, are valued at weighted-average cost, and we periodically review for physical deterioration and obsolescence.

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 our FERC tariff. Imbalances due from others are reported on our accompanying Consolidated Balance Sheets in "Natural gas imbalance receivable." Imbalances owed to others are reported on our accompanying Consolidated Balance Sheets in "Natural gas imbalance payable" We classify all imbalances due from or owed to others 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 expense costs for routine maintenance and repairs in the period incurred.

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 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 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.

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 to "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. The amounts of capitalized AFUDC were not significant for the years ended December 31, 2018 and 2017.

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. Our ARO were not significant as of December 31, 2018 and 2017.

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 value 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 impairments for the years ended December 31, 2018 and 2017.

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.

Revenue Recognition

The unit of account in Topic 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods or services) or a series of distinct goods or services provided over a period of time. Topic 606 requires that a contract's transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, is to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (point in time) or as (over time) the performance obligation is satisfied.

Natural Gas Transportation and Storage Contracts

Our revenues are primarily generated from the transportation and storage of natural gas under firm service customer contracts with take-or-pay elements (principally for capacity reservation) where both the price and quantity are fixed. Generally, for these contracts: (i) our promise is to transfer (or stand ready to transfer) a series of distinct integrated services over a period of time, which is a single performance obligation; (ii) the transaction price includes fixed and/or variable consideration, which amount is determinable at contract inception and/or at each month end based on our right to invoice at month end for the value of services provided to the customer that month; and (iii) the transaction price is recognized as revenue over the service period specified in the contract as the services are rendered. In these arrangements, the customer is obligated to pay for services associated with its take-or-pay obligation regardless of whether or not the customer chooses to utilize the service in that period. Because we make the service continuously available over the service period, we recognize the take-or-pay amount as revenue ratably over the period based on the passage of time.

The natural gas we receive under our transportation and storage contracts remains under the control of our customers. In many cases, generally described as firm service, the customer generally pays a two-part transaction price that includes (i) a fixed fee reserving the right to transport or store natural gas in our facilities up to contractually specified capacity levels (referred to as "reservation") and (ii) a per-unit rate for quantities of natural gas actually transported or injected into/withdrawn from storage. In our firm service contracts we generally promise to provide a single integrated service each day over the life of the contract, which is fundamentally a stand-ready obligation to provide services up to the customer's reservation capacity prescribed in the contract. Our customers have a take-or-pay payment obligation with respect to the fixed reservation fee component, regardless of the quantities they actually transport or store. In other cases, generally described as interruptible service, there is no fixed fee associated with these transportation and storage services because the customer accepts the possibility that service may be interrupted at our discretion in order to serve customers who have firm service contracts. We do not have an obligation to perform under interruptible customer arrangements until we accept and schedule the customer's request for periodic service. The customer pays a transaction price based on a per-unit rate for the quantities actually transported or injected into/withdrawn from storage.

Natural Gas and Natural Gas Liquids (NGL) Sales Contracts

Our customer sales contracts are primarily related to natural gas and NGL sales and these revenues are generally accounted for on a gross basis with the related cost reported as a part of operation and maintenance expense in in our accompanying Consolidated Statements of Income and Comprehensive Income. Generally, for the majority of our natural gas sales contracts: (i) each unit (dekatherm) of natural gas sold is a separate performance obligation; (ii) the transaction price is determinable each month end based on our right to invoice at month end for the value of natural gas sold to the customer that month; and (iii) the transaction price is allocated to each performance obligation based on the standalone selling price of natural gas sold and the amount recognized as revenue upon delivery of the natural gas, which is the point in time when the customer obtains control of the natural gas and our performance obligation is satisfied. These customer contracts generally provide for the customer to nominate a specified quantity of natural gas to be delivered and sold to the customers at specified delivery points. The customer pays a transaction price typically based on a market or indexed per-unit rate for the quantities sold.

Refer to Note 7 for further information.

Revenue Recognition Policy prior to January 1, 2018

Prior to the implementation of Topic 606, we estimated our earned but unbilled revenues from natural gas transportation, storage and processing services based on contract data, regulatory information, and preliminary throughput and allocation measurements, among other items. Revenues for all services were 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 recognized reservation revenues on firm contracted capacity ratably over the contract period regardless of the amount of natural gas that was transported or stored. For interruptible or volumetric-based services, we recorded revenues when physical deliveries of natural gas were made at the agreed upon delivery point or when the gas was injected or withdrawn from the storage facility. For contracts with step-up or step-down rate provisions that were not related to changes in levels of service, we recognized reservation revenues ratably over the contract life.

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, 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.

We are subject to environmental cleanup and enforcement actions from time to time. In particular, the Comprehensive Environmental Response, Compensation and Liability Act 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 laws 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. 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.

Although it is not possible to predict the ultimate outcomes, we believe that the resolution of the environmental matters, 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, 2018 and 2017, we had approximately $1 million accrued for our environmental matters.

Legal Proceedings

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. As of both December 31, 2018 and 2017, we had approximately $1 million accrued for our outstanding legal proceedings.

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 participate in KMI's postretirement benefit plan covering certain of our former employees that we have made contributions to in the past. These contributions are invested until the benefits are paid to plan participants. The net benefit cost of this plan is recorded in our accompanying Consolidated Statements of Income and Comprehensive Income and is a function of many factors including 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 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 federal or state income taxes. Our Member is responsible for income taxes on their allocated share of taxable income which may differ from income for financial statement purposes due to differences in the tax basis and financial reporting basis of assets and liabilities. However, we are subject to Texas margin tax (a revenue based calculation), which is presented as "Income Tax Expense" on our accompanying Consolidated Statements of Income and Comprehensive Income.

Regulatory Assets and Liabilities

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 and credits that are expected to be recovered from or returned to customers through the ratemaking process. Items to which we apply regulatory accounting requirements include certain postretirement benefit plan costs, taxes related to an equity return component on regulated capital projects prior to our change in legal structure to a non-taxable entity, loss on abandonment of plant facilities, amounts associated with the Tax Cuts and Jobs Act of 2017 (2017 Tax Reform) and other costs included in, or expected to be included in, future rates. For more information on our regulated operations, see Note 8.

3. Property, Plant and Equipment, net

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

	Annual Depreciation Rates %	December 31. 2018	2017
Transmission and storage facilities	1.85 - 6.67	$ 1,842	$ 1,831
General plant	3 - 25	33	33
Intangible plant	10 - 23	5	7
Other		21	24
Accumulated depreciation and amortization (a)		(711)	(683)
		1,190	1,212
Land		7	6
Construction work in progress		2	1
Property, plant and equipment, net		$ 1,199	$ 1,219

(a) The composite weighted average depreciation rate for both the years ended December 31, 2018, and 2017 was approximately 2.23%.

4. Debt

We classify our debt based on the contractual maturity dates of the underlying debt instruments. We defer costs associated with debt issuance over the applicable term. These costs are then amortized as interest expense on our accompanying Consolidated Statements of Income and Comprehensive Income.

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

	December 31, 2018	2017
Senior Notes, 4.15%, due August 2026	$ 375	$ 375
Senior Debentures, 6.85%, due June 2037	100	100
Other financing obligations	154	158
	629	633
Less: Unamortized discount and debt issuance costs	3	3
Total debt	626	630
Less: Current portion of debt	6	6
Total long-term debt	$ 620	$ 624

KMI and substantially all of its wholly owned 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.

Other Financing Obligations

In conjunction with the construction of Totem and High Plains, our joint venture partner in WYCO funded 50% of the construction costs. We reflected the payments made by our joint venture partner as other long-term liabilities on our accompanying Consolidated Balance Sheets during construction and, upon project completion, the advances were converted into a financing obligation to WYCO. Upon placing these projects in service, we transferred our title in the projects to WYCO and leased the assets back. Although we transferred the title in these projects to WYCO, the transfer did not qualify for sale leaseback accounting because of our continuing involvement through our equity investment in WYCO. As such, the costs of the facilities remain on our accompanying Balance Sheets and the advanced payments received from our 50% joint venture partner were converted into a financing obligation due to WYCO.

As of December 31, 2018, the principal amounts of the Totem and High Plains financing obligations were $68 million and $86 million, respectively, which will be paid in monthly installments through 2039 based on the initial lease term. At the expiration of the initial lease term, the lease agreement shall be extended automatically for the term of related firm service agreements. The annual interest rate on these obligations is 15.5%, payable on a monthly basis.

Maturities of Debt

The scheduled maturities of the outstanding debt balances, as of December 31, 2018 are summarized as follows (in millions):

Year	Total
2019	$ 6
2020	6
2021	6
2022	6
2023	6
Thereafter	599
Total	$ 629

Debt Covenants

Under our various financing documents, we are subject to certain 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, 2018 and 2017, 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 pre-age 65 participants of this closed group may be subject to deductibles, co-payment provisions, dollar caps and other limitations on the amount of employer costs, and are subject to further benefit changes by KMI, the plan sponsor. Post-age 65 Medicare eligible participants are provided a fixed subsidy 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 2019, and there were no contributions made in 2018 and 2017.

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. The discount rate used in the measurement of our postretirement benefit obligation is determined 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. The service and interest cost components of net periodic benefit cost (credit) for our other postretirement benefit plan are estimated by utilizing a full yield curve approach 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 table below provides information about our postretirement benefit plan as of and for each of the years ended December 31, 2018 and 2017 (in millions):

	2018	2017
Change in plan assets:		
Fair value of plan assets — beginning of period	$ 16	$ 16
Actual return on plan assets	—	1
Employer contributions/transfers	—	(1)
Fair value of plan assets — end of period	$ 16	$ 16
Change in postretirement benefit obligation:		
Postretirement benefit obligation — beginning of period	$ 2	$ 2
Postretirement benefit obligation — end of period	$ 2	$ 2
Reconciliation of funded status:		
Fair value of plan assets	$ 16	$ 16
Less: postretirement benefit obligation	2	2
Net asset at December 31(a)	$ 14	$ 14

(a) Net asset amounts are included in “Deferred charges and other assets” on our accompanying Consolidated Balance Sheets.

Components of Accumulated Other Comprehensive Income

The amounts included in “Accumulated other comprehensive income” as of December 31, 2018 and 2017 of $3 million and $5 million, respectively, are 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 2019.

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 60% equity, and 40% fixed income securities.

Below are the details of the postretirement benefit plan assets by class and a description of the valuation methodologies used for assets measured at fair value.

- Level 1 assets' fair values are based on quoted market prices for the instruments in actively traded markets. Included in this are equities and master limited partnerships using the quoted prices in actively traded markets; and
- Plan assets with fair values that are based on the net asset value per share, or its equivalent (NAV), as reported by the issuers are determined based on the fair value of the underlying securities as of the valuation date and include private limited partnerships, fixed income trusts and common collective trusts. The plan assets measured at NAV are not categorized within the fair value hierarchy described above, but are separately identified in the table below.

Listed below are the fair values of the plan's assets that are recorded at fair value by class and categorized by fair value measurement used at December 31, 2018 and 2017 (in millions):

	2018		2017	
	Level 1	Total	Level 1	Total
Equity securities, domestic		$ —	$ 1	$ 1
Master limited partnerships		—	4	4
Total assets in fair value hierarchy	$ —	—	$ 5	5
Investments measured at NAV(a)		16		11
Investments at fair value		$ 16		$ 16

(a) In accordance with Subtopic 820-10, certain Plan assets that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value of the common collective trusts as of December 31, 2018 is $16 million. The fair value of the private limited partnerships and the fixed income trusts as of December 31, 2017 were $6 million and $5 million, respectively.

Expected Payment of Future Benefits

As of December 31, 2018, we expect the following benefit payments under our plan (in millions):

Year	Total
2019-2023 (a)	$ 1
2024 - 2028 (b)	1

(a) Less than $1 million annually.
(b) Total over five years.

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.

	2018	2017
	(%)	
Assumptions related to benefit obligations at December 31:		
Discount rate	4.18	3.48
Assumptions related to benefit costs for the year ended December 31:		
Discount rate for benefit obligations	3.48	3.68
Discount rate for interest on benefit obligations	3.04	2.93
Expected return on plan assets(a)	7.25	7.00

(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 2018 and 2017.

Actuarial estimates for our postretirement benefits plan assumed a weighted average annual rate of increase in the per capita costs of covered health care benefits of 3.0% per year. 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 as of and for the years ended December 31, 2018 and 2017.

Components of Net Benefit Income

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

	Year Ended December 31,	
	2018	2017
Expected return on plan assets	$ (1)	$ (1)
Net benefit income	$ (1)	$ (1)

6. Related Party Transactions

Cash Management Program

We participate in KMI's cash management program, which matches the 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, 2018 and 2017, we had a note receivable from KMI of $46 million and $2 million, respectively. The interest rate on this note is variable and was 3.1% and 2.3% as of December 31, 2018 and 2017, respectively.

Kiowa Lateral LLC (Kiowa)

On July 23, 2018, we entered into a limited liability operating agreement (Agreement) with Rocky Mountain Midstream JV Holdings LLC (Midstream Holdings) to form Kiowa. Midstream Holdings and CIG each have a 50% interest in Kiowa, and pursuant to the terms of the Agreement, have each agreed to make initial capital contributions of $2.3 million.

Other Affiliate Balances and Activities

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

	December 31,	
	2018	2017
Accounts receivable	$ 1	$ 1
Natural gas imbalance receivable	5	2
Accounts payable	12	7
Natural gas imbalance payable	4	—
Financing obligations (a)	154	158

(a) Represents financing obligations payable to WYCO related to Totem and High Plains, of which $6 million is included in "Current portion of debt" on our accompanying Consolidated Balance Sheets as of both December 31, 2018 and 2017. For more information on our obligations, see Note 4.

We do not have employees and are managed and operated by KMI, who provides services to us. Under KMI policies, we reimburse KMI at cost for direct and indirect costs incurred on our behalf and allocated general and administrative costs. These costs are reflected, as appropriate, in the "Operations and maintenance," "General and administrative" and "Capitalized costs" lines in the table below.

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

	Year Ended December 31,	
	2018	2017
Revenues	$ 1	$ 1
Operations and maintenance	38	37
General and administrative	15	15
Capitalized costs	5	3

7. Revenue Recognition

Disaggregation of Revenues

The following table presents our revenues disaggregated by revenue source and type of revenue for each revenue source (in millions):

	Year Ended December 31, 2018
Revenue from contracts with customers	
Services	
Firm services (a)	$ 304
Fee-based services	28
Total services revenues	332
Sales	
Product sales	5
Other sales	1
Total sales revenues	6
Total revenue from contracts with customers	$ 338

(a) Represents fixed reservation charges.

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. As of January 1, 2018 and December 31, 2018, contract assets and liabilities balances were immaterial.

Major Customers

For the year ended December 31, 2018, revenues from our two largest non-affiliate customers were approximately $150 million and $33 million, each of which exceeded 10% of our operating revenues. For the year ended December 31, 2017, revenues from our three largest non-affiliate customers were approximately $150 million, $33 million and $32 million, each of which exceeded 10% of our operating revenues.

8. Accounting for Regulatory Activities

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, 2018, the regulatory assets are being recovered in our rates, without earning a return, over a period of approximately one year to 28 years. Below are the details of our regulatory assets and liabilities (in millions):

	December 31, 2018	December 31, 2017
Current regulatory assets		
Rawlins abandonment	$ 3	$ 3
Other	3	2
Total current regulatory assets	6	5
Non-current regulatory assets		
Taxes on capitalized funds used during construction	4	5
Rawlins abandonment	6	9
Total non-current regulatory assets (a)	10	14
Total regulatory assets	$ 16	$ 19
Current regulatory liabilities		
Other (b)	$ 4	$ 1
Non-current regulatory liabilities		
Property and plant retirements	11	10
Income tax related (c)	25	25
Other	1	1
Total non-current regulatory liabilities (d)	37	36
Total regulatory liabilities	$ 41	$ 37

(a) Included in “Deferred charges and other assets” on our accompanying Consolidated Balance Sheets.
(b) Included in “Other current liabilities” on our accompanying Consolidated Balance Sheets.
(c) See “2017 Tax Reform” below.
(d) Included in “Other long-term liabilities and deferred credits” on our accompanying Consolidated Balance Sheets.

Our significant regulatory assets and liabilities include:

Rawlins Abandonment

The FERC authorized the abandonment of certain facilities related to our Rawlins Processing Plant (Rawlins) located in Carbon County, Wyoming. The abandonment related costs are being recovered over 63 months, beginning January 2017.

Taxes on capitalized funds used during construction

Amounts represent the regulatory asset balance established in periods prior to 2007 when we changed our legal structure to a non-taxable entity, to offset the deferred tax for the equity component of AFUDC. 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.

Property and plant retirements

Amounts represent the deferral of customer-funded amounts for costs of future asset retirements.

2017 Tax Reform

On December 22, 2017, the U.S. enacted the 2017 Tax Reform. Among the many provisions included in the 2017 Tax Reform is a provision to reduce the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. As income taxes are a component in our maximum recourse rates, the income tax rate change resulted in us recording a provisional $29 million non-cash charge to our earnings related to an adjustment to our deferred income tax related regulatory assets and liabilities. The charge was recorded as a reduction to “Revenues” of $25 million and an increase to “Other, net” of $4 million for the year ended December 31, 2017 and in 2018, we recorded an additional adjustment which resulted in a reduction to “Revenues” of $1 million on our accompanying Consolidated Statement of Income.

Regulatory Matters

In 2018, we received FERC approval under Docket No. CP18-71-000 and completed the abandonment by sale of certain segments of our Texas Panhandle Line Nos. 3A, 193A, and 194A pipelines, meter stations and appurtenant facilities to our affiliate, El Paso Natural Gas Company, L.L.C. at our net book value of approximately $5 million. The abandonment did not impact the daily design capacity of, or the operating conditions on our remaining system.

2017 Tax Reform and FERC Tax Policies

During 2018, the FERC issued the following policy and order related to income taxes:

Revised Policy Statement on Treatment of Income Taxes (Revised Tax Policy)

In Docket No. PL17-1-000, as clarified under FERC’s Order on Rehearing, the FERC issued a revised policy statement to address income tax and rate of return policies for Master Limited Partnerships (MLPs) as a result of the decisions of the U.S. Court of Appeals for the District of Columbia Circuit in United Airlines, Inc., et al. v. FERC (United Airlines). The Revised Tax Policy provides a general policy statement notifying that an impermissible double recovery results from granting an MLP pipeline both an income tax allowance and a return on equity under the discounted cash flow methodology. The FERC clarified that each MLP pipeline may still propose an income tax allowance in a rate filing because the Revised Tax Policy is not a binding rule. The FERC will require other partnerships and pass-through entities seeking to recover an income tax allowance to address the double-recovery concern from United Airlines in subsequent proceedings. KMI, our parent company, has been organized as a C-corporation since 2014, and earnings from its pass-through subsidiaries are taxed at taxed at the parent level. As such, we do not believe that the Revised Tax Policy will have an effect on our ability to collect an income tax allowance in our rates.

Interstate and Intrastate Natural Gas Pipelines; Rate Changes Relating to Federal Income Tax Rate - (Order No. 849).

In Order No. 849, issued July 18, 2018, (Docket No. RM18-11) (Final Rule), the FERC required interstate pipelines to file an informational filing on a new Form No. 501-G to collect information to evaluate the impact of the 2017 Tax Reform and the Revised Tax Policy regarding tax allowances for interstate and intrastate natural gas pipelines. On August 17, 2018, certain affiliates of KMI, including us, and other unrelated parties jointly filed a request for rehearing of the Final Rule. The FERC issued an order granting rehearing for further consideration on September 17, 2018; however, based on the schedule included in the Final Rule, we filed our Form No. 501-G on December 6, 2018 under Docket No. RP19-413-000, opting that no adjustment to rates is necessary. The Final Rule established the FERC's presumption that negotiated rate contracts should be allowed to remain in effect without change. On March 20, 2019, the FERC terminated our Form No. 501-G proceeding without taking any further action.

9. Commitments

Transportation and Storage Commitments

We have entered into transportation commitments and storage capacity contracts totaling approximately $106 million as of December 31, 2018, of which $44 million is related to storage capacity contracts with our affiliate, Young Gas Storage Company, Ltd. and $62 million is related to transportation commitments with our affiliate, Wyoming Interstate Company, L.L.C. Our annual commitments under these agreements are $17 million in 2019, $17 million in 2020, $10 million in 2021, $10 million in 2022, $10 million in 2023, and $42 million in total thereafter.

Operating Leases

We lease property, facilities and equipment under various operating leases. Our future minimum annual rental commitments under our operating leases as of December 31, 2018, are as follows (in millions):

Year	Total
2019	$ 2
2020	2
2021	2
2022	3
2023	3
Thereafter	26
Total	$ 38

Rental expense on our lease obligations for each of the years ended December 31, 2018 and 2017 was approximately $1 million, and is reflected in "Operation and maintenance" on our accompanying Consolidated Statements of Income and Comprehensive Income. For certain operating leases related to shared facilities, we may be the primary obligor, but the rent expense is allocated to various KMI subsidiaries, including us, and is administered and funded by KMI.

10. Recent Accounting Pronouncement

Topic 842

On February 25, 2016, the FASB issued ASU No. 2016-02, "*Leases*" followed by a series of related accounting standard updates (collectively referred to as "Topic 842"). Topic 842 establishes a new lease accounting model for leases. The most significant changes include the clarification of the definition of a lease, the requirement for lessees to recognize for all leases a right-of-use asset and a lease liability in the consolidated balance sheet, and additional quantitative and qualitative disclosures which are designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. Expenses are recognized in the consolidated statement of income in a manner similar to current accounting guidance. Lessor accounting under the new standard is substantially unchanged. The new standard will become effective for us beginning with the first quarter 2019. We will adopt the accounting standard using a prospective transition approach, which applies the provisions of the new guidance at the effective date without adjusting the comparative periods presented. We have elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows us to carry forward the historical accounting relating to lease identification and classification for existing leases upon adoption. We have also elected the optional practical expedient permitted under the transition guidance within the new standard related to land easements that allows us to carry forward our historical accounting treatment for land easements on existing agreements upon adoption. We have made an accounting policy election to keep leases with an initial term of 12 months or less off of the consolidated balance sheet. We are finalizing our evaluation of the impacts that the adoption of this accounting guidance will have on the consolidated financial statements, and estimate approximately $27 million of additional right-of-use assets and liabilities will be recognized in our consolidated balance sheet upon adoption.