

# MIDCONTINENT EXPRESS PIPELINE LLC

December 6, 2018

Ms. Kimberly Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D. C. 20426

Re: Docket No. RP19-\_\_\_\_  
Midcontinent Express Pipeline LLC  
Filing in Compliance with Order No. 849  
Form No. 501-G

Dear Ms. Bose:

In compliance with the Final Rule in Docket No. RM18-11 (“Final Rule”) and section 260.402 of the Code of Federal Regulations, Midcontinent Express Pipeline LLC (“MEP”) hereby submits its FERC Form No. 501-G (see attached Excel spreadsheet as well as a PDF version in Appendix A).<sup>1</sup> As further detailed below, pursuant to Option 3 of the Final Rule, MEP does not believe an adjustment to rates is warranted at this time.

MEP incorporates by reference the comments filed by the Kinder Morgan Entities to the Commission’s Notice of Proposed Rulemaking and in the Kinder Morgan Entities’ Request for Rehearing. The Commission has broad authority to collect information from regulated interstate pipelines and already has vehicles in place such as the FERC Form Nos. 2 and 3Qs that facilitate such collection. It is inconsistent with the Natural Gas Act to force pipelines to submit the Form 501-G in its current form, structured to result in an indicated cost of service reduction. This shifts the burden established by sections 4 and 5 of the Natural Gas Act and undermines MEP’s filed rates, which are deemed to be just and reasonable unless proven otherwise through full evidentiary hearing procedures.

Nevertheless, MEP must comply with the Final Rule until the Commission or a reviewing court takes action, and MEP therefore is submitting the Form No. 501-G as directed by the Commission. In doing so, MEP stresses that the resulting outputs of the form are misleading, have little resemblance to a litigated or settled outcome, and are not indicative of MEP’s actual rate of return, actual cost of service, or rates that would result from a rate case initiated under sections 4 or 5 of the Natural Gas Act.

MEP is indirectly jointly owned 50% by Kinder Morgan Inc. (“KMI”) and 50% by Energy Transfer Operating, L.P. (“ETP”). Regarding capital structure utilized in the Form 501-G, MEP’s

---

<sup>1</sup> MEP’s submission of this compliance filing is without prejudice to any judicial review of any order on rehearing pertaining to the Final Rule.

equity percentage at December 31, 2017 is greater than 65%. KMI has debt that is not publicly traded. Consequently, the hypothetical capital structure is used in MEP's Form 501-G.<sup>2</sup>

Regarding income tax allowance, MEP is not a master limited partnership, but it is a partnership owned indirectly 50% by ETP, which is a master limited partnership. Therefore, to be conservative, MEP's Form 501-G assumes no income tax allowance. However, since 50% of MEP is indirectly owned by KMI, which is a C-corporation and thus subject to income taxes, MEP is including an Addendum to provide for an income tax allowance on KMI's 50% ownership interest (see the second tab of the attached Excel spreadsheet<sup>3</sup> as well as the PDF version in Appendix B). As explained in paragraph #32 and reiterated in footnote 69 of the Final Rule, a natural gas company organized as a pass-through entity is considered subject to the federal corporate income tax if all of its income or losses are consolidated on the federal income tax return of its corporate parent and thus such a pass-through entity is eligible for a tax allowance.

MEP is filing under Option 3 of the Final Rule. Paragraph #217 of the Final Rule stated that under Option 3 a pipeline may explain why an adjustment in its rates is not warranted. MEP does not believe an adjustment in its rates is needed at this time for the following reasons:

1. MEP is not fully recovering its overall cost of service as reflected by the very low ROE of 6.5% in its Form 501-G on page 3, line 26 and the very low ROE of 6.4% reflected in the Addendum on page 3, line 26.
2. 88% of MEP's 2017 revenues<sup>4</sup> are derived from negotiated rates. These negotiated rates are binding on MEP's customers, and therefore any potential adjustment in MEP's tariff rates would not result in an adjustment to their contract rates. Per paragraph #245 of the Final Rule, the FERC noted that it believes that such negotiated rate contracts should be allowed to remain in effect without change. Furthermore, 8% of MEP's 2017 revenues<sup>4</sup> reflect deep discounted rates which would not change by any potential adjustment in MEP's tariff rates due to any change in the income tax rates.

Based on MEP's individual facts and circumstances as described above, an adjustment to MEP's rates is not warranted at this time. This submission is being made solely to comply with the Final Rule. Nothing in this filing should be construed as being supported or proposed by MEP as the appropriate amount or level of costs, or the methodology for functionalizing, classifying or allocating costs, or designing or establishing rates. This filing is without prejudice to any filings

---

<sup>2</sup> MEP's strict adherence to the prescribed Form 501-G capital structure guidance without adjustment is in no way an indication that MEP concurs with or supports the use of such capital structure or other cost and revenue inputs reflected in its Form 501-G for ratemaking purposes.

<sup>3</sup> Line no. 31 of page 1 of the attached Addendum reflects the amortization of the excess accumulated deferred income taxes (ADIT) associated with MEP's regulatory liability Account No. 254 to reflect the 21% reduced federal income tax rate. Consistent with Commission and IRS normalization requirements and the Form 501-G, MEP intends to employ the Reverse South Georgia method to amortize its excess ADIT balance over the estimated weighted average remaining life of its assets as of December 31, 2017.

<sup>4</sup> Excluded from this calculation of 2017 revenues are the revenues received for the upstream intrastate pipeline leased capacity which such revenues are offset in the associated costs reflected in O&M in Account 858 (Transmission of Gas by Others).

made on behalf of MEP in this proceeding, Docket No. RM18-11-000 and Docket No. RP18-415-000, or judicial review of any orders that may be issued in the referenced proceedings or this proceeding.

Copies of this filing are being made available at MEP's offices in Birmingham, Alabama, and electronically mailed to MEP's customers and to interested state commissions.

The names, titles, and mailing addresses of the persons to whom communications concerning this filing are to be addressed and to whom service is to be made are as follows:

T. Brooks Henderson  
Director – Rates and Regulatory  
Midcontinent Express Pipeline LLC  
Post Office Box 2563  
Birmingham, Alabama 35202-2563  
(205) 325-3843  
[brooks\\_henderson@kindermorgan.com](mailto:brooks_henderson@kindermorgan.com)

Karen Ferazzi  
Assistant General Counsel  
Midcontinent Express Pipeline LLC  
1001 Louisiana St., Suite 1000  
Houston, Texas 77002  
(713) 369-9354  
[karen\\_ferazzi@kindermorgan.com](mailto:karen_ferazzi@kindermorgan.com)

Michael T. Langston  
Vice President  
Midcontinent Express Pipeline LLC  
1300 Main Street  
Houston, Texas 77002  
(713) 989-7610  
[michael.langston@energytransfer.com](mailto:michael.langston@energytransfer.com)

Respectfully submitted,

MIDCONTINENT EXPRESS PIPELINE LLC

/s/ T. Brooks Henderson  
T. Brooks Henderson  
Director – Rates and Regulatory  
Midcontinent Express Pipeline LLC  
Post Office Box 2563  
Birmingham, Alabama 35202-2563  
(205) 325-3843  
[brooks\\_henderson@kindermorgan.com](mailto:brooks_henderson@kindermorgan.com)



# **Midcontinent Express Pipeline LLC**

## **Appendix A**

**FERC Form No. 501-G**  
**One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

**Cost of Service**

Pipeline  
Company  
Name

**Midcontinent Express Pipeline LLC**

Line No.	(A) Description	(B) Form 2 Reference	(C) Calendar Year 2017 Actuals	(D) Net Amort. of Excess/ Deficient ADIT	(E) With Adjusted Tax Allowance
3	CID	<b>C000235</b>			
4	Is the Pipeline a separate income taxpaying entity? Does it conduct business, realize net income or loss, pay income taxes and distribute profits to shareholders?		<b>No</b>		
	<b>Cost of Service - Non Fuel</b>				
	<b>Operating, Maintenance and Administrative &amp; General</b>				
5	Total Production & Gathering	P. 317; L. 30, C. (b)	\$ -		\$ -
6	Total Products Extraction	P. 318; L. 58, C. (b)	-		-
7	Total Natural Gas Storage	P. 322; L. 177, C. (b)	-		-
8	(Less) UG Compressor Station Fuel & Power	P. 320; L. 106, C. (b)	-		-
9	(Less) Other Compressor Station Fuel & Power	P. 321; LL. 131 & 132, C. (b)	-		-
10	(Less) LNG Compressor Station Fuel & Power	P. 322; LL. 157 & 158, C. (b)	-		-
11	Net Storage Costs	L. 7 minus LL. 8-10	-		-
12	Total Transmission	P. 323; L. 201, C. (b)	40,446,002		40,446,002
13	(Less) Gas for Compressor Station Fuel	P. 323; L. 184, C. (b)	14,420,626		14,420,626
14	(Less) Other Fuel & Power for Compressor Stns. (if included in true-up or tracking mechanism)	P. 323; L. 185, C. (b)	-		-
15	Net Transmission Costs	L. 12 minus LL. 13-14	26,025,376		26,025,376
16	Administrative & General	P. 325; L. 270, C. (b)	4,802,207		4,802,207
17	Total Operating, Maintenance and Admin. & Gen.	Sum of LL. 4, 5, 10, 14, 15	\$ 30,827,583		\$ 30,827,583
18	<b>Depreciation, Depletion, and Amortization</b>	Form 2 - P. 337; L. 12, C. (h) Form 2A - P. 114; LL. 6-8, C. (c)	69,471,389		69,471,389
19	Amort. of Plant Acq. Adj. If 'yes' to P. 2; L. 5 of Form 501-G then 0, else P. 114; L. 9, C. (c)		-		-
	<b>Credits to Cost of Service</b>				
20	Regulatory Debits (if incl. in a § 4 rate filing)	P. 114; L. 12, C. (c)	-		-
21	(Less) Regulatory Credits (if incl. in a § 4 rate filing)	P. 114; L. 13, C. (c)	-		-
22	<b>Other Taxes</b>	P. 114; L. 14, C. (c)	21,656,276		21,656,276
	<b>Return</b>				
23	Long Term Debt	P. 2; L. 27 of Form 501-G	33,760,803		37,618,274
24	Preferred Stock (or equivalent)	P. 2; L. 28 of Form 501-G	-		-
25	Common Equity	P. 2; L. 29 of Form 501-G	94,428,182		105,217,439
26	Total Return		128,188,985		142,835,713
	<b>Allowance for Income Taxes</b>				
27	Federal Income Tax Rate	P. 5; L. 3 of Form 501-G	26.64%		0.00%
28	Weighted Average State Income Tax Rate	P. 5; L. 4 of Form 501-G	3.24%		0.00%
29	Composite Income Tax Rate	P. 5; LL. 3-6 of Form 501-G	29.01%		0.00%
30	Income Tax Allowance on Equity Return	[(L. 24+L. 25)*(L. 29/(1-L. 29))]	38,591,597		-
31	(Less) Net Amort. of Excess(+) and/or Deficient(-) ADIT (Year 1 amortization)		-	-	-
32	Total Income Tax Allowance	L. 30 minus L. 31	38,591,597		-
33	<b>Total Cost of Service - Non Fuel</b>	Sum of LL. 17-20, 22, 26, 32 less L. 21	\$ 288,735,830		\$ 264,790,961
34	<b>Indicated Cost of Service Reduction</b>	1 minus [L. 33, C. (E) divided by L. 33, C. (C)]			<b>8.3%</b>

**FERC Form No. 501-G  
One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

**Rate Base  
Midcontinent Express Pipeline LLC**

Line No.	(A) Description	(B) Form 2 Reference	(C) Calendar Year 2017 Actuals	(D) Excess/ Deficient ADIT Adjustment	(E) With Adjusted Tax Allowance
<b>Rate Base</b>					
1	Gas Plant in Service	P. 110; L. 2, C. (c)	\$ 2,317,933,683		\$ 2,317,933,683
2	Accumulated Depreciation	P. 110; L. 5, C. (c)	571,761,586		571,761,586
3	Acquisition Adjustment	P. 200; L. 12, C. (b)	-		-
4	(Less) Amort. of Plant Acquisition Adjustment	P. 200; L. 32, C. (b)	-		-
5	<b>No</b> Has the pipeline received permission to include Acq. Adjustment(s) in Rate Base? If no, provide amounts as a reduction to Rate Base.				
6	FERC Order Cite				
7	Net Acquisition Adjustment	If L. 5 is yes, then zero; else L. 3 minus L. 4	-		-
8	Net Plant	L. 1 minus L. 2 minus L. 7	1,746,172,097		1,746,172,097
<b>Gas Stored Underground</b>					
9	Base Gas - Account No. 117.1	P. 220; L. 5, C. (b)	-		-
10	System Balancing - Account No. 117.2	P. 220; L. 5, C. (c)	-		-
<b>Working Capital</b>					
11	Prepayments	P. 111; L. 54, C. (c)	282,223		282,223
12	Materials and Supplies	P. 111; L. 45, C. (c)	118,787		118,787
<b>ADIT and Regulatory Assets and Liabilities</b>					
13	Accumulated Deferred Income Taxes (IT)	P. 235; L. 3, C. (k)(see footnote)	20,587,802		-
14	(Less) Accum. Deferred IT - Other Property	P. 275; L. 3, C. (k)(see footnote)	116,859,953		-
15	(Less) Accum. Deferred IT - Other	P. 277; L. 3, C. (k)(see footnote)	-		-
16	Other Regulatory Assets	P. 232; L. 40, C. (g)	3,123,653	-	3,123,653
17	(Less) Other Regulatory Liabilities	P. 278; L. 45, C. (g)	83,154,687	83,145,112	9,575
18	<b>Rate Base</b>	Sum of LL. 8 - 13 minus LL. 14-15 plus L. 16 minus L. 17	<b>\$ 1,570,269,922</b>		<b>\$ 1,749,687,185</b>

The Commission will apply Opinion No. 414, et al. in reviewing data submitted on page 4. Opinion No. 414, et al. requires that the pipeline's, or the parent's debt if using the parent's capital, must be issued in its name, be publicly traded, and be rated by a rating agency. The pipeline or parent must have a proper capital structure, which for purposes of FERC Form No. 501-G must have an equity ratio less than 65%.

Opinion No. 414, 80 FERC ¶ 61,157 (1997); reh'g denied, Opinion No. 414-A, 84 FERC ¶ 61,084 (1998).

Employing the data provided on Page 4 for capital structure and the component costs of Long Term Debt and Preferred Stock, the Pipeline's cost of capital for purposes of FERC Form No. 501-G will be based upon Case 4 - FERC Hypothetical Capital Structure and Cost of new Corporate Debt.

Summary of Page 4 Capital Structure and Capital Component Costs	Case 1	Case 2	Case 3	Case 4
	Balance Sheet & Income Statement	Page 218a	Parent's SEC Form 10K	Hypothetical
19) 1) Is the debt issued in the entity's name and traded?	Yes	Yes	No	
20) 2) Is the debt rated by a rating agency?	Yes	Yes	No	
21) 3) Is the equity ratio less than 65%?	No	No	No	
22) Each of the three above questions must be answered yes as the basis for using the capital structure and individual capital component cost.	<b>Not using Case 1 per Opinion No. 414 et al</b>	<b>Not using Case 2 per Opinion No. 414 et al</b>	<b>Not using Case 3 per Opinion No. 414 et al</b>	<b>Using Case 4</b>

		<u>Capitalization Ratio</u>	<u>Component Cost</u>	<u>Wtd. Cost of Capital</u>
23	Long Term Debt	P. 4 of Form 501-G 43.00%	5.00%	2.15%
24	Preferred Stock (or equivalent)	P. 4 of Form 501-G 0.00%	0.00%	0.00%
25	Common Equity	P. 4 of Form 501-G <u>57.00%</u>	<u>10.55%</u>	<u>6.01%</u>
26	Total Return	Sum of LL. 23 - 25 100.00%		<u>8.16%</u>
27	Return - Long Term Debt	L. 18 times L. 23, C. (E) \$	33,760,803	\$ 37,618,274
28	Return - Preferred Stock (or equivalent)	L. 18 times L. 24, C. (E)	-	-
29	Return - Common Equity	L. 18 times L. 25, C. (E)	94,428,182	105,217,439
30	Total Return	Sum of LL. 27 - 29	<u>\$ 128,188,985</u>	<u>\$ 142,835,713</u>

**FERC Form No. 501-G**  
**One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

**Return on Equity**  
**Pre Tax Cut and Pro Forma Post Tax Cut**  
**Midcontinent Express Pipeline LLC**

Line No.	(A) Description	(B) Form 2 Reference	(C) Calendar Year 2017 Actuals	(D) With Adjusted Tax Allowance	(E) Rate Moratorium Option 12% ROE Test
<b>Operating Revenue</b>					Indicated Cost of Service Reduction of 8.3%
1	Total Operating Revenues	P. 301; L. 21, C. (h)	\$ 224,685,902	\$ 224,685,902	
2	(Less) Sales for Resale (Acct. Nos. 480-484)	P. 301; L. 4, C. (h)	-	-	
3	(Less) Commercial & Industrial Sales	P. 301; L. 2, C. (h)	-	-	
4	(Less) Gas Sales & Other Adj. from Acct. No. 495	P. 308; L. 10, C. (b)	-	-	
5	(Less) Fuel Related Revenues Incl. in Total Revenues per Pipeline		-	-	
6	<b>Total Adjusted Revenue</b>	L. 1 minus sum of LL. 2-5	<b>\$ 224,685,902</b>	<b>\$ 224,685,902</b>	<b>\$ 206,052,695</b>
7	<input checked="" type="checkbox"/> <b>Yes</b>	Enter 'Yes' or 'No' - Does the Pipeline track or true-up fuel retention?			
8	<input checked="" type="checkbox"/> <b>Yes</b>	Enter 'Yes' or 'No' - Does the Pipeline have stated fuel rates?			
<b>Calculation of Return On Equity - Pre Tax Cut and Pro Forma Post Tax Cut</b>					
9	Total Operating, Maintenance and Admin. & Gen.	P. 1; L. 17 of 501-G	\$ 30,827,583	\$ 30,827,583	\$ 30,827,583
10	Depreciation, Depletion, and Amortization	P. 1; L. 18 of 501-G	69,471,389	69,471,389	69,471,389
11	Amort. of Plant Acq. Adj.	P. 1; L. 19 of 501-G	-	-	-
12	Regulatory Debits (if incl. in a § 4 rate filing)	P. 1; L. 20 of 501-G	-	-	-
13	(Less) Regulatory Credits (if incl. in a § 4 rate filing)	P. 1; L. 21 of 501-G	-	-	-
14	Other Taxes	P. 1; L. 22 of 501-G	21,656,276	21,656,276	21,656,276
15	Non-Fuel Operating Cost Excl. Interest and Taxes	Sum of LL. 9-12 minus L. 13 plus L. 14	121,955,248	121,955,248	121,955,248
16	<b>Operating Income</b>	L. 6 minus L. 15	<b>\$ 102,730,654</b>	<b>\$ 102,730,654</b>	<b>\$ 84,097,447</b>
17	Interest Expense	P. 1; L. 23, C. (C) of 501-G	33,760,803	37,618,274	37,618,274
18	Income Before Income Taxes	L. 16 minus L. 17	<b>\$ 68,969,851</b>	<b>\$ 65,112,380</b>	<b>\$ 46,479,172</b>
<b>Allowance for Income Taxes</b>					
19	Composite Income Tax Rate	P. 1; L. 29 of 501-G	29.01%	0.00%	0.00%
20	Income Taxes	L. 18 times L. 19	\$ 20,009,481	-	-
21	(Less) Net Amort. of Excess(+) and/or Deficient(-) ADIT	P. 1; L. 31 of 501-G	-	-	-
22	Total Income Tax Allowance	L. 20 minus L. 21	20,009,481	-	-
23	<b>Net Income</b>	L. 18 minus L. 22	<b>\$ 48,960,370</b>	<b>\$ 65,112,380</b>	<b>\$ 46,479,172</b>
24	(Less) Preferred Dividends	P. 1; L. 24, C. (C) of 501-G	-	-	-
25	<b>Rate Base</b>	P. 2; L. 18 of 501-G	<b>\$ 1,570,269,922</b>	<b>\$ 1,749,687,185</b>	<b>\$ 1,749,687,185</b>
26	<b>Total Estimated ROE (excluding fuel)</b>	[L. 23 - L. 24] / [L. 25 * P. 2; L. 25 C. (C) of 501-G]	<b>5.5%</b>	<b>6.5%</b>	<b>4.7%</b>



**FERC Form No. 501-G  
One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

**Capital Structure and Component Costs  
Midcontinent Express Pipeline LLC**

Line No.	(A) Description	(B) Form 2 Reference	(C) Capitalization	(D) Capitalization Ratio	(E) Capital Component Cost Rate	(F) Weighted Cost of Capital
----------	--------------------	-------------------------	-----------------------	-----------------------------	------------------------------------	---------------------------------

The Commission will use your responses on the following four cases to evaluate your capital structure and capital component costs for Form No. 501-G: Case 1, balance sheet and income statement; Case 2, Page 218a of Form No. 2; Case 3, the parent's financial statements as filed in its SEC Form 10-K; or Case 4, a hypothetical capital structure and capital component costs.

**Case 1. Cost of Capital based upon amounts obtained from the Balance Sheet and Income Statement.**

<b>Cost of Debt and Preferred Stock</b>						
1	Interest	P. 116; LL. 62-68, C. (c)	\$ 30,806,573	= 6.85%		
2	Long-Term Debt	P. 112; L. 24, C. (c)	\$ 449,895,450			
3	Preferred Dividends	P. 120a; L. 68, C. (b)	\$ -	= 0		
4	Preferred Stock (or equivalent)	P. 112; L. 3, C. (c)				
5	Common Equity	P. 112; L. 15, C. (c)	\$ 1,123,219,521			
6	<b>Cost of Capital</b>					
7	Long-Term Debt	L. 3	\$ 449,895,450	28.60%	6.85%	1.96%
8	Preferred Stock (or equivalent)	L. 5	\$ -	0.00%	0.00%	0.00%
9	Common Equity	L. 6 minus L. 5	\$ 1,123,219,521	71.40%	10.55%	7.53%
10	Totals		\$ 1,573,114,971	100.00%		9.49%
11	<input checked="" type="checkbox"/> Yes	Enter 'Yes' or 'No' - Is all of the debt listed on L. 3 above issued in the pipeline's name and publicly traded?				
12	<input checked="" type="checkbox"/> Yes	Enter 'Yes' or 'No' - Is all the debt listed on L. 3 above rated by a rating agency?				

**Case 2. Cost of Capital based upon amounts obtained from Page 218a of the FERC Form No. 2.**

	P. 218a	Column (b)	Column (c)	Column (d)		
14	Long-Term Debt	L. 3	\$ 449,834,250	24.87%	6.86%	1.71%
15	Preferred Stock (or equivalent)	L. 4	\$ -	0.00%	0.00%	0.00%
16	Common Equity	L. 5	\$ 1,358,860,805	75.13%	10.55%	7.93%
17	Totals		\$ 1,808,695,055	100.00%		9.63%
18	<input checked="" type="checkbox"/> Yes	Are the Values on P. 218a from the books and records of Midcontinent Express Pipeline LLC?				
19	If no, provide the name and stock symbol of the company for the source of the Page 218a amounts.					
20	<b>Ticker</b>	<b>Company Name</b>				
21	<input checked="" type="checkbox"/> Yes	Enter 'Yes' or 'No' - Is all of the debt listed on L. 15 above issued in the pipeline's name, or, that of the entity on L. 21? and publicly traded?				
22	<input checked="" type="checkbox"/> Yes	Enter 'Yes' or 'No' - Is all of the debt listed on L. 15 above rated by a rating agency?				

**Case 3. Cost of Capital based upon Parent's Capital Structure and costs for Long Term Debt and Preferred Stock.**

24	Long-Term Debt	SEC - 10K	\$ -	0.00%	0.00%	0.00%
25	Preferred Stock (or equivalent)	SEC - 10K	-	0.00%	0.00%	0.00%
26	Common Equity	SEC - 10K	-	0.00%	10.55%	0.00%
27	Totals		\$ -	0.00%		0.00%
28	Provide the stock symbol(s), the name of the parent company(s), a hyperlink to the parent's SEC Form 10-K, and the associated year:					
29	<b>Ticker(s)</b>	<b>Company Name(s)</b>	MEP owned indirectly 50% by Kinder Morgan and 50% by Energy Transfer(see transmittal letter)			
30	<b>Year</b>	<b>10K Hyperlink(s)</b>	(not all of Kinder Morgan and Energy Transfer debt is publicly traded)			
31	<input checked="" type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 24 above publicly traded?				
32	<input checked="" type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 24 above rated by a rating agency?				

**Case 4. Cost of Capital based upon FERC Hypothetical Capital Structure and Cost of new Corporate Debt.**

33	Long-Term Debt			43.00%	5.00%	2.15%
34	Preferred Stock			0.00%	0.00%	0.00%
35	Common Equity			57.00%	10.55%	6.01%
36	Totals			100.00%		8.16%

**FERC Form No. 501-G**  
**One-time Report on Rate Effect of the Tax Cuts and Jobs Act**  
**Current Composite Income Tax Rate**  
**Midcontinent Express Pipeline LLC**

Line No.	(A) Description	(B) Form 2 Reference	(C) Weighting	(D) Marginal Tax Rates	(E) Weighted Average Tax Rates
1	<b>Based on the response to Line 4 on Page 1 of Form No. 501-G, Midcontinent Express Pipeline LLC</b>				
2	<b>is a pass through entity for tax purposes. Please fill out lines 6, 10-15, 17-23.</b>				
3	Federal Income Tax Rate (FIT) - Calendar Year 2017:				<b>26.64%</b>
4	State Income Tax Rate (SIT) - Calendar Year 2017:				<b>3.24%</b>
5	Composite Tax Rate - Calendar Year 2017:				<b>29.01%</b>
6	<b>Provide the percentage of federal income tax deductible for state income taxes. = (p)</b>				<b>0.00%</b>
7	Composite Tax Rate equals				
8	[FIT Rate * (1 -SIT Rate) / (1 - SIT Rate * FIT Rate * p)] + [SIT Rate * (1 -FIT Rate * p) / (1 - SIT Rate * FIT Rate * p)]				
<b><u>Tax Rates for C Corps.</u></b>					
9	Provide the sum of weighted state tax rate(s)	sum of all rows from P. 263b.; C. (q)			<b>4.76%</b>
<b><u>Tax Rates for Pass Through Entities */</u></b>					
<b>Federal Income Tax Rates</b>					
10	Subchapter C	per Pipeline's parents' owners	-21.5%	37.3%	-8.02%
11	Individuals	per Pipeline's parents' owners	105.3%	28.4%	29.91%
12	Mutual Funds	per Pipeline's parents' owners	0.0%	0.0%	0.00%
13	Pensions, IRAs, Keogh Plans	per Pipeline's parents' owners	12.6%	28.0%	3.53%
14	UBTI Entities	per Pipeline's parents' owners	3.6%	34.0%	1.22%
15	Non-Taxpaying Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
16	Weighted Average Rate		<u>100.00%</u>		<u>26.64%</u>
<b>State and Local Income Tax Rates</b>					
17	Subchapter C	per Pipeline's parents' owners	-21.5%	2.6%	-0.56%
18	Individuals	per Pipeline's parents' owners	105.3%	3.3%	3.47%
19	Mutual Funds	per Pipeline's parents' owners	0.0%	0.0%	0.00%
20	Pensions, IRAs, Keogh Plans	per Pipeline's parents' owners	12.6%	1.8%	0.23%
21	UBTI Entities	per Pipeline's parents' owners	3.6%	2.6%	0.09%
22	Non-Taxpaying Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
23	Weighted Average Rate		<u>100.00%</u>		<u>3.24%</u>
24	Provide the date when the marginal tax rates were determined.			<b>December 31, 2017</b>	

\*/ Income tax rates and weighting must be consistent with the Commission's *Policy Statement on Income Tax Allowances*, 111 FERC ¶ 61,139 (2005), and the Commission's *Order on Initial Decision and on Certain Remanded Cost Issues*, 113 FERC ¶ 61,277 (2005).

# **Midcontinent Express Pipeline LLC**

## **Appendix B**

Addendum For Midcontinent Express Pipeline LLC

Associated Changes From Page 1 of Form No. 501-G For Midcontinent Express Pipeline LLC

Line #	Description	Column E With Adjusted Tax Allowance	Adjustments	As Adjusted	Explanation
<b>O&amp;M and A&amp;G</b>					
12	Total Transmission	\$40,446,002	\$0	\$40,446,002	
13	(Less) Gas for Compressor Station Fuel	\$14,420,626	\$0	\$14,420,626	
14	(Less) Other Fuel & Power	\$0	\$0	\$0	
15	Net Transmission Costs	\$26,025,376	\$0	\$26,025,376	
16	Administrative & General	\$4,802,207	\$0	\$4,802,207	
17	Total Operating, Maintenance and Admin. & Gen.	\$30,827,583	\$0	\$30,827,583	
18	<b>Depreciation, Depletion, and Amortization</b>	\$69,471,389	\$0	\$69,471,389	
22	<b>Other Taxes</b>	\$21,656,276	\$0	\$21,656,276	
<b>Return</b>					
23	Long Term Debt	\$37,618,274	(\$1,928,735)	\$35,689,539	Reflects adjusted lower rate base
25	Common Equity	\$105,217,439	(\$5,452,728)	\$99,764,711	Reflects adjusted lower rate base
26	Total Return	\$142,835,713	(\$7,381,463)	\$135,454,250	
<b>Allowance For Income Taxes</b>					
27	Federal Income Tax Rate	0.00%	10.50%	10.50%	Used 1/2 of 21% rate since MEP owned indirectly 50% by a C-Corp
28	Weighted Average State Income Tax Rate	0.00%	2.38%	2.38%	Used 1/2 of 4.76% rate since MEP owned indirectly 50% by a C-Corp
29	Composite Income Tax Rate	0.00%	12.63%	12.63%	
30	Income Tax Allowance on Equity Return	\$0	14,421,750	\$14,421,750	
31	Less Amort. Of Excess ADIT 1/	\$0	\$1,656,938	\$1,656,938	Included only 1/2 of amortization since 50% of MEP indirectly owned by a C-Corp
32	Total Income Tax Allowance	\$0	\$12,764,813	\$12,764,813	
33	<b>Total Cost of Service - Non-Fuel</b>	\$264,790,961		\$270,174,311	

1/ Reflects the amortization of the excess accumulated deferred income taxes (ADIT) associated with MEP's regulatory liability Account No. 254 to reflect the 21% reduced federal income tax rate. Consistent with Commission and IRS normalization requirements and the Form 501-G, MEP intends to employ the Reverse South Georgia Method to amortize its excess ADIT balance over the estimated average remaining life of its assets as of December 31, 2017.

Associated Changes From Page 2 of Form No. 501-G For Midcontinent Express Pipeline LLC

Line #	Description	Column E With Adjusted Tax Allowance	Adjustments	As Adjusted	Explanation
<b>Rate Base</b>					
1	Gas Plant in Service	\$2,317,933,683	\$0	\$2,317,933,683	
2	Accumulated Depreciation	<u>\$571,761,586</u>	\$0	<u>\$571,761,586</u>	
8	Net Plant	\$1,746,172,097	\$0	\$1,746,172,097	
<b>Working Capital</b>					
11	Prepayments	\$282,223	\$0	\$282,223	
12	Materials and Supplies	\$118,787	\$0	\$118,787	
<b>ADIT and Regulatory Assets and Liabilities</b>					
13	Accumulated Deferred Income Taxes (IT)	\$0	\$10,293,901	\$10,293,901	Included 1/2 of balance since MEP owned indirectly 50% by C-Corp
14	(Less) Accum Deferred IT-Other Property	\$0	\$58,429,977	\$58,429,977	Included 1/2 of balance since MEP owned indirectly 50% by C-Corp
15	(Less) Accum Deferred IT-Other	\$0	\$0	\$0	
16	Other Regulatory Assets	\$3,123,653	\$0	\$3,123,653	
17	(Less)Other Regulatory Liabilities	<u>\$9,575</u>	<u>\$41,572,556</u>	<u>\$41,582,131</u>	Included only 1/2 of balance of Excess ADIT since MEP is 50% indirectly owned by a C-Corp
18	<b>Rate Base</b>	<u>\$1,749,687,185</u>	<u>(\$89,708,632)</u>	<u>\$1,659,978,554</u>	
<b>Return based on Hypothetical Capital Structure</b>					
		<u>Capitalization Ratio</u>	<u>Cost</u>	<u>Wtd. Cost of Capital</u>	
23	Long Term Debt	43.00%	5.00%	2.15% (no adjustments)	
24	Preferred Stock	0.00%	0.00%	0.00% (no adjustments)	
25	Common Equity	57.00%	10.55%	6.01% (no adjustments)	

Associated Changes From Page 3 of Form No. 501-G For Midcontinent Express Pipeline LLC

Line #	Description	Column D With Adjusted Tax Allowance	Adjustments	As Adjusted	Explanation
1	Total Operating Revenues	\$224,685,902	\$0	\$224,685,902	
6	<b>Total Adjusted Revenue</b>	\$224,685,902	\$0	\$224,685,902	
9	Total Operating, Maintenance and Admin. & Gen.	\$30,827,583	\$0	\$30,827,583	
10	Depreciation, Depletion, and Amortization	\$69,471,389	\$0	\$69,471,389	
14	Other Taxes	\$21,656,276	\$0	\$21,656,276	
15	Non-Fuel Operating Cost Excl. Interest and Taxes	\$121,955,248	\$0	\$121,955,248	
16	<b>Operating Income</b>	\$102,730,654	\$0	\$102,730,654	
17	Interest Expense	\$37,618,274	(\$1,928,735)	\$35,689,539	Reflects adjusted lower rate base
18	Income Before Income Taxes	\$65,112,380	\$1,928,735	\$67,041,115	
	<b>Allowance for Income Taxes</b>				
19	Composite Income Tax Rate	0.00%	12.63%	12.63%	See page 1 of Addendum, line 29
20	Income Taxes	\$0	\$8,467,293	\$8,467,293	Line 18 x line 19 of this page 3
21	Less Amort. Of Excess ADIT	\$0	\$1,656,938	\$1,656,938	Included only 1/2 of full amortization since MEP owned indirectly 50% by a C-Corp
22	Total Income Tax Allowance	\$0	\$6,810,355	\$6,810,355	
23	<b>Net Income</b>	\$65,112,380	(\$4,881,620)	\$60,230,760	
25	<b>Rate Base</b>	\$1,749,687,185	(\$89,708,632)	\$1,659,978,554	
26	<b>Total Estimated ROE (excluding fuel)</b>	6.5%	-0.2%	6.4%	