CONSOLIDATED FINANCIAL STATEMENTS
With Report of Independent Auditors

TENNESSEE GAS PIPELINE COMPANY, L.L.C.

As of December 31, 2017 and 2016 and
For the Years Ended December 31, 2017 and 2016

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

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

We have audited the accompanying consolidated financial statements of Tennessee Gas Pipeline Company, L.L.C. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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 Tennessee Gas Pipeline Company, L.L.C. and its subsidiary as of December 31, 2017 and 2016, 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 7 to the consolidated financial statements, the Company has extensive operations and relationships with affiliated entities. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Houston, Texas
April 17, 2018

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

	Year Ended December 31,	
	2017	**2016**
Revenues	$ 1,476	$ 1,445
Operating Costs and Expenses		
Operations and maintenance	314	268
Depreciation and amortization	193	188
General and administrative	64	68
Taxes, other than income taxes	81	70
Loss (gain) on impairment and divestitures, net	27	(2)
Total Operating Costs and Expenses	679	592
Operating Income	797	853
Other Income (Expense)		
Earnings from equity investment	8	8
Interest, net	(108)	(128)
Other, net (Notes 4 and 8)	5	17
Total Other Income (Expense)	(95)	(103)
Income Before Income Taxes	702	750
Income Tax Expense	(2)	(1)
Net Income	700	749
Other Comprehensive Income		
Adjustments to postretirement benefit plan	2	2
Comprehensive Income	$ 702	$ 751

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

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

	December 31,	
	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ —
Accounts receivable, net	149	139
Inventories	50	49
Regulatory assets	48	41
Natural gas imbalance receivable	25	40
Other current assets	2	2
Total current assets	274	271
Property, plant and equipment, net	5,540	4,981
Goodwill	3,250	3,250
Note receivable from affiliate	3	3
Investment	63	61
Regulatory assets	201	233
Deferred charges and other assets	294	306
Total Assets	$ 9,625	$ 9,105
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 152	$ 78
Accrued interest	48	35
Accrued taxes, other than income taxes	55	54
Contractual deposits	47	14
Natural gas imbalance payable	22	27
Other current liabilities	50	37
Total current liabilities	374	245
Long-term liabilities and deferred credits		
Long-term debt	1,240	1,540
Debt fair value adjustments	249	266
Notes payable to affiliate	550	250
Other long-term liabilities and deferred credits	110	35
Total long-term liabilities and deferred credits	2,149	2,091
Total Liabilities	2,523	2,336
Commitments and contingencies (Note 9)		
Member’s Equity		
Member's equity	7,105	6,774
Accumulated other comprehensive loss	(3)	(5)
Total Member’s Equity	7,102	6,769
Total Liabilities and Member’s Equity	$ 9,625	$ 9,105

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

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

	Year Ended December 31,	
	2017	**2016**
Cash Flows From Operating Activities		
Net income	$ 700	$ 749
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	193	188
Earnings from equity investment	(8)	(8)
Loss (gain) on impairment and divestitures, net	27	(2)
Other non-cash items	(28)	(17)
Distributions from equity investment earnings	6	8
Changes in components of working capital:		
Accounts receivable	(11)	2
Regulatory assets	(6)	(22)
Accounts payable	(4)	1
Accrued interest	13	3
Other current assets and liabilities	58	(27)
Other long-term assets and liabilities	68	49
Net Cash Provided by Operating Activities	1,008	924
Cash Flows From Investing Activities		
Capital expenditures	(622)	(442)
Sale or disposal of property, plant and equipment, net of cost of removal	(16)	(19)
Other, net	(1)	7
Net Cash Used in Investing Activities	(639)	(454)
Cash Flows From Financing Activities		
Proceeds from promissory notes payable to affiliate	300	250
Payments of debt	(300)	(250)
Contributions from Member	663	293
Distributions to Member	(1,032)	(818)
Net change in notes payable to affiliates	—	55
Net Cash Used in Financing Activities	(369)	(470)
Net Change in Cash and Cash Equivalents	—	—
Cash and Cash Equivalents, beginning of period	—	—
Cash and Cash Equivalents, end of period	$ —	$ —
Non-cash Investing Activities		
Net increase in property, plant and equipment from both accruals and contractor retainage	$ 77	
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest (net of capitalized interest)	$ 95	$ 125

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

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

	Year Ended December 31,	
	2017	2016
Beginning Balance	$ 6,769	$ 6,543
Net income	700	749
Contributions	663	293
Distributions	(1,032)	(818)
Other comprehensive income	2	2
Ending Balance	$ 7,102	$ 6,769

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

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

1. General

We are a Delaware limited liability company, originally formed in 1947 as a corporation. When we refer to "us," "we," "our," "ours," "the Company," or "TGP," we are describing Tennessee Gas Pipeline Company, L.L.C. and its consolidated subsidiary. We are an indirect wholly owned subsidiary of Kinder Morgan, Inc. (KMI).

Our operations are regulated by the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act (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.

Our primary business consists of the interstate transportation and storage of natural gas. Our natural gas pipeline system consists of approximately 11,750 miles of pipeline with a design capacity of approximately 12.0 billion cubic feet (Bcf) per day. This multiple-line system begins in the natural gas producing regions of Louisiana, the Gulf of Mexico and south Texas and extends to the northeast region of the United States (U.S.), including the metropolitan areas of New York City and Boston. Our system connects with multiple pipelines (including interconnects at the U.S. and Mexico border and the U.S. and Canada border) and connects to four major shale formations, providing customers with access to diverse resources of supply and various natural gas markets. Along our pipeline system, we have approximately 106 Bcf of underground working natural gas storage capacity through partially owned facilities or long-term contracts. Of this total storage capacity, approximately 29.6 Bcf is contracted from Bear Creek Storage Company, L.L.C. (Bear Creek), located in Bienville Parish, Louisiana. Bear Creek is a joint venture equally owned by us and Southern Natural Gas Company, L.L.C. (SNG), an affiliate. The Bear Creek facility has approximately 59.2 Bcf of working natural gas storage capacity that is committed equally to SNG and us.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Management has evaluated subsequent events through April 17, 2018, the date the financial statements were available to be issued.

Principles of Consolidation

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

Use of Estimates

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

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

Cash Equivalents

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

Accounts Receivable, net

We establish provisions for losses on accounts receivable due from shippers and operators if we determine that we will not collect all or part of the outstanding balance. We regularly review collectability and establish or adjust our allowance as necessary using the specific identification method. The allowance for doubtful accounts as of December 31, 2017 and 2016 was not significant.

Inventories

Our inventories, which consist 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 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. For more information on our regulatory asset (“Unamortized loss on sale of assets”) that we recorded associated with the sale of certain of our assets, see Note 8.

Included in our property balances are base gas and working gas at our storage facilities. We periodically evaluate natural gas volumes at our storage facilities for gas losses. When events or circumstances indicate a loss has occurred, we recognize a loss on our accompanying Consolidated Statements of Income and Comprehensive Income or defer the loss as a regulatory asset on our accompanying Consolidated Balance Sheets if deemed probable of recovery through future rates charged to customers.

We capitalize a carrying cost (an allowance for funds used during construction or AFUDC) on debt and equity funds related to the construction of long-lived assets. This carrying cost consists of a return on the investment financed by debt and a return on the investment financed by equity. The debt portion is calculated based on our average cost of debt. Interest costs capitalized are included as a reduction in “Interest, net” on our accompanying Consolidated Statements of Income and Comprehensive Income. The equity portion is calculated based on our most recent FERC approved rate of return. Equity amounts capitalized are included in “Other, net” on our accompanying Consolidated Statements of Income and Comprehensive Income. For more information on our AFUDC, see Note 4.

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 recorded ARO were not significant as of December 31, 2017 and 2016.

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. See Note 3 regarding an impairment on long-lived assets recorded during the year ended December 31, 2017. There was no impairment for the year ended December 31, 2016.

Equity Method of Accounting

We account for investments, which we do not control but do have the ability to exercise significant influence, by the equity method of accounting. Under this method, our equity investments are carried originally at our acquisition cost, increased by our proportionate share of the investee's net income and by contributions made, and decreased by our proportionate share of the investee's net losses and by distributions received.

Goodwill

Goodwill is the cost of an acquisition in excess of the fair value of acquired assets and liabilities and is recorded as an asset on our accompanying Consolidated Balance Sheets. Goodwill is not subject to amortization, but we evaluate goodwill for impairment on May 31 of each year. Generally, the evaluation of goodwill for impairment involves a two-step test, although under certain circumstance an initial qualitative evaluation may be sufficient to conclude that goodwill is not impaired without conducting the quantitative test. For purposes of goodwill testing, we have only one reporting unit.

Step 1 involves comparing the estimated fair value of the reporting unit to its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, the reporting unit's goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, step 2 must be performed. Step 2 involves calculating an implied fair value of goodwill by performing a hypothetical allocation of the estimated fair value of the reporting unit determined in step 1 to the respective tangible and intangible net assets of the reporting unit. The remaining implied goodwill is then compared to the actual carrying amount of the goodwill for the reporting unit. To the extent the carrying amount of goodwill exceeds the implied goodwill, the difference is the amount of the goodwill impairment.

We determine the fair value of our reporting unit based on a market approach utilizing enterprise value to estimated earnings before interest, taxes, depreciation and amortization multiples of comparable companies. The value of the reporting unit is determined on a standalone basis from the perspective of a market participant representing the price estimated to be received in a sale of the reporting unit in an orderly transaction between market participants at the measurement date. As of May 31, 2017, our

reporting unit indicated a fair value in excess of its respective carrying value, step 2 was not required and we have not identified any triggers for further impairment analysis during the remainder of the year.

The fair value estimate of our reporting unit was based on Level 3 inputs of the fair value hierarchy.

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.

For the years ended December 31, 2017 and 2016, there were no customers whose revenues 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, which do not contribute to current or future revenue generation. We generally do not discount environmental liabilities to a net present value, and we record environmental liabilities when environmental assessments and/or remedial efforts are probable and we can reasonably estimate the costs. Generally, our recording of these accruals coincides with our completion of a feasibility study or our commitment to a formal plan of action. We recognize receivables for anticipated associated insurance recoveries when such recoveries are deemed to be probable.

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

Other Contingencies

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

Postretirement Benefits

We 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 on 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 6.

In accounting for our postretirement benefit plan, we record an asset or liability based on the difference between the fair value of the plan's assets and the plan's benefit obligation. Any deferred amounts related to unrecognized gains and losses or changes in

actuarial assumptions are recorded on our accompanying Consolidated Balance Sheets in “Accumulated other comprehensive loss” 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 refunded to customers through the ratemaking process. Items to which we apply regulatory accounting requirements include certain losses on reacquired debt, losses on sale of certain long-lived assets, taxes related to an equity return component on regulated capital projects prior to our change in legal structure to a non-taxable entity, and certain cost differences between gas retained and gas consumed in operations, 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. Divestiture

On October 3, 2017, we filed a joint application with the FERC seeking authorization to abandon by sale, to National Fuel Gas Supply Corporation (National Fuel), our 50% ownership interest in the Colden Storage Field (including all of our ownership interest in the base gas stored in the field) located in Erie County, New York. On April 4, 2018, we received the FERC's authorization for the abandonment. In conjunction with our joint application to the FERC, on October 3, 2017, we entered into an agreement with National Fuel to sell our interest in the Colden Storage Field for a nominal amount of $1. We recorded a loss on impairment of long-lived assets of approximately $27 million on our accompanying Consolidated Statement of Income and Comprehensive Income for the year ended December 31, 2017.

4. Property, Plant and Equipment, net

Classes and Depreciation Rates

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

	Annual Depreciation Rates %	December 31, 2017	2016
Transmission and storage facilities	1.2 - 6.67	$ 5,490	$ 4,991
General plant	3.1 - 24.0	160	160
Intangible plant	3.1 - 14.0	85	79
Other		32	29
Accumulated depreciation and amortization(a)		(748)	(601)
		5,019	4,658
Land		11	11
Construction work in progress		510	312
Property, plant and equipment, net		$ 5,540	$ 4,981

(a) The composite weighted average depreciation rates for the years ended December 31, 2017 and 2016 were approximately 3.4% and 3.6%, respectively.

Capitalized Costs During Construction

	Year Ended December 31, 2017	2016
	(in millions)	
AFUDC - debt	$ 9	$ 6
AFUDC - equity	31	19

5. 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, 2017	2016
7.5% Debentures due April 2017(a)	$ —	$ 300
7.0% Debentures due March 2027	300	300
7.0% Debentures due October 2028	400	400
8.375% Notes due June 2032	240	240
7.625% Debentures due April 2037	300	300
Total debt	$ 1,240	$ 1,540

(a) As of December 31, 2016, we included $300 million of our 7.5% debentures due April 2017 within the caption "Long-term debt" on our accompanying Consolidated Balance Sheet. See "*Debt Repayments*" below.

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.

Debt Repayments

In February 2016 and April 2017, we repaid our $250 million 8.0% notes and $300 million 7.5% debentures, respectively, with proceeds received from long-term promissory notes with KMI. For further information, see Note 7.

Debt Covenants

Under our various other 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, 2017 and 2016, we were in compliance with our debt-related covenants.

6. Retirement Benefits

Pension and Retirement Savings Plans

KMI maintains a pension plan and a retirement savings plan covering substantially all of its U.S. employees, including 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 2018 and there were no contributions made in 2017 and 2016. KMI's postretirement plans have been merged. Prior to 2017, KMI used 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. 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, 2017 and 2016 (in millions):

	2017	2016
Change in plan assets:		
Fair value of plan assets - beginning of period	$ 49	$ 44
Actual return on plan assets	4	5
Employer contributions/transfers	(2)	1
Benefits paid	(1)	(1)
Fair value of plan assets - end of period	$ 50	$ 49
Change in postretirement benefit obligation:		
Postretirement benefit obligation - beginning of period	$ 13	$ 13
Benefits paid	(1)	(1)
Actuarial (gain) loss	(1)	1
Postretirement benefit obligation - end of period	$ 11	$ 13
Reconciliation of funded status:		
Fair value of plan assets	$ 50	$ 49
Less: postretirement benefit obligation	11	13
Net asset at December 31(a)	$ 39	$ 36

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

Components of Accumulated Other Comprehensive Loss

The amounts included in “Accumulated other comprehensive loss” as of December 31, 2017 and 2016 of $3 million and $5 million, respectively, are primarily related to unrecognized losses. We anticipate that less than $1 million of “Accumulated other comprehensive loss” will be recognized as part of our net periodic benefit income in 2018.

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 30% equity, 30% fixed income and 40% master limited partnerships.

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;
- Level 2 assets' fair values are primarily based on pricing, data representative of quoted prices for similar assets in active markets (or identical assets in less active markets). Included in this are short term investment funds which are valued at cost plus calculated interest; 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 and fixed income 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, 2017 and 2016 (in millions):

	2017			2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investment fund (money market)	$ —	$ 1	$ 1	$ —	$ —	$ —
Equity securities, domestic	4	—	4	2	—	2
Master limited partnerships	12	—	12	11	—	11
Total assets in fair value hierarchy	$ 16	$ 1	17	$ 13	$ —	13
Investments measured at NAV(a)			33			36
Investments at fair value			$ 50			$ 49

(a) In accordance with Subtopic 820-10 of Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820)*, 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 fixed income trusts as of December 31, 2017 and 2016 is $15 million and $17 million, respectively. The fair value of the private limited partnerships as of December 31, 2017 and 2016 is $18 million and $19 million, respectively.

Expected Payment of Future Benefits

As of December 31, 2017, we expect the following benefit payments under our plan (in millions):

Year	Total
2018	$ 1
2019	1
2020	1
2021	1
2022	1
2023 - 2027	4

Actuarial Assumptions and Sensitivity Analysis

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

	2017	2016
	(%)	
Assumptions related to benefit obligations at December 31:		
Discount rate	3.48	3.69
Assumptions related to benefit costs for the year ended December 31:		
Discount rate for benefit obligations	3.69	3.84
Discount rate for interest on benefit obligations	2.92	2.95
Expected return on plan assets(a)	7.00	7.25

(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 2017 and 2016.

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 6.00%, gradually decreasing to 4.54% 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 as of and for the years ended December 31, 2017 and 2016.

Components of Net Benefit Income

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

	Year Ended December 31,	
	2017	2016
Expected return on plan assets	$ (2)	$ (2)
Net benefit income	$ (2)	$ (2)

7. Related Party Transactions

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

On November 24, 2014, we entered into a CMA and an LOA with Northeast Expansion LLC (Northeast Expansion), an affiliate, to develop, construct, lease and operate certain pipeline facilities (Market Project), and on December 14, 2015, we entered into a CMA and an LOA with Northeast Supply Pipeline LLC (Northeast Supply), an affiliate, to develop, construct, lease and operate certain other pipeline facilities (Supply Project). The CMAs and LOAs provided that, in the event either or both of Northeast Expansion or Northeast Supply elect to not continue developing or otherwise cancel the Market Project or Supply Project, respectively, Northeast Expansion and/or Northeast Supply may terminate the applicable CMAs and LOAs at their discretion.

On April 20, 2016, KMI announced that, as a result of inadequate capacity commitments from prospective customers, further work and expenditures on the projects were suspended. As a result, we terminated the CMAs and LOAs effective May 26, 2016. Upon termination, our obligations under the Affiliate Notes described below were also terminated, our obligations were deemed satisfied in full, and the costs incurred to date on the applicable project were derecognized along with the Affiliate Notes. For the year ended December 31, 2016, the derecognition of project costs of $138 million and affiliate notes of $138 million which are included in "Operations and maintenance" on our accompanying Consolidated Statement of Income and Comprehensive Income. The derecognition resulted in an immaterial impact to our net income and cash flows from operating activities.

Affiliate Notes

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, 2017 and 2016, we had a note receivable of $3 million with KMI. The interest rate on this note is variable and was 2.3% and 1.2% as of December 31, 2017 and 2016, respectively.

Construction Loan Agreement

On November 24, 2014, we entered into a Construction Loan Agreement with Northeast Expansion, and on December 14, 2015, we entered into a Construction Loan Agreement with Northeast Supply. As noted above, the CMAs and LOAs with Northeast Expansion and Northeast Supply were terminated effective May 26, 2016, resulting in the termination of the notes, and our obligations were deemed satisfied in full and derecognized. The interest rate on the outstanding principal amount of advances received through the termination date and as of December 31, 2015, from each of Northeast Expansion and Northeast Supply, was 10.9%, subject to adjustments to equal our AFUDC rate.

Promissory Notes

On February 1, 2016, we entered into a $250 million promissory note agreement, due February 1, 2019, with KMI. Borrowings under this note agreement bear a fixed annual interest rate of 4.75% and may be prepaid in whole or in part at any time, and from time-to-time, without premium or penalty. Proceeds from this note were used to repay our $250 million, 8.0% Notes, due February 2016. For the years ended December 31, 2017 and 2016, we incurred interest expense of $12 million and $11 million, respectively, on our note balance, which are included in "Interest, net" on our accompanying Consolidated Statements of Income and Comprehensive Income.

On April 1, 2017, we entered into a $300 million promissory note agreement, due April 1, 2020, with KMI. Borrowings under this note agreement bear a fixed annual interest rate of 3.0% and may be prepaid in whole or in part at any time, and from time-to-time, without premium or penalty. Proceeds from this note were used to repay our $300 million, 7.5% Debentures, due April 2017. For the year ended December 31, 2017, we incurred interest expense of $7 million on our note balance, which is included in "Interest, net" on our accompanying Consolidated Statement of Income and Comprehensive Income.

Other Affiliate Balances and Activities

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

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

	December 31,	
	2017	**2016**
Accounts receivable	$ 1	$ 1
Accounts payable	2	1
Accrued interest	30	11

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,	
	2017	**2016**
Revenues	$ 4	$ 4
Operations and maintenance	84	81
General and administrative	59	63
Capitalized costs	83	52

Subsequent Events

In March 2018, we made a distribution to our Member of $204 million and received a capital contribution from our Member of $90 million.

8. Accounting for Regulatory Activities

Regulatory Assets and Liabilities

Regulatory assets and liabilities represent probable future revenues or expenses associated with certain charges and credits that will be recovered from or refunded to customers through the ratemaking process. As of December 31, 2017, for those regulatory assets that are being recovered in our rates, the recovery period is one year to 27 years. Below are the details of our regulatory assets and liabilities as of (in millions):

	December 31, 2017	December 31, 2016
Current regulatory assets		
Difference between gas retained and gas consumed in operations(a)	$ 8	$ 3
Unamortized loss on sale of assets	10	10
Other(b)	30	28
Total current regulatory assets	48	41
Non-current regulatory assets		
Taxes on capitalized funds used during construction(a)(d)	22	44
Unamortized loss on reacquired debt(a)	9	10
Unamortized loss on sale of assets	147	157
Other(c)	23	22
Total non-current regulatory assets	201	233
Total regulatory assets	$ 249	$ 274
Current regulatory liabilities		
Other	3	1
Total current regulatory liabilities(e)	3	1
Non-current regulatory liabilities		
Environmental	8	7
Property and plant retirements	14	10
Income taxes(d)	75	—
Total non-current regulatory liabilities(f)	97	17
Total regulatory liabilities	$ 100	$ 18

(a) Assets recoverable without earning a return.
(b) Includes approximately $3 million as of December 31, 2017 and 2016 of regulatory assets which are recoverable without earning a return.
(c) Includes approximately $1 million and $2 million as of December 31, 2017 and 2016, respectively, of regulatory assets which are recoverable without earning a return.
(d) See “2017 Tax Reform” below.
(e) Included in “Other current liabilities” on our accompanying Consolidated Balance Sheets.
(f) Included in “Other long-term liabilities and deferred credits” on our accompanying Consolidated Balance Sheets.

Our significant regulatory assets and liabilities include:

Difference between gas retained and gas consumed in operations

Amounts reflect the value of the difference between the gas retained and consumed in our operations. Pursuant to our tariff, these amounts are expected to be recovered from our customers in subsequent periods.

Unamortized loss on sale of assets

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

Taxes on capitalized funds used during construction

Amounts represent the deferred income taxes on AFUDC Equity recognized during the time when we were a taxable entity. These amounts are included in our tariff rates and are recovered over the depreciable lives of the asset in which they apply.

Unamortized loss on reacquired debt

Amount represents the deferred and unamortized portion of loss on reacquired debt which is recovered in our rates. Amounts are amortized over the original life of the debt issue, or in the case of refinanced debt, over the life of the new debt issue.

Environmental

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

Property and plant retirements

Amount represents 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 $94 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 $75 million and an expense included in “Other, net” of $19 million for the year ended December 31, 2017 on our accompanying Consolidated Statement of Income and Comprehensive Income.

As the impact on the regulatory ratemaking process is currently uncertain, and we have not completed our assessment of the 2017 Tax Reform's effect, these amounts are subject to further adjustments. We continue to assess the impact of the 2017 Tax Reform on our business in order to complete our analysis. Any adjustments to our provisional amount will be reported in the reporting period in which any such adjustments are determined and may be material in the period in which the adjustments are made.

Regulatory Assets Amortization

Our amortization of the regulatory assets for both 2017 and 2016 was $17 million, which primarily consisted of (i) deferred losses on sale of assets included in “Depreciation and amortization” of $10 million for both periods and (ii) deferred losses on reacquired debt included in “Interest, net” of $1 million for both periods, on our accompanying Consolidated Statements of Income and Comprehensive Income.

Subsequent Event

On March 15, 2018, the FERC issued the following documents related to income taxes:

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

In Docket No. PL17-1, FERC issued a revised policy statement to address income tax and rate of return policies for Master Limited Partnerships (MLPs) and other partnership entities 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 states 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. As a result, FERC will no longer permit an MLP pipeline to recover an income tax allowance in its cost of service. 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 the parent level.

Notice of Proposed Rulemaking - Interstate and Intrastate Natural Gas Pipelines; Rate Changes Relating to Federal Income Tax Rate - (Tax Rate NOPR)

In Docket No. RM18-11, FERC is proposing to require 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 MLPs and other partnership entities. FERC proposes that individual pipelines file Form No. 501-G either 28, 56, 84, or 112 days after publication of the final rule, based on a schedule provided on the form. According to the schedule, our Form No. 501-G would be due 84 days after the effective date of the final rule. Along with the Form No. 501-G, FERC has proposed to provide interstate pipelines four options to either address the impact of the change in the corporate income tax rate with a rate filing under section 4 of NGA or to explain why no action is necessary. The four options are: 1) file a limited NGA section 4 filing to reflect the effect of change in the corporate income tax rate; 2) commit to file either a prepackaged uncontested settlement or, if that is not possible, a general NGA section 4 rate case in the near future; 3) file a statement explaining why an adjustment in rates is not needed, e.g., if a rate moratorium is in place under a FERC approved settlement; or 4) take no action other than filing Form No. 501-G. In the Tax Rate NOPR, FERC states that if Option 3 or Option 4 is chosen the FERC may initiate a section 5 rate investigation at its discretion; however, if a pipeline elects Option 2 and commits to make a filing by December 31, 2018, FERC will not initiate an NGA section 5 rate investigation prior to that date. Comments on the Tax Rate NOPR are due on April 25, 2018.

Notice of Inquiry Regarding the Effect of the Tax Cuts and Jobs Act on Commission-Jurisdictional Rates (Tax Rate NOI)

In Docket No. RM18-12, FERC has issued a notice of inquiry to consider how it should address the effect of the 2017 Tax Reform on accumulated deferred income taxes (ADIT) and bonus depreciation. ADIT balances are accumulated on the regulated books and records of interstate pipelines to track differences between the method of computing taxable income for reporting to the IRS and the method of computing income taxes for regulatory accounting and ratemaking purposes. Bonus depreciation is a tax incentive given to companies to encourage certain types of investments. FERC is seeking comment on how the 2017 Tax Reform affects ADIT balances and pipeline rate base and whether FERC should take any action to address issues related to bonus depreciation. Comments on the Tax Rate NOI are due on May 21, 2018.

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.

As of December 31, 2017 and 2016, we had approximately $12 million and $4 million, respectively, accrued for our outstanding legal proceedings.

Environmental Matters

We are subject to environmental cleanup and enforcement actions from time to time. In particular, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) generally imposes joint and several liability for cleanup and enforcement costs on current and predecessor owners and operators of a site, among others, without regard to fault or the legality of the original conduct, subject to the right of a liable party to establish a "reasonable basis" for apportionment of costs. Our operations are also subject to federal, state and local laws and regulations relating to protection of the environment. Although we believe our operations are in substantial compliance with applicable environmental 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.

Southeast Louisiana Flood Protection Litigation

On July 24, 2013, the Board of Commissioners of the Southeast Louisiana Flood Protection Authority - East (SLFPA) filed a petition for damages and injunctive relief in a state district court for Orleans Parish, Louisiana against us and approximately 100

other energy companies, alleging that defendants' drilling, dredging, pipeline and industrial operations since the 1930's have caused direct land loss and increased erosion and submergence resulting in alleged increased storm surge risk, increased flood protection costs and unspecified damages to the plaintiff. The SLFPA asserts claims for negligence, strict liability, public nuisance, private nuisance, and breach of contract. Among other relief, the petition seeks unspecified monetary damages, attorney fees, interest, and injunctive relief in the form of abatement and restoration of the alleged coastal land loss including but not limited to backfilling and re-vegetation of canals, wetlands and reef creation, land bridge construction, hydrologic restoration, shoreline protection, structural protection, and bank stabilization. On August 13, 2013, the suit was removed to the U.S. District Court for the Eastern District of Louisiana. On February 13, 2015, the Court granted defendants' motion to dismiss the suit for failure to state a claim, and issued an order dismissing the SLFPA's claims with prejudice. On March 3, 2017, the Fifth Circuit Court of Appeals affirmed the U.S. District Court's decision, and the SLFPA's petition for writ of certiorari to the U.S. Supreme Court was denied on October 30, 2017, thereby resolving this matter in its entirety.

Plaquemines Parish Louisiana Coastal Zone Litigation

On November 8, 2013, the Parish of Plaquemines, Louisiana filed a petition for damages in the state district court for Plaquemines Parish, Louisiana against us and 17 other energy companies, alleging that defendants' oil and gas exploration, production and transportation operations in the Bastian Bay, Buras, Empire and Fort Jackson oil and gas fields of Plaquemines Parish caused substantial damage to the coastal waters and nearby lands (Coastal Zone) within the Parish, including the erosion of marshes and the discharge of oil waste and other pollutants which detrimentally affected the quality of state waters and plant and animal life, in violation of the State and Local Coastal Resources Management Act of 1978 (Coastal Zone Management Act). As a result of such alleged violations of the Coastal Zone Management Act, Plaquemines Parish seeks, among other relief, unspecified monetary relief, attorney fees, interest, and payment of costs necessary to restore the allegedly affected Coastal Zone to its original condition, including costs to clear, vegetate and detoxify the Coastal Zone. In connection with this suit, we have made two tenders for defense and indemnity: (1) to Anadarko, as successor to the entity that purchased our oil and gas assets in Bastian Bay, and (2) to Kinetica, which purchased our pipeline assets in Bastian Bay in 2013. Anadarko has accepted our tender (limited to oil and gas assets), and Kinetica rejected our tender. The Louisiana Department of Natural Resources and Attorney General have intervened in the lawsuit. The Court has separated the defendants into several trial groups with trials set to begin in 2019. Our case is set for trial in 2020. We will continue to vigorously defend the suit.

Vermilion Parish Louisiana Coastal Zone Litigation

On July 28, 2016, the District Attorney for the Fifteenth Judicial District of Louisiana, purporting to act on behalf of Vermilion Parish and the State of Louisiana, filed suit in the state district court for Vermilion Parish, Louisiana against us and 52 other energy companies, alleging that the defendants' oil and gas and transportation operations associated with the development of several fields in Vermilion Parish (Operational Areas) were conducted in violation of the Coastal Zone Management Act. The suit alleges such operations caused substantial damage to the coastal waters and nearby lands (Coastal Zone) of Vermilion Parish, resulting in the release of pollutants and contaminants into the environment, improper discharge of oil field wastes, the improper use of waste pits and failure to close such pits, and the dredging of canals, which resulted in degradation of the Operational Areas, including erosion of marshes and degradation of terrestrial and aquatic life therein. As a result of such alleged violations of the Coastal Zone Management Act, the suit seeks a judgment against the defendants awarding all appropriate damages, the payment of costs to clear, revegetate, detoxify and otherwise restore the Vermilion Parish Coastal Zone, actual restoration of the affected Coastal Zone to its original condition, and reasonable costs and attorney fees. On September 2, 2016, the case was removed to the U.S. District Court for the Western District of Louisiana. Plaintiffs filed a motion to remand the case to the state district court. On September 26, 2017, the U.S. District Court remanded the case to the State District Court for Vermillion Parish. On March 2, 2018, Plaintiffs dismissed the claims made against us by Vermilion Parish and the State of Louisiana. During the pendency of the litigation, the Louisiana Department of Natural Resources (LDNR) and the Louisiana Attorney General (LAG) intervened in the lawsuit seeking damages from us and the other defendants for alleged violations of the Coastal Zone Management Act. The LDNR and LAG have not yet dismissed their claims against us.

Vintage Assets, Inc. Coastal Erosion Litigation

On December 18, 2015, Vintage Assets, Inc. and several individual landowners filed a petition in the State District Court for Plaquemines Parish, Louisiana alleging that its 5,000 acre property is composed of coastal wetlands, and that we failed to maintain pipeline canals and banks, causing widening of the canals, land loss, and damage to the ecology and hydrology of the marsh, in breach of right of way agreements, prudent operating practices, and Louisiana law. The suit also claims that defendants' alleged failure to maintain pipeline canals and banks constitutes negligence and has resulted in encroachment of the canals, constituting trespass. The suit seeks in excess of $80 million in money damages, including recovery of litigation costs, damages for trespass, and money damages associated with an alleged loss of natural resources and projected reconstruction cost of replacing or restoring

wetlands. The suit was removed to the U.S. District Court for the Eastern District of Louisiana. A non-jury trial was held during September 2017. We anticipate a ruling in the second quarter 2018. We will continue to vigorously defend the suit, and intend to appeal any adverse ruling that may result from the trial.

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 CERCLA, commonly known as Superfund, or state equivalents for three active sites. Liability under the federal CERCLA statute may be joint and several, meaning that we could be required to pay in excess of our pro rata share of remediation costs. We consider the financial strength of other PRPs in estimating our liabilities.

General

Although it is not possible to predict the ultimate outcomes, we believe that the resolution of the environmental matters set forth in this note, and other matters to which we and our subsidiary are a party, will not have a material adverse effect on our business, financial position, results of operations or cash flows. As of December 31, 2017 and 2016, we had approximately $6 million and $7 million, respectively, accrued for our environmental matters.

Commitments

Capital Commitments

As of December 31, 2017, we have capital commitments of $140 million, which we expect to spend during 2018. 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.

Purchase Obligations

We have entered into unconditional purchase obligations primarily for transportation, storage and other services, totaling $425 million as of December 31, 2017. Our annual obligations under these purchase obligations are $49 million in 2018, $48 million in 2019, $52 million in 2020, $43 million in 2021, $40 million in 2022, and $193 million in total thereafter.

Operating Leases

We lease property, facilities and equipment under various operating leases. Future minimum annual rental commitments under our operating leases as of December 31, 2017 are approximately $1 million in 2018 and $1 million in total for the years thereafter.

Rental expense on our lease obligations for each of the years ended December 31, 2017 and 2016 was approximately $2 million and is reflected in "Operations and maintenance" on our accompanying Consolidated Statements of Income and Comprehensive Income.

10. Recent Accounting Pronouncements

Accounting Standards Updates

Topic 606

On May 28, 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers*" followed by a series of related accounting standard updates (collectively referred to as "Topic 606"). Topic 606 is designed to create greater revenue recognition and disclosure comparability in financial statements. The provisions of Topic 606 include a five-step process by which an entity will determine revenue recognition, depicting the transfer of goods or services to customers in amounts reflecting the payment to which an entity expects to be entitled in exchange for those goods or services. Topic 606 requires certain disclosures about contracts with customers and provides more comprehensive guidance for transactions such as service revenue, contract modifications, and multiple-element arrangements.

Topic 606 will require that our revenue recognition policy disclosure include further detail regarding our performance obligations as to the nature, amount, timing, and estimates of revenue and cash flows generated from our contracts with customers.

Topic 606 will also require disclosure of significant changes in contract asset and contract liability balances period to period and the amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period, as applicable. We utilized the modified retrospective method to adopt the provisions of this standard effective January 1, 2018, which required us to apply the new revenue standard to (i) all new revenue contracts entered into after January 1, 2018 and (ii) all existing revenue contracts as of January 1, 2018 through a cumulative adjustment to equity. In accordance with this approach, our consolidated revenues for periods prior to January 1, 2018 will not be revised. The cumulative effect of the adoption of this standard as of January 1, 2018 was not material.

ASU No. 2016-02

On February 25, 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*." This ASU requires that lessees recognize assets and liabilities on the balance sheet for the present value of the rights and obligations created by all leases with terms of more than 12 months. The ASU also will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. ASU No. 2016-02 will be effective for us as of January 1, 2019. We are currently reviewing the effect of ASU No. 2016-02.

ASU No. 2017-04

On January 26, 2017, the FASB issued ASU No. 2017-04, "*ASU 2017-04 Simplifying the Test for Goodwill Impairment (Topic 350)*" to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU No. 2017-04 will be effective for us as of January 1, 2020. We are currently reviewing the effect of this ASU to our financial statements.

ASU No. 2017-07

On March 10, 2017, the FASB issued 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 addresses how to present the service cost component and the other components of net benefit cost in the income statement. We adopted ASU No. 2017-07 effective January 1, 2018 with no material impact to our financial statements.

ASU No. 2018-01

On January 25, 2018, the FASB issued ASU No. 2018-01, *"Land Easement Practical Expedient for Transition to Topic 842."* This ASU provides an optional transition practical expedient that, if elected, would not require companies to reconsider its accounting for existing or expired land easements before the adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. ASU No. 2018-01 will be effective for us as of January 1, 2019, and earlier adoption is permitted. We are currently reviewing the effect of this ASU to our financial statements.