CONSOLIDATED FINANCIAL STATEMENTS
With Report of Independent Auditors

TENNESSEE GAS PIPELINE COMPANY, L.L.C.

As of December 31, 2019 and 2018 and
For the Years Ended December 31, 2019 and 2018

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, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, of member's equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

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, 2019 and 2018, 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.

PricewaterhouseCoopers LLP

Houston, Texas
April 15, 2020

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

	Year Ended December 31,	
	2019	**2018**
Revenues	$ 1,683	$ 1,589
Operating Costs and Expenses		
Operations and maintenance	317	326
Depreciation and amortization	227	211
General and administrative	69	64
Taxes, other than income taxes	99	86
Other Income	(10)	(2)
Total Operating Costs and Expenses	702	685
Operating Income	981	904
Other Income (Expense)		
Earnings from equity investment	8	9
Interest, net	(108)	(107)
Other, net	6	22
Total Other Expense	(94)	(76)
Income Before Income Taxes	887	828
Income Tax Benefit (Expense)	1	(1)
Net Income	888	827
Other Comprehensive Income (Loss)		
Adjustments to postretirement benefit plan	6	(4)
Comprehensive Income	$ 894	$ 823

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, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ —
Accounts receivable, net	180	161
Inventories	55	54
Regulatory assets	45	55
Natural gas imbalance receivable	6	11
Other current assets	1	3
Total current assets	287	284
Property, plant and equipment, net	5,713	5,760
Goodwill	3,250	3,250
Note receivable from affiliate	3	3
Investment	66	65
Regulatory assets	157	188
Deferred charges and other assets	274	280
Total Assets	$ 9,750	$ 9,830
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 51	$ 100
Accrued interest	87	69
Accrued taxes, other than income taxes	61	54
Contractual deposits	17	25
Natural gas imbalance payable	9	40
Other current liabilities	46	47
Total current liabilities	271	335
Long-term liabilities and deferred credits		
Long-term debt	1,240	1,240
Debt fair value adjustments	220	235
Notes payable to affiliate	550	550
Other long-term liabilities and deferred credits	106	120
Total long-term liabilities and deferred credits	2,116	2,145
Total Liabilities	2,387	2,480
Commitments and contingencies (Note 9)		
Member’s Equity		
Member's equity	7,364	7,357
Accumulated other comprehensive loss	(1)	(7)
Total Member’s Equity	7,363	7,350
Total Liabilities and Member’s Equity	$ 9,750	$ 9,830

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,	
	2019	2018
Cash Flows From Operating Activities		
Net income	$ 888	$ 827
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	227	211
Earnings from equity investment	(8)	(9)
Other non-cash items	(15)	(26)
Distributions from equity investment earnings	7	7
Changes in components of working capital:		
Accounts receivable	10	(12)
Regulatory assets	11	(8)
Accounts payable	(9)	12
Accrued interest	18	21
Other current assets and liabilities	(27)	(5)
Other long-term assets and liabilities	20	(32)
Net Cash Provided by Operating Activities	1,122	986
Cash Flows From Investing Activities		
Capital expenditures	(221)	(399)
Sale or disposal of property, plant and equipment, net of cost of removal	(19)	(14)
Other, net	(1)	2
Net Cash Used in Investing Activities	(241)	(411)
Cash Flows From Financing Activities		
Contributions from Member	97	244
Distributions to Member	(978)	(819)
Net Cash Used in Financing Activities	(881)	(575)
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		
Right-of-use (ROU) assets and operating lease obligations recognized (Note 2)	$ 3	
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest (net of capitalized interest)	$ 91	$ 87

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,	
	2019	**2018**
Beginning Balance	$ 7,350	$ 7,102
Net income	888	827
Contributions	97	244
Distributions	(978)	(819)
Other comprehensive income (loss)	6	(4)
Ending Balance	$ 7,363	$ 7,350

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 11,800 miles of pipeline with a design capacity of approximately 12.1 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 80 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.

Subsequent Event

The outbreak of Coronavirus Diseases 2019 (COVID-19), a widespread contagious disease, has caused significant disruptions and volatility in the global marketplace during the first quarter of 2020. There is significant uncertainty regarding the length and impact of the virus on the energy industry and potential impacts to our business. Due to this uncertainty, we are unable to determine whether the impact of COVID-19 to our Company will have a material impact to its financial position, operations, or cash flows in the future.

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 15, 2020, the date the financial statements were available to be issued.

Principles of Consolidation

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

Adoption of New Accounting Pronouncements

Effective January 1, 2019, we adopted Accounting Standards Update (ASU) No. 2016-02, “*Leases (Topic 842)*” and the series of related Accounting Standards Updates that followed (collectively referred to as “Topic 842”). The most significant changes under the new guidance include the clarification of the definition of a lease, the requirement for lessees to recognize a ROU asset and a lease liability in the balance sheet, and additional quantitative and qualitative disclosures which are designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases.

We elected the practical expedients available to us under ASU No. 2018-11 *"Lease: Targeted Improvements,"* which allows us to apply the transition provision for Topic 842 at our adoption date instead of at the earliest comparative period presented in our Consolidated Financial Statements. Therefore, we recognized and measured leases existing at January 1, 2019 but without retrospective application. In addition, we elected the practical expedient permitted under the transition guidance related to land easements which allows us to carry forward our historical accounting treatment for land easements on existing agreements upon adoption. We also elected all other available practical expedients except the hindsight practical expedient. The impact of Topic 842 on our Consolidated Balance Sheet was immaterial.

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, 2019 and 2018 was immaterial and approximately $1 million, respectively.

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 expense costs for routine maintenance and repairs in the period incurred.

We use the composite method to depreciate property, plant and equipment. Under this method, assets with similar economic characteristics are grouped and depreciated as one asset. The FERC-accepted depreciation rate is applied to the total cost of the group until the net book value equals the salvage value. For certain general plant, the asset is depreciated to zero. As part of periodic filings with the FERC, we also re-evaluate and receive approval for our depreciation rates. When property, plant and equipment is retired, accumulated depreciation and amortization is charged for the original cost of the assets in addition to the cost to remove, sell or dispose of the assets, less salvage value. We do not recognize gains or losses unless we sell land or an entire operating unit (as approved by the FERC). In those instances where we receive recovery in rates related to losses on dispositions of operating units, we record a regulatory asset for the estimated recoverable amount. 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 3.

Asset Retirement Obligations (ARO)

We record liabilities for obligations related to the retirement and removal of long-lived assets used in our businesses. We record, as liabilities, the fair value of ARO on a discounted basis when they are incurred and can be reasonably estimated, which is typically at the time the assets are installed or acquired. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities increase due to the change in their present value, and the initial capitalized costs are depreciated over the useful lives of the related assets. The liabilities are eventually extinguished when the asset is taken out of service.

We are required to operate and maintain our natural gas pipelines and storage systems, and intend to do so as long as supply and demand for natural gas exists, which we expect for the foreseeable future. Therefore, we believe that we cannot reasonably estimate the ARO for the substantial majority of our assets because these assets have indeterminate lives. We continue to evaluate our ARO and future developments could impact the amounts we record. Our ARO were zero and not significant as of December 31, 2019 and 2018, respectively.

Asset and Investment Impairments

We evaluate our assets and investments for impairment when events or changes in circumstances indicate that the carrying values may not be recovered. These events include market declines that are believed to be other than temporary, changes in the manner in which we intend to use a long-lived asset, decisions to sell an asset or investment and adverse changes in market conditions or in the legal or business environment such as adverse actions by regulators. If an event occurs, which is a determination that involves judgment, we evaluate the recoverability of our carrying value based on either (i) the long-lived asset's ability to generate future cash flows on an undiscounted basis or (ii) the fair value of the investment in an unconsolidated affiliate. If an impairment is indicated, or if we decide to sell a long-lived asset or group of assets, we adjust the carrying value of the asset downward, if necessary, to its estimated fair value.

Our fair value estimates are generally based on assumptions market participants would use, including market data obtained through the sales process or an analysis of expected discounted future cash flows. There was no impairment for the year ended December 31, 2019. See Note 8 "Accounting for Regulatory Activities" regarding a loss on sale of long-lived assets recorded during the year ended December 31, 2018.

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, 2018, 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

Revenue from Contracts with Customers

We account for revenue from contracts with customers in accordance with ASU No. 2014-09, "*Revenue from Contracts with Customers*" and a series of related accounting standard updates (Topic 606). The unit of account in Topic 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods or services) or a series of distinct goods or services provided over a period of time. Topic 606 requires that a contract's transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, is to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (point in time) or as (over time) the performance obligation is satisfied.

Natural Gas Transportation and Storage Contracts

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

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

Natural Gas Sales Contracts

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

Refer to Note 7 for further information.

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 of facilities we use in our business operation. 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 we may have against others. 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.

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 5.

In accounting for our postretirement benefit plan, we record an asset or liability based on the difference between the fair value of the plan's assets and the plan's benefit obligation. Any deferred amounts related to unrecognized gains and losses or changes in actuarial assumptions are recorded on our accompanying Consolidated Balance Sheets in "Accumulated other comprehensive loss" until those gains or losses are recognized on our accompanying Consolidated Statements of Income and Comprehensive Income.

Debt

We classify our debt based on the contractual maturity dates of the underlying debt instruments. We defer costs associated with debt issuance over the applicable term. These costs are then amortized as interest charges on our income statements.

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 Benefit (Expense)" on our accompanying Consolidated Statements of Income and Comprehensive Income.

Regulatory Assets and Liabilities

Our interstate natural gas pipeline and storage operations are subject to the jurisdiction of the FERC and are accounted for in accordance with Accounting Standards Codification Topic 980, "Regulated Operations." Under these standards, we record regulatory assets and liabilities that would not be recorded for non-regulated entities. Regulatory assets and liabilities represent probable future revenues or expenses associated with certain charges and credits that are expected to be recovered from or returned to customers through the ratemaking process. Items to which we apply regulatory accounting requirements include certain 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, 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. Property, Plant and Equipment, net

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

	Annual Depreciation Rates %	December 31, 2019	December 31, 2018
Transmission and storage facilities	1.2 - 10.0	$ 6,484	$ 6,260
General plant	3.1 - 24.0	114	160
Intangible plant	3.1 - 14.0	59	79
Other		55	73
Accumulated depreciation and amortization(a)		(1,099)	(913)
		5,613	5,659
Land		12	12
Construction work in progress		88	89
Property, plant and equipment, net		$ 5,713	$ 5,760

(a) The composite weighted average depreciation rates for each of the years ended December 31, 2019 and 2018 was approximately 3.3%.

Capitalized Financing Costs During Construction

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(in millions)	
AFUDC - debt	$ 1	$ 5
AFUDC - equity	4	24

4. Debt

The following table summarizes the net carrying value of our outstanding debt, excluding debt fair value adjustments and notes payable with affiliate, see Note 6 (in millions):

	December 31, 2019	December 31, 2018
7.0% Debentures due March 2027	$ 300	$ 300
7.0% Debentures due October 2028	400	400
8.375% Notes due June 2032	240	240
7.625% Debentures due April 2037	300	300
Total long-term debt	$ 1,240	$ 1,240

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 Covenants

Under our various financing documents, we are subject to certain restrictions and covenants. The most restrictive of these include limitations on the incurrence of liens and limitations on sale-leaseback transactions. For the years ended December 31, 2019 and 2018, we were in compliance with our debt-related covenants.

Subsequent Event

On February 24, 2020, we issued $1 billion of Senior Notes, due March 2030. The Senior Notes were issued at a discount rate of 99.801%, plus debt issuance costs of approximately $5 million. Borrowings under this note agreement bear a fixed annual interest rate of 2.9%, payable semi-annually, commencing on September 1, 2020. Proceeds from this note were used to repay the $300 million and $250 million promissory notes discussed in Note 6, including accrued interest totaling $71 million, with the remainder used to fund current and future capital expansion projects.

5. Retirement Benefits

KMI maintains a pension plan and a retirement savings plan covering substantially all of its U.S. employees, including certain of our former employees. 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.

We also provide postretirement benefits, including medical benefits for a closed group of retirees. 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. There were no contributions made in 2019 and 2018, and we do not expect to make any contributions to our postretirement benefit plan in 2020.

As of December 31, 2019 and 2018 our postretirement benefit plan net assets were $44 million and $37 million, respectively, included in "Deferred charges and other assets" on our accompanying Consolidated Balance Sheets. Our postretirement benefits plan net benefit income for both years ended December 31, 2019 and 2018 was $2 million.

6. Related Party Transactions

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, 2019, and 2018, we had a note receivable of $3 million with KMI. The interest rate on this note is variable and was 1.9% and 3.1% as of December 31, 2019 and 2018, respectively.

Promissory Notes

As of December 31, 2019, we have promissory note agreements with KMI of $300 million, due April 2020, and $250 million, due February 2021. These promissory notes bear fixed annual interest rates of 3.00% and 3.55%, respectively, and may be repaid in whole or in part at any time, and from time-to-time, without premium or penalty. Proceeds received from these long-term promissory notes were used to repay debentures and notes due February 2016 and April 2017.

On February 1, 2019, we entered into a new $250 million, 3.55% promissory note agreement with KMI, due February 1, 2021. Proceeds from this note were used to repay our $250 million, 4.75% promissory note with KMI, due February 2019, and it may be repaid in whole or in part at any time, and from time-to-time, without premium or penalty.

See Note 4 for more information about the February 2020 repayment of our Promissory Notes.

Other Affiliate Balances and Activities

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

	December 31,	
	2019	2018
Accounts receivable	$ —	$ 2
Accounts payable	3	2
Accrued interest	69	50

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,	
	2019	2018
Revenues	$ 5	$ 7
Operations and maintenance	95	90
General and administrative	64	60
Capitalized costs	31	49

Subsequent Events

In March 2020, we made a distribution to our Member of $245 million and received a capital contribution from our Member of $9 million.

7. Revenue Recognition

Disaggregation of Revenues

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

	The Year Ended December 31,	
	2019	2018
Revenue from contracts with customers		
Services		
Firm services (a)	$ 1,554	$ 1,435
Fee-based services	120	129
Total services revenues	1,674	1,564
Natural gas sales	5	25
Total revenue from contracts with customers	1,679	1,589
Other revenue (b)	4	—
Total revenues	$ 1,683	$ 1,589

(a) Represents fixed reservation charges.
(b) Amounts recognized as revenue under guidance prescribed in Topics of the Accounting Standards Codification other than Topic 606.

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. As of December 31, 2019 and 2018 our contract assets and liabilities balances were immaterial.

8. Accounting for Regulatory Activities

Regulatory Assets and Liabilities

As of December 31, 2019, 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,	
	2019	2018
Current regulatory assets		
Difference between gas retained and gas consumed in operations(a)	$ —	$ 14
Unamortized loss on sale of assets	10	10
Other(b)	35	31
Total current regulatory assets	45	55
Non-current regulatory assets		
Taxes on capitalized funds used during construction(a)	20	21
Unamortized loss on reacquired debt(a)	8	8
Unamortized loss on sale of assets	127	137
Other(c)	2	22
Total non-current regulatory assets	157	188
Total regulatory assets	$ 202	$ 243
Current regulatory liabilities		
Other(d)	$ 12	$ 3
Non-current regulatory liabilities		
Environmental	10	9
Property and plant retirements	4	19
Income taxes related	70	73
Total non-current regulatory liabilities(e)	84	101
Total regulatory liabilities	$ 96	$ 104

(a) Assets recoverable without earning a return.
(b) Includes approximately $4 million and $3 million as of December 31, 2019 and 2018 of regulatory assets which are recoverable without earning a return.
(c) Includes approximately $2 million and $1 million as of December 31, 2019 and 2018 of regulatory assets which are recoverable without earning a return.
(d) Included in "Other current liabilities" on our accompanying Consolidated Balance Sheets.
(e) 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.

Income tax related

Amounts represent the anticipated return to ratepayers of deferred income taxes as a result of the 2017 Tax Reform, which lowered the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. These amounts are amortized over the remaining depreciable lives of the assets to which they apply.

Regulatory Assets Amortization

Our amortization of the regulatory assets for 2019 and 2018 was $12 million and $16 million, respectively, 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.

Regulatory Matters

2017 Tax Reform

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

In Order No. 849, issued July 18, 2018, (Docket No. RM18-11) (Final Rule), the FERC required interstate pipelines to make an informational filing on a new Form No. 501-G to collect information to evaluate the impact of the 2017 Tax Reform and the FERC's Revised Policy Statement on Treatment of Income Taxes (Docket No. PL17-1-000) (Revised Tax Policy) regarding tax allowances for interstate and intrastate natural gas pipelines. Form No. 501-G is intended to be an abbreviated cost and revenue study to estimate the impact of the 2017 Tax Reform and Revised Tax Policy on the pipeline's cost of service and return on equity. On August 17, 2018, certain affiliates of KMI, including us, and other unrelated parties jointly filed a request for rehearing of the Final Rule. On April 18, 2019, the FERC issued an order denying rehearing and reaffirming its determinations in the Final Rule. Based on the schedule included in the Final Rule, our filing would have been due on December 6, 2018. On November 30, 2018, we filed a motion with the FERC requesting an extension of time to file our Form No. 501-G, as we had entered into pre-filing settlement negotiations with our shippers, and were granted an initial extension by the FERC on December 6, 2018. On February 1, 2019, in Docket No. RP19-351-001, the FERC granted an additional extension allowing us to file our Form No. 501-G by April 5, 2019. On April 4, 2019, in lieu of filing our Form No. 501-G, we filed an uncontested pre-packaged Natural Gas Act (NGA) section 4 settlement (Settlement) to resolve all issues arising from the 2017 Tax Reform and the Final Rule. On May 24, 2019, the FERC approved the Settlement, as proposed.

Settlement Agreement.

The Settlement provides for a phased reduction in rates, beginning with an 8.5% reduction from our currently effective recourse rates, effective on November 1, 2019. The Settlement also provides for subsequent rate reductions, if certain conditions are met, of an additional 2% as of November 1, 2020, an additional 2% as of November 1, 2021, and an additional 1% as of November 1, 2022. The Settlement prohibits both us and our customers from requesting a change to our rates during a moratorium period ending November 1, 2022. The Settlement does not require us to file a new section 4 rate case in the future but requires us to file cost-revenue studies on November 1, 2023 and November 1, 2026, to provide shippers and the FERC with an opportunity to evaluate our rates if an NGA section 4 or section 5 proceeding has not already been initiated.

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, 2019 and 2018, we had approximately $33 million and $14 million, respectively, accrued for our outstanding legal proceedings. In addition, as of December 31, 2019, we have recorded a receivable of $29 million for expected cost recoveries that have been deemed probable.

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.

Louisiana Governmental Coastal Zone Erosion Litigation

Beginning in 2013, several parishes in Louisiana and the City of New Orleans filed separate lawsuits in state district courts in Louisiana against a number of oil and gas companies, including us. In these cases, the parishes and New Orleans, as Plaintiffs, allege that certain of the defendants' oil and gas exploration, production and transportation operations were conducted in violation of the State and Local Coastal Resources Management Act of 1978, as amended (SLCRMA). The Plaintiffs allege the defendants' operations caused substantial damage to the coastal waters of Louisiana and nearby lands, including marsh (Coastal Zone). The alleged damages include erosion of property within the Coastal Zone, and discharge of pollutants that are alleged to have adversely impacted the Coastal Zone, including plants and wildlife. The Plaintiffs seek, among other relief, unspecified money damages, attorneys' fees, interest, and payment of costs necessary to restore the affected Coastal Zone to its original condition. The Louisiana Department of Natural Resources (LDNR) and the Louisiana Attorney General (LAG) routinely intervene in these cases, and we expect the LDNR and LAG to intervene in any additional cases that may be filed. There are more than 40 of these cases pending in Louisiana against oil and gas companies, one of which is against us, as described further below.

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' operations in Plaquemines Parish violated SLCRMA and Louisiana law, and that those operations caused substantial damage to the Coastal Zone. Plaquemines Parish seeks, among other relief, unspecified money damages, attorney fees, interest, and payment of costs necessary to restore the allegedly affected Coastal Zone to its original condition, including costs to remediate, restore, vegetate and detoxify the affected Coastal Zone property. In 2016, the LAG and LDNR intervened in the lawsuit. In May 2018, the case was removed to the U.S. District Court for the Eastern District of Louisiana on several grounds including federal officer liability. Plaquemines Parish, along with the intervenors, moved to remand the case to the state district court. On May 28, 2019, the case was remanded to the state district court for Plaquemines Parish. At the same time, the U.S. District Court certified the federal officer liability jurisdiction issue for review by the U.S. Fifth Circuit Court of Appeals and on June 11, 2019, the U.S. District Court stayed the remand order pending the outcome of that review. The case is effectively stayed pending resolution of the federal officer liability issue by the Court of Appeals. We will continue to vigorously defend this case.

Louisiana Landowner Coastal Erosion Litigation

Beginning in January 2015, several private landowners in Louisiana, as Plaintiffs, filed separate lawsuits in state district courts in Louisiana against a number of oil and gas pipeline companies, including three cases against us. In these cases, the Plaintiffs allege that defendants failed to properly maintain pipeline canals and canal banks on their property, which caused the canals to erode and widen and resulted in substantial land loss, including significant damage to the ecology and hydrology of the affected property, and damage to timber and wildlife. Plaintiffs allege that defendants' conduct constitutes a breach of the subject right of way agreements, is inconsistent with prudent operating practices, violates Louisiana law, and that defendants' failure to maintain canals and canal banks constitutes negligence and trespass. Plaintiffs seek, among other relief, unspecified money damages, attorneys' fees, interest, and payment of costs necessary to return the canals and canal banks to their as-built conditions and restore and remediate the affected property. Plaintiffs allege that defendants are obligated to restore and remediate the affected property without regard to the value of the property. Plaintiffs also seek a declaration that the defendants are obligated to take steps to maintain canals and canal banks going forward. In one case filed by Vintage Assets, Inc. and several landowners against us and Southern Natural Gas Company, L.L.C., an affiliate, and another defendant that was tried in 2017 to the U.S. District Court for the Eastern District of Louisiana, $80 million was sought 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. On May 4, 2018, the District Court entered a judgment dismissing the tort and negligence claims against all of the defendants, and dismissing certain of the contract claims against us. In ruling in favor of plaintiffs on the remaining contract claims, the District Court ordered the defendants to pay $1,104 in money damages, and issued a permanent injunction ordering the defendants to restore a total of 9.6 acres of land and maintain certain canals at widths designated by the right of way agreements in effect. The Court stayed the judgment and the injunction pending appeal. The parties each filed a separate appeal to the U.S. Court of Appeals for the Fifth Circuit. On September 13, 2018, the third-party defendant filed a motion to vacate the judgment and dismiss all of the appeals for lack of subject matter jurisdiction. On October 2, 2018, the Court of Appeals dismissed the appeals and on April 17, 2019 the case was remanded to the state district court for Plaquemines Parish, Louisiana for further proceedings. The case is set for trial April 27, 2020. Until these and other issues are determined, we are not able to reasonably estimate the extent of our potential liability, if any. We will continue to vigorously defend these cases.

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 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, 2019 and 2018, we had approximately $4 million and $6 million, respectively accrued for our environmental matters.

Commitments

Purchase Obligations

We have entered into unconditional purchase obligations primarily for transportation, storage and other services, totaling $385 million as of December 31, 2019. Our annual obligations under these purchase obligations are $72 million in 2020, $61 million in 2021, $54 million in 2022, $38 million in 2023, $33 million in 2024, and $127 million in total thereafter.

10. Recent Accounting Pronouncements

ASU No. 2016-13

On June 16, 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*." This ASU modifies the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to utilize a new forward-looking "expected loss" methodology that generally will result in the earlier recognition of allowance for losses. We adopted ASU 2016-13 effective January 1, 2020 with no material impact to our financial statements.

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. We adopted ASU 2017-04 effective January 1, 2020 with no material impact to our financial statements.

ASU No. 2018-14

On August 28, 2018, the FASB issued ASU No. 2018-14, "*Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*." This ASU amends existing annual disclosure requirements applicable to all employers that sponsor defined benefit pension and other postretirement plans by adding, removing, and clarifying certain disclosures. ASU No. 2018-14 will be effective for us for the fiscal year ending December 31, 2020, and earlier adoption is permitted. We are currently reviewing the effect of this ASU to our financial statements.