CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report

EL PASO NATURAL GAS COMPANY, L.L.C.

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

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Independent Auditor's Report

To the Management of El Paso Natural Gas Company, L.L.C.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of El Paso Natural Gas Company, L.L.C. at December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6 to the consolidated financial statements, the Company has extensive operations and relationships with affiliates of Kinder Morgan, Inc., the ultimate parent of Kinder Morgan Operating L.P. "A", the Company's member. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Houston, Texas
April 18, 2016

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

	Year Ended December 31,	
	2015	**2014**
Revenues	$ 634	$ 578
Operating Costs and Expenses		
Operations and maintenance	158	151
Depreciation and amortization	96	91
General and administrative	38	45
Taxes, other than income taxes	27	25
Total Operating Costs and Expenses	319	312
Operating Income	315	266
Other Income (Expense)		
Interest, net	(92)	(91)
Other, net	(3)	9
Total Other Income (Expense)	(95)	(82)
Income Before Income Taxes	220	184
Income Tax Expense	(1)	(1)
Net Income	219	183
Other Comprehensive Loss		
Adjustments to postretirement benefit plan	(13)	(2)
Comprehensive Income	$ 206	$ 181

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

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

	December 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ —
Accounts receivable, net	60	62
Inventories	43	45
Prepayments	16	19
Regulatory assets	4	17
Other current assets	4	13
Total current assets	127	156
Property, plant and equipment, net	2,160	2,219
Goodwill	565	565
Notes receivable from affiliates	63	86
Regulatory assets	49	51
Deferred charges and other assets	274	308
Total Assets	$ 3,238	$ 3,385
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 50	$ 48
Accrued interest	29	27
Accrued taxes, other than income taxes	4	4
Regulatory liabilities	13	14
Customer deposits	9	12
Rate liabilities	146	141
Other current liabilities	10	11
Total current liabilities	261	257
Long-term liabilities and deferred credits		
Long-term debt	1,115	1,115
Debt fair value adjustments	176	197
Other long-term liabilities and deferred credits	84	86
Total long-term liabilities and deferred credits	1,375	1,398
Total Liabilities	1,636	1,655
Commitments and contingencies (Notes 2 and 9)		
Member's Equity		
Member's equity	1,576	1,691
Accumulated other comprehensive income	26	39
Total Member's Equity	1,602	1,730
Total Liabilities and Member's Equity	$ 3,238	$ 3,385

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

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

	Year Ended December 31,	
	2015	**2014**
Cash Flows From Operating Activities		
Net income	$ 219	$ 183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96	91
Other non-cash items	8	(7)
Changes in components of working capital:		
Accounts receivable	2	(11)
Regulatory assets	13	4
Accounts payable	4	2
Regulatory liabilities	(1)	10
Other current assets and liabilities	15	20
Other long-term assets and liabilities	9	(36)
Net Cash Provided by Operating Activities	365	256
Cash Flows From Investing Activities		
Capital expenditures	(54)	(24)
Net change in notes receivable from affiliates	23	2
Sale or disposal of property, plant and equipment, net of salvage	3	7
Other, net	(3)	(15)
Net Cash Used in Investing Activities	(31)	(30)
Cash Flows From Financing Activities		
Contributions from Member	14	14
Distributions to Member	(348)	(240)
Net Cash Used in Financing Activities	(334)	(226)
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)	$ 87	$ 84

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

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

	Year Ended December 31,	
	2015	2014
Beginning Balance	$ 1,730	$ 1,775
Net income	219	183
Contributions	14	14
Distributions	(348)	(240)
Other comprehensive loss	(13)	(2)
Ending Balance	$ 1,602	$ 1,730

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

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

1. General

We are a Delaware limited liability company, originally formed in 1928 as a corporation. When we refer to "us," "we," "our," "ours," "the Company," or "EPNG" we are describing El Paso Natural Gas Company, L.L.C. and its consolidated subsidiaries. We are an indirect wholly owned subsidiary of Kinder Morgan, Inc. (KMI).

Our operations are regulated by the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 and the Energy Policy Act of 2005. The FERC approves tariffs that establish rates, cost recovery mechanisms and other terms and conditions of service to our customers.

Our primary business consists of the interstate transportation and storage of natural gas. We are the sole owner of the EPNG natural gas pipeline system and the Mojave Pipeline Company, L.L.C., the sole owner of the Mojave natural gas pipeline system. The EPNG system consists of approximately 10,235 miles of pipeline with a design capacity of 5.65 billion cubic feet per day for natural gas. The EPNG system extends from the San Juan, Permian and Anadarko basins to California, its single largest market, as well as markets in Arizona, Nevada, New Mexico, Oklahoma, Texas and northern Mexico. Its design capacity for natural gas reflects winter sustainable west-flow capacity of 4.87 billion cubic feet per day and approximately 800 million cubic feet per day of non-mainline capacity.

The Mojave system consists of approximately 468 miles of pipeline with a design capacity of approximately 0.4 billion cubic feet per day. The Mojave system connects with other pipeline systems including (i) the EPNG system near Cadiz, California; (ii) the EPNG and Transwestern Pipeline Company, LLC systems at Topock, Arizona; and (iii) the Kern River Gas Transmission Company system in California. The Mojave system also extends to customers in the vicinity of Bakersfield, California. The portion of the total design capacity of the Mojave system attributable to the Mojave Pipeline Company, LLC, reflects total east to west flow activity from Topock to Daggett. The east to west capacity from Topock to the Cadiz interconnect with EPNG is 456 million cubic feet per day.

In addition to our two pipeline systems, we utilize our Washington Ranch underground natural gas storage facility located in New Mexico to manage transportation needs and to offer interruptible storage services. This storage facility has up to 44 billion cubic feet of underground working natural gas storage capacity.

2. Summary of Significant Accounting Policies

Basis of Presentation

We have prepared our accompanying consolidated financial statements in accordance with the accounting principles contained in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification, the single source of United States Generally Accepted Accounting Principles (GAAP) and referred to in this report as the Codification. Additionally, certain amounts from the prior year have been reclassified to conform to the current presentation.

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

Principles of Consolidation

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

Use of Estimates

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

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

Cash Equivalents

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

Accounts Receivable, net

We establish provisions for losses on accounts receivable due from shippers and operators if we determine that we will not collect all or part of the outstanding balance. We regularly review collectability and establish or adjust our allowance as necessary using the specific identification method. The allowance for doubtful accounts as of December 31, 2015 and 2014 was not significant.

Inventories

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

Natural Gas Imbalances

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

Property, Plant and Equipment, net

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

We use the composite method to depreciate regulated property, plant and equipment. Under this method, assets with similar economic characteristics are grouped and depreciated as one asset. The FERC-accepted depreciation rate is applied to the total cost of the group until the net book value equals the salvage value. For certain general plant, the asset is depreciated to zero. As a part of periodic filings with the FERC, we also re-evaluate and receive approval for our depreciation rates. When property, plant and equipment is retired, accumulated depreciation and amortization is charged for the original cost of the assets in addition to the cost to remove, sell or dispose of the assets, less salvage value. We do not recognize gains or losses unless we sell land or sell or retire an entire operating unit, (as approved by the FERC).

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 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 Consolidated Statements of Income and Comprehensive Income. The amounts of capitalized AFUDC were not significant for the years ended December 31, 2015 and 2014.

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 assets because these assets have indeterminate lives. We continue to evaluate our ARO and future developments could impact the amounts we record. As of December 31, 2015 and 2014, our recorded ARO were approximately $5 million.

Asset Impairments

We evaluate our assets for impairment when events or circumstances indicate that their carrying values may not be recovered. These events include changes in the manner in which we intend to use a long-lived asset, decisions to sell an asset and adverse changes in market conditions or in the legal or business environment such as adverse actions by regulators. If an event occurs, which is a determination that involves judgment, we evaluate the recoverability of our carrying values of our long-lived assets based on the long-lived asset's ability to generate future cash flows on an undiscounted basis. 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, 2015 and 2014.

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 accompanying Consolidated Balance Sheets. Our total goodwill, which resulted from the application of "push-down" accounting associated with KMI's acquisition of El Paso Corporation (El Paso) on May 25, 2012, was $565 million as of December 31, 2015 and 2014. 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 had decreased below its carrying value.

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

Revenue Recognition

We are subject to FERC regulations, therefore fees and rates established under our tariff are a function of our cost of providing services to our customers, including a reasonable return on our invested capital. Our revenues are primarily generated from natural gas transportation and storage services and include estimates of amounts earned but unbilled. We estimate these unbilled revenues based on contract data, regulatory information, and preliminary throughput and allocation measurements, among other items. Revenues for all services are based on the thermal quantity of gas delivered or subscribed at a price specified in the contract. For our transportation services and storage services, we recognize reservation revenues on firm contracted capacity ratably over the contract period regardless of the amount of natural gas that is transported or stored. For interruptible or volumetric-based services, we record revenues when physical deliveries of natural gas are made at the agreed upon delivery point or when gas is injected or withdrawn from the storage facility. For contracts with step-up or step-down rate provisions that are not related to changes in levels of service, we recognize reservation revenues ratably over the contract life. The revenues we collect may be subject to refund in a rate proceeding. We establish reserves for these potential refunds. As of December 31, 2015 and 2014, we had $146 million and $141 million, respectively, in reserves for potential refunds pursuant to pending FERC rate proceedings. For more information on our regulatory matters, see Note 8.

For the year ended December 31, 2015, revenues from our two largest non-affiliate customers were approximately $91 million and $75 million, respectively, each of which exceeded 10% of our operating revenues. For year ended December 31, 2014 revenues from our three largest non-affiliate customers were approximately $68 million, $64 million and $63 million, respectively, each of which exceeded 10% of our operating revenues.

Environmental Matters

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

We routinely conduct reviews of potential environmental issues and claims that could impact our assets or operations. These reviews assist us in identifying environmental issues and estimating the costs and timing of remediation efforts. We also routinely adjust our environmental liabilities to reflect changes in previous estimates. In making environmental liability estimations, we consider the material effect of environmental compliance, pending legal actions against us, and potential third-party liability claims. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in our income in the period in which they are reasonably determinable. For more information on our environmental disclosures, see Note 9.

Other Contingencies

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

Postretirement Benefits

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

In accounting for our postretirement benefit plan, we record an asset or liability based on the difference between the fair value of the plan's assets and the plan's benefit obligations. 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 income taxes 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.

Regulated Operations

Our interstate natural gas pipeline and storage operations are subject to the jurisdiction of the FERC and are accounted for in accordance with Accounting Standards Codification Topic 980, “Regulated Operations.” Under these standards, we record regulatory assets and liabilities that would not be recorded for non-regulated entities. Regulatory assets and liabilities represent probable future revenues or expenses associated with certain charges or credits that are expected to be recovered from or refunded to customers through the rate making process. Items to which we apply regulatory accounting requirements include certain postretirement benefit plan costs, losses on reacquired debt, taxes related to an equity return component on regulated capital projects prior to our change in legal structure to a non-taxable entity, and certain cost difference between gas retained and gas consumed in operations and other costs included in, or expected to be included in, future rates. For more information on our 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, 2015	December 31, 2014
Transmission and storage facilities	1.09 - 10	$ 2,322	$ 2,277
General plant	1.66 - 33	44	48
Intangible plant	4 - 20	14	15
Other		61	72
Accumulated depreciation and amortization(a)		(293)	(209)
		2,148	2,203
Construction work in progress		12	16
Property, plant and equipment, net		$ 2,160	$ 2,219

(a) The composite weighted average depreciation rates for the years ended December 31, 2015 and 2014 were approximately 4.0% and 3.9%, respectively.

4. Debt

We classify our debt based on the contractual maturity dates of the underlying debt instruments.

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

	December 31, 2015	December 31, 2014
5.95% Notes due April 2017	$ 355	$ 355
8.625% Debentures due January 2022	260	260
7.50% Debentures due November 2026	200	200
8.375% Notes due June 2032	300	300
Total debt	$ 1,115	$ 1,115

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

Debt Covenants

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

5. Retirement Benefits

Pension and Retirement Savings Plans

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

Postretirement Benefits Plan

We provide postretirement benefits, including medical benefits for a closed group of retirees. Medical benefits for this closed group may be subject to deductibles, co-payment provisions, and other limitations and dollar caps on the amount of employer costs, and are subject to further benefit changes by KMI, the plan sponsor. Effective January 1, 2014, the plan was amended to provide a fixed subsidy to post-age 65 Medicare eligible participants to purchase coverage through a retiree Medicare exchange. In addition, certain former employees continue to receive limited postretirement life insurance benefits. Our postretirement benefit plan costs were prefunded and were recoverable under prior rate case settlements. Currently, there is no cost recovery or related funding that is required as part of our current FERC approved rates, however, we can seek to recover any funding shortfall that may be required in the future. We do not expect to make any contributions to our postretirement benefit plan in 2016, and there were no contributions made in 2015 and 2014. KMI's postretirement plans have been merged. We are permitted to use combined plan assets under the structure of the plans of our affiliated entities to fund participant benefits, including participants of affiliated entities.

Postretirement Benefit Obligation, Plan Assets and Funded Status

Our postretirement benefit obligations and net benefit costs are primarily based on actuarial calculations. We use various assumptions in performing these calculations, including those related to the return that we expect to earn on our plan assets, the estimated cost of health care when benefits are provided under our plan and other factors. A significant assumption we utilize is the discount rates used in calculating the benefit obligations. For 2015, we selected our discount rate by matching the timing and amount of our expected future benefit payments for our postretirement benefit obligation to the average yields of various high-quality bonds with corresponding maturities.

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

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

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

	December 31, 2015	December 31, 2014
Change in postretirement benefit obligation:		
Postretirement benefit obligation — beginning of period	$ 20	$ 23
Interest cost	1	1
Actuarial (gain) loss	(1)	1
Benefits paid(a)	(2)	(5)
Postretirement benefit obligation — end of period	$ 18	$ 20
Change in plan assets:		
Fair value of plan assets — beginning of period	$ 101	$ 104
Actual return on plan assets	(3)	10
Employer contributions/transfers	(9)	(8)
Benefits paid	(2)	(5)
Fair value of plan assets — end of period	$ 87	$ 101
Reconciliation of funded status:		
Fair value of plan assets	$ 87	$ 101
Less: postretirement benefit obligation	18	20
Net asset at December 31(b)	$ 69	$ 81

(a) Amounts shown net of a subsidy of less than $1 million for each of the years ended December 31, 2015 and 2014 related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

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

Components of Accumulated Other Comprehensive Income

The amounts recognized in "Accumulated other comprehensive income" as of December 31, 2015 and 2014 of $26 million and $39 million, respectively, is primarily related to unrecognized gains. We anticipate that $3 million of "Accumulated other comprehensive income" will be recognized as part of our net periodic benefit income in 2016.

Plan Assets

The primary investment objective of our plan is to ensure that, over the long-term life of the plan, an adequate pool of sufficiently liquid assets exists to meet the benefit obligations to retirees and beneficiaries. Investment objectives are long-term in nature covering typical market cycles. Any shortfall of investment performance compared to investment objectives is generally the result of economic and capital market conditions. Although actual allocations vary from time to time from our targeted allocations, the target allocations of our postretirement plan's assets are 4% cash, 30% fixed income, 59% equity and 7% master limited partnerships.

We use various methods to determine the fair values of the assets in our other postretirement benefit plans, which are impacted by a number of factors, including the availability of observable market data over the contractual term of the underlying assets. Generally, we separate these assets into three levels (Level 1, 2 and 3) based on our assessment of the availability of this market data and the significance of non-observable data used to determine the fair value of these assets. As of December 31, 2015, assets were comprised of a money market fund with a fair value of $2 million, domestic equity securities with a fair value of $1 million, and master limited partnerships with a fair value of $4 million. As of December 31, 2014, assets were comprised of a money market fund with a fair value of $12 million, domestic equity securities with a fair value of $2 million, and master limited partnerships with a fair value of $6 million. Money market funds are valued at amortized cost, which approximates fair value (which is considered a Level 2 measurement). The domestic equity securities and the master limited partnerships are exchange traded, and the fair value (which is considered a Level 1 measurement) is determined based on the price quoted for the investment in actively traded markets. In 2015, we adopted Accounting Standards Update (ASU) No. 2015-07, *"Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)."* This ASU removes the requirement to include investments in the fair value hierarchy for which the fair value is measured at Net Asset Value (NAV) using the practical expedient under Topic 820. Plan assets with fair values that are based on NAV per share, or its equivalent, as reported by the issuers, are determined based on the fair value of the underlying securities as of the valuation date and include common collective trusts that are invested in fixed income and equity securities, fixed income trusts and limited partnerships which are primarily invested in global equity securities. The fair value of the fixed income trusts as of December 31, 2015 and 2014 is $4 million and $5 million, respectively. The fair value of the limited partnerships as of December 31, 2015 and 2014 is $5 million. The fair value of the common collective trusts as of December 31, 2015 and 2014 is $71 million. The plan does not have any assets that are considered Level 3 measurements. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values, and there have been no changes in the methodologies used as of December 31, 2015 and 2014.

Expected Payment of Future Benefits

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

Year	Total
2016	$ 3
2017	2
2018	2
2019	2
2020	1
2021 - 2025	6

Actuarial Assumptions and Sensitivity Analysis

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

	2015	2014
	(%)	
Assumptions related to benefit obligations at December 31:		
Discount rate	3.51	3.14
Assumptions related to benefit costs for the year ended December 31:		
Discount rate	3.14	3.86
Expected return on plan assets(a)	7.25	7.60

(a) The expected return on plan assets listed in the table above is a pre-tax rate of return based on our portfolio of investments. We utilize an after-tax expected return on plan assets to determine our benefit costs, which is based on unrelated business income taxes with a weighted average rate of 21% for both 2015 and 2014.

Actuarial estimates for our postretirement benefit plan assumed a weighted average annual rate of increase in the per capita costs of covered health care benefits of 6.1%, gradually decreasing to 4.5% by the year 2038. A one-percentage point change in assumed health care trends would not have had a significant effect on the postretirement benefit obligation or interest costs for the years ended December 31, 2015 or 2014.

Components of Net Benefit Income

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

	Year Ended December 31,	
	2015	2014
Interest cost	$ 1	$ 1
Expected return on plan assets	(7)	(7)
Amortization of prior service credit	(2)	(2)
Amortization of net actuarial gain	(2)	(2)
Net benefit income	$ (10)	$ (10)

6. Related Party Transactions

Cash Management Program

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

Other Affiliate Balances and Activities

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

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

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

	December 31,	
	2015	2014
Accounts receivable	$ —	$ 6
Natural gas imbalance receivable(a)	—	1
Accounts payable	19	24
Natural gas imbalance payable(b)	1	1

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

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

	Year Ended December 31,	
	2015	2014
Revenues	$ 19	$ 20
Operation, maintenance and capitalized costs	50	46
General and administrative(a)	32	38

(a) Includes severance costs of $5 million for the year ended December 31, 2014 allocated to us from KMI.

Subsequent Event

In March 2016, we made a cash distribution to our Member of $81 million and received a capital contribution from our Member of $2 million.

7. Fair Value

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

	As of December 31,			
	2015		2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Total debt (a)	$ 1,291	$ 1,144	$ 1,312	$ 1,344

(a) As of December 31, 2015 and 2014, carrying amounts include $176 million and $197 million, respectively, of unamortized excess fair value adjustment resulting from the application of "push down" accounting associated with KMI's acquisition of El Paso on May 25, 2012.

We separate the fair values of our financial instruments into levels based on our assessment of the availability of observable market data and the significance of non-observable data used to determine the estimated fair value. We estimated the fair values of our 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, 2015 and 2014, there were no changes to the inputs and valuation techniques used to measure fair value, the types of instruments, or the levels in which they were classified.

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

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, 2015, substantially all of our regulatory assets are being recovered as cost of service in our rates over a period of approximately one year to 23 years. Below are the details of our regulatory assets and liabilities (in millions)**:**

	December 31,	
	2015	2014
Current regulatory assets		
Difference between gas retained and gas consumed in operations	$ 2	$ 14
Other	2	3
Total current regulatory assets	4	17
Non-current regulatory assets		
Taxes on capitalized funds used during construction	19	20
Unamortized loss on reacquired debt	15	19
Postretirement benefits	3	3
Other	12	9
Total non-current regulatory assets	49	51
Total regulatory assets	$ 53	$ 68
Current regulatory liabilities		
Difference between gas retained and gas consumed in operations	$ 5	$ 9
Other	8	5
Total current regulatory liabilities	13	14
Non-current regulatory liabilities		
Property and plant depreciation	35	35
Postretirement benefits	9	9
Other	1	2
Total non-current regulatory liabilities (a)	45	46
Total regulatory liabilities	$ 58	$ 60

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

The significant regulatory assets and liabilities include:

Difference between gas retained and gas consumed in operations

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

Taxes on capitalized funds used during construction

These regulatory asset balances were established to offset the deferred tax for the equity component of 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.

Postretirement benefits

Represents differences in postretirement benefit costs expensed and the amounts previously recovered in rates. Prior to our 2011 rate case settlement, these balances also included unrecognized gains and losses or changes in actuarial assumptions related to our postretirement benefit plan. As part of our rate case settlement, we no longer include these costs in our rates.

Property and plant depreciation

Represents the deferral of customer-funded amounts for costs of future asset retirements and costs previously collected in our rates for the depreciation of certain assets in excess of normal depreciation rates.

Regulatory Matter

The tariffs and rates charged by us are subject to two ongoing FERC proceedings (the "2008 rate case" and the "2010 rate case"). With respect to the 2008 rate case, the FERC issued its decision (Opinion 517-A) in July 2015. The FERC generally upheld its prior determinations, ordered refunds to be paid within 60 days, and stated that it will apply its findings in Opinion 517-A to the same issues in the 2010 rate case. We have sought federal appellate review of Opinion 517-A. With respect to the 2010 rate case, the FERC issued its decision (Opinion 528-A) on February 18, 2016. The FERC generally upheld its prior determinations, affirmed prior findings of an Administrative Law Judge that certain shippers qualify for lower rates, and required us to file revised pro forma recalculated rates consistent with the terms of Opinions 517-A and 528-A. We have sought rehearing of certain aspects of the decision. All refund obligations related to the 2008 rate case were extinguished during calendar year 2015. Related to the 2010 rate case, we believe we have an appropriate reserve related to the findings in Opinions 517-A and 528-A.

9. Litigation, Environmental and Commitments

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

Legal Proceeding

Bank of America

We are a named defendant, along with Burlington Resources, Inc. (Burlington), now a subsidiary of ConocoPhillips Company, in a class action lawsuit styled *Bank of America, et al. v. El Paso Natural Gas and Burlington Resources Oil and Gas Company, L.P.,* filed in October 2003 in the District Court of Kiowa County, Oklahoma asserting royalty underpayment claims related to specified shallow wells in Oklahoma, Texas and New Mexico. The Plaintiffs assert that royalties were underpaid starting in the 1980s when the purchase price of gas was lowered below the Natural Gas Policy Act maximum lawful prices. The Plaintiffs have only alleged an amount of damages against our co-defendant, Burlington. We believe that our actions in the 1980s were proper in light of a declining market. We also contend that we are entitled to an indemnity from Burlington under our 1992 separation agreement for all claims related to royalty payments, which Burlington denies. The Plaintiffs assert that royalties were further underpaid by Burlington as a result of post-production cost deductions taken starting in the late 1990s. We have no liability for the post-production claims as they pertain to periods after our separation from Burlington. This action was transferred to Washita County District Court in 2004. A tentative settlement reached in November 2005 was rejected by the court in June 2007. A class certification hearing occurred in April 2009. The court certified a Texas and Oklahoma class of royalty owners. The class certification was upheld by the Oklahoma Court of Appeals, and a petition for review was denied by the Oklahoma Supreme Court. The Plaintiffs have proceeded with discovery of the post-production claims against Burlington. The Plaintiffs' motion to certify a class of New Mexico royalty owners was granted, and this certification was upheld by the Oklahoma Court of Appeals and Oklahoma Supreme Court. Our costs and legal exposure related to this lawsuit are not currently determinable.

General

We had no accruals for any outstanding legal proceedings as of December 31, 2015 and 2014.

Environmental Matters

We are subject to environmental cleanup and enforcement actions from time to time. In particular, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) generally imposes joint and several liability for cleanup and enforcement costs on current and predecessor owners and operators of a site, among others, without regard to fault or the legality of the original conduct, subject to the right of a liable party to establish a “reasonable basis” for apportionment of costs. Our operations are also subject to federal, state and local laws and regulations relating to protection of the environment. Although we believe our operations are in substantial compliance with applicable environmental law and regulations, risks of additional costs and liabilities are inherent in our operations, and there can be no assurance that we will not incur significant costs and liabilities. Our insurance may not cover all environmental risks and costs and/or may not provide sufficient coverage in the event an environmental claim is made against us. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies under the terms of authority of those laws, and claims for damages to property or persons resulting from our operations, could result in substantial costs and liabilities to us.

Uranium Mines in Vicinity of Cameron, Arizona

In the 1950s and 1960s, Rare Metals, Inc., a historical subsidiary, mined approximately twenty uranium mines in the vicinity of Cameron, Arizona, many of which are located on the Navajo Indian Reservation. The mining activities were in response to numerous incentives provided to industry by the U.S. to locate and produce domestic sources of uranium to support the Cold War-era nuclear weapons program. In May 2012, we received a general notice letter from the Environmental Protection Agency (EPA) notifying us of their investigation of certain sites and its determination that the EPA considers us to be a potentially responsible party within the meaning of CERCLA. In August 2013, we and the EPA entered into an Administrative Order on Consent and Scope of Work pursuant to which we will conduct a radiological assessment of the surface of the mines. On September 3, 2014, we filed a complaint in the U.S. District Court for the District of Arizona (Case No. 3:14-08165-DGC) seeking cost recovery and contribution from the applicable federal government agencies toward the cost of environmental activities associated with the mines, given the pervasive control of such federal agencies over all aspects of the nuclear weapons program. Defendants filed an answer and counterclaims seeking contribution and recovery of response costs allegedly incurred by the federal agencies in investigating uranium impacts on the Navajo Reservation. The counterclaim of defendant EPA has been settled and no viable claims for reimbursement by the other defendants are known to exist.

Superfund Matters

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

General

Although it is not possible to predict the ultimate outcomes, we believe that the resolution of the environmental matters set forth in this note, and other matters to which we and our subsidiaries are a party, will not have a material adverse effect on our business, financial position, results of operations or cash flows. As of December 31, 2015 and 2014, we have accrued a total reserve for environmental liabilities in the amount of $35 million and $37 million, respectively.

We expect to make capital expenditures for environmental matters of approximately $2 million in the aggregate for the years 2016 through 2020, including capital expenditures associated with air permitting and compliance at the state and federal level.

Commitments

Capital Commitments

As of December 31, 2015, we have commitments for purchases of plant, property and equipment of $3 million, which we expect to spend during 2016. We have other planned capital and investment projects that are discretionary in nature, with no substantial contractual capital commitments made in advance of the actual expenditures.

Other Commercial Commitments

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

Leases and Rights-of-Way Obligations

We lease property, facilities and equipment under various operating leases. Future minimum annual rental commitments under our operating leases and rights-of-way obligations as of December 31, 2015, are as follows (in millions):

Year	Total
2016	$ 25
2017	25
2018	25
2019	25
2020	25
Thereafter	149
Total	$ 274

Rental expense on our lease obligations and rights-of-way obligations for the the years ended December 31, 2015 and 2014 was approximately $30 million, and $27 million, respectively, and is reflected in "Operations and maintenance" on our accompanying Consolidated Statements of Income and Comprehensive Income.

10. Recent Accounting Pronouncement

ASU No. 2014-09

On May 28, 2014, the FASB issued ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606)."* This ASU is designed to create greater comparability for financial statement users across industries and jurisdictions. The provisions of ASU No. 2014-09 include a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which an entity expects to be entitled in exchange for those goods or services. The standard also will require enhanced disclosures, provide more comprehensive guidance for transactions such as service revenue and contract modifications, and enhance guidance for multiple-element arrangements. ASU No. 2014-09 will be effective for us January 1, 2018. Early adoption is permitted for the interim periods within the adoption year. We are currently reviewing the effect of ASU No. 2014-09 on our revenue recognition and assessing the timing of our adoption.