FINANCIAL STATEMENTS

ROCKIES EXPRESS PIPELINE LLC

For the years ended December 31, 2017, 2016 and 2015

Report of Independent Auditors

To the Board of Directors of Rockies Express Pipeline LLC

We have audited the accompanying financial statements of Rockies Express Pipeline LLC, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, members' equity, and cash flows for each of the three years in the period ended December 31, 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Rockies Express Pipeline LLC as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As described in Note 6 to the financial statements, the Company has significant transactions with related parties. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Denver, Colorado
February 13, 2018

ROCKIES EXPRESS PIPELINE LLC
BALANCE SHEETS

	December 31,			
	2017		2016	
	(in millions)			
ASSETS				
Current Assets:				
Cash and cash equivalents	$	25.7	$	118.4
Accounts receivable, net		75.8		59.4
Regulatory assets		10.9		12.3
Gas imbalances		6.3		2.6
Other current assets		3.7		3.0
Total Current Assets		122.4		195.7
Property, plant and equipment, net		5,939.2		6,063.7
Deferred charges and other assets		11.8		15.6
Total Noncurrent Assets		5,951.0		6,079.3
Total Assets	$	6,073.4	$	6,275.0
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable	$	20.3	$	38.1
Accrued interest		56.3		56.3
Accrued taxes		60.0		67.7
MFN revenue sharing liability		9.3		9.4
Current portion of long-term debt		550.0		—
Construction advances		6.8		11.7
Accrued other current liabilities		11.3		4.9
Total Current Liabilities		714.0		188.1
Long-term Liabilities and Deferred Credits:				
Long-term debt		2,014.8		2,561.7
Other long-term liabilities and deferred credits		34.5		95.2
Total Long-term Liabilities and Deferred Credits		2,049.3		2,656.9
Commitments and Contingencies				
Members' Equity:				
Members' equity		3,310.1		3,430.0
Total Liabilities and Members' Equity	$	6,073.4	$	6,275.0

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

ROCKIES EXPRESS PIPELINE LLC
STATEMENTS OF INCOME

	Years Ended December 31,		
	2017	2016	2015
		(in millions)	
Revenues:			
Transportation services	$ 839.6	$ 715.1	$ 779.0
Natural gas sales	9.6	—	2.1
Total Revenues	849.2	715.1	781.1
Operating Costs and Expenses:			
Cost of transportation services	29.8	26.5	30.2
Cost of natural gas sales	7.3	—	2.3
Operations and maintenance	25.3	24.8	21.2
Depreciation and amortization	218.4	204.3	199.4
General and administrative	30.5	39.9	26.7
Taxes, other than income taxes	65.3	71.9	73.9
Total Operating Costs and Expenses	376.6	367.4	353.7
Operating Income	472.6	347.7	427.4
Other (Expense) Income:			
Interest expense, net	(168.0)	(158.6)	(170.1)
Gain on litigation settlement	150.0	61.7	—
Other income, net	3.4	27.7	6.6
Total Other Expense, net	(14.6)	(69.2)	(163.5)
Net Income to Members	$ 458.0	$ 278.5	$ 263.9

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

ROCKIES EXPRESS PIPELINE LLC
STATEMENTS OF MEMBERS' EQUITY

	Total	Rockies Express Holdings, LLC	TEP REX Holdings, LLC	Sempra REX Holdings, LLC	P66 REX LLC
			(in millions)		
Members' Equity:					
Balance at January 1, 2015	$ 2,820.2	$ 1,410.0	$ —	$ 705.1	$ 705.1
Net Income to Members	263.9	131.9	—	66.0	66.0
Contributions from Members	733.1	366.5	—	183.3	183.3
Distributions to Members	(499.0)	(249.4)	—	(124.8)	(124.8)
Balance at December 31, 2015	$ 3,318.2	$ 1,659.0	$ —	$ 829.6	$ 829.6
Net Income to Members	278.5	139.3	42.6	27.0	69.6
Contributions from Members	304.9	152.5	50.0	26.2	76.2
Distributions to Members	(471.6)	(235.8)	(75.9)	(42.0)	(117.9)
Transfer of equity interest	—	—	840.8	(840.8)	—
Balance at December 31, 2016	$ 3,430.0	$ 1,715.0	$ 857.5	$ —	$ 857.5
Net Income to Members	458.0	131.1	212.4	—	114.5
Contributions from Members	92.0	29.7	39.3	—	23.0
Distributions to Members	(669.9)	(197.6)	(304.8)	—	(167.5)
Transfer of equity interest (see Note 1)	—	(850.3)	850.3	—	—
Balance at December 31, 2017	$ 3,310.1	$ 827.9	$ 1,654.7	$ —	$ 827.5

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

ROCKIES EXPRESS PIPELINE LLC
STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2017	2016	2015
		(in millions)	
Cash Flows from Operating Activities:			
Net income to Members	$ 458.0	$ 278.5	$ 263.9
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	223.7	209.6	204.8
Changes in components of working capital:			
Accounts receivable	(25.4)	28.2	(23.8)
Current regulatory assets and liabilities, net	3.4	(12.5)	(10.2)
Accounts payable	(7.0)	12.2	3.7
Accrued taxes	(7.6)	(0.6)	3.7
Other current assets and liabilities	—	(0.7)	(0.9)
Return of customer deposits	(55.7)	—	—
Receipt of customer deposits	5.8	52.9	32.2
Other operating, net	1.1	(22.5)	(3.0)
Net Cash Provided by Operating Activities	596.3	545.1	470.4
Cash Flows from Investing Activities:			
Capital expenditures	(108.9)	(305.7)	(281.9)
Other investing, net	(2.2)	(2.3)	(1.9)
Net Cash Used in Investing Activities	(111.1)	(308.0)	(283.8)
Cash Flows from Financing Activities:			
Distributions to Members	(669.9)	(471.6)	(499.0)
Contributions from Members	92.0	304.9	733.1
Repayment of debt	—	—	(450.0)
Payments for deferred financing costs	—	—	(0.7)
Net Cash Used in Financing Activities	(577.9)	(166.7)	(216.6)
Net Change in Cash and Cash Equivalents	(92.7)	70.4	(30.0)
Cash and Cash Equivalents, beginning of period	118.4	48.0	78.0
Cash and Cash Equivalents, end of period	$ 25.7	$ 118.4	$ 48.0
Supplemental Disclosures:			
Cash payments for interest, net	$ (164.9)	$ (155.6)	$ (170.7)
Schedule of Noncash Investing and Financing Activities:			
Increase in accrual for payment of property, plant and equipment	$ —	$ —	$ 8.4

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

ROCKIES EXPRESS PIPELINE LLC
NOTES TO FINANCIAL STATEMENTS

1. Description of Business

Rockies Express Pipeline LLC ("Rockies Express") is a Federal Energy Regulatory Commission ("FERC") regulated natural gas transportation system with approximately 1,712 miles of natural gas pipeline, including laterals, extending from Opal, Wyoming and Meeker, Colorado to Clarington, Ohio and consisting of three zones:

- Zone 1 - a 328-mile pipeline from the Meeker Hub in Northwest Colorado, across Southern Wyoming to the Cheyenne Hub in Weld County, Colorado capable of transporting 2.0 Bcf/d of natural gas from west to east;
- Zone 2 - a 714-mile pipeline from the Cheyenne Hub to an interconnect in Audrain County, Missouri capable of transporting 1.8 Bcf/d of natural gas from west to east; and
- Zone 3 - a 643-mile pipeline from Audrain County, Missouri to Clarington, Ohio, which is bi-directional and capable of transporting 1.8 Bcf/d of natural gas from west to east and 2.6 Bcf/d of natural gas from east to west.

The member interests and voting rights in Rockies Express as of December 31, 2017 are as follows:

- 49.99% - TEP REX Holdings, LLC ("TEP REX"), an indirect wholly owned subsidiary of Tallgrass Energy Partners, LP ("TEP");
- 25.01% - Rockies Express Holdings, LLC ("REX Holdings"), an indirect wholly owned subsidiary of Tallgrass Development, LP ("TD"); and
- 25% - P66REX LLC, a wholly owned subsidiary of Phillips 66.

On March 31, 2017, TEP, TD, and REX Holdings, entered into a definitive Purchase and Sale Agreement, pursuant to which TEP acquired an additional 24.99% membership interest in Rockies Express from TD in exchange for cash consideration of $400 million. This transaction increased TEP’s aggregate membership interest in Rockies Express to 49.99%.

On February 7, 2018, Tallgrass Development Holdings, LLC ("Tallgrass Development Holdings") acquired REX Holdings and its 25.01% membership interest in Rockies Express as a result of the merger of TD into Tallgrass Development Holdings. Tallgrass Development Holdings is a wholly-owned subsidiary of Tallgrass Equity, LLC, which is the sole member of TEP's general partner.

2. Summary of Significant Accounting Policies

Basis of Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from these estimates. Certain prior year amounts have been reclassified to conform to the current presentation.

Use of Estimates

Certain amounts included in or affecting these financial statements and related disclosures must be estimated, requiring management to make certain assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared. These estimates and assumptions affect the amounts reported for assets, liabilities, revenues, and expenses during the reporting period, and the disclosure of contingent assets and liabilities at the date of the financial statements. Management evaluates these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods it considers reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from these 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.

Cash and Cash Equivalents

Rockies Express considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are carried at their estimated collectible amounts. Rockies Express makes periodic reviews and evaluations of the appropriateness of the allowance for doubtful accounts based on a statistical analysis of historical defaults, and adjustments are recorded as necessary for changes in circumstances and customer-specific information. When specific receivables are determined to be uncollectible, the reserve and receivable are relieved. Our allowance for doubtful accounts totaled $2.0 million at December 31, 2017 and 2016.

Fuel Recovery Mechanism

Rockies Express obtains natural gas quantities from its shippers as reimbursement for fuel consumed at compressor stations and other locations on its system as well as for natural gas quantities lost and otherwise unaccounted for, in accordance with its tariff and applicable contract terms. Rockies Express tracks the volume and value of associated over- or under-collections of fuel and lost and unaccounted for quantities through a tracking mechanism referred to as "fuel tracker." Those amounts are recorded as an addition or reduction to a regulatory asset or liability balance representing the amounts to be recovered from or refunded to customers through the fuel tracker mechanisms. Fuel tracker volumes are valued using a weighted-average monthly index price.

Accounting for Regulatory Activities

Rockies Express' regulated activities are accounted for in accordance with the "Regulated Operations" Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification"). This Topic prescribes the circumstances in which the application of GAAP is affected by the economic effects of regulation. Regulatory assets and liabilities represent probable future revenues or expenses to Rockies Express associated with certain charges and credits that will be recovered from or refunded to customers through the ratemaking process. Rockies Express recorded regulatory assets of approximately $10.9 million and $12.3 million at December 31, 2017 and 2016, respectively, and regulatory liabilities of approximately $2.0 million and $10,000 at December 31, 2017 and 2016, respectively. Regulatory assets and liabilities at December 31, 2017 and 2016 were primarily attributable to the fuel tracker discussed in *"Fuel Recovery Mechanism"* above. For additional details see Note 9 – *Regulatory Matters*.

Gas Imbalances

Gas imbalances receivable and payable reflect gas volumes owed between Rockies Express and its customers. Gas imbalances represent the difference between customer nominated versus actual gas receipts from and gas deliveries to interconnecting pipelines under various operational balancing agreements. Gas imbalances are settled in cash or made up in-kind subject to the terms of the various agreements and are valued at the average monthly index price.

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, which for constructed assets includes indirect costs such as payroll taxes, other employee benefits, allowance for funds used during construction and other costs directly related to the projects. Expenditures that increase capacities, improve efficiencies or extend useful lives are capitalized and depreciated over the remaining useful life of the asset or major asset component. Rockies Express also capitalizes certain costs directly related to the construction of assets, including internal labor costs, interest and engineering costs.

Routine maintenance, repairs and renewal costs are expensed as incurred. The cost of normal retirements of depreciable utility property, plant and equipment, plus the cost of removal less salvage value and any gain or loss recognized, is recorded in accumulated depreciation with no effect on current period earnings. Gains or losses are recognized upon retirement of property, plant and equipment constituting an operating unit or system, and land, when sold or abandoned and costs of removal or salvage are expensed when incurred.

Rockies Express maintains natural gas in its pipeline, known as "line pack," which serves to maintain the necessary pressure to allow efficient transmission of natural gas. Line pack is capitalized within "Property, plant and equipment, net" on the balance sheets and depreciated over the estimated useful life of the pipeline.

Impairment of Long-Lived Assets

Rockies Express reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss results when the estimated undiscounted future net cash flows expected to result from the asset's use and its eventual disposition are less than its carrying amount. Rockies Express assesses its long-lived assets for impairment in accordance with the relevant Codification guidance. A long-lived asset is tested for impairment whenever events or changes in circumstances indicate its carrying amount may exceed its fair value.

Examples of long-lived asset impairment indicators include:

- a significant decrease in the market value of a long-lived asset or group;

- a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate could affect the value of a long-lived asset or asset group, including an adverse action or assessment by a regulator which would exclude allowable costs from the rate-making process;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the long-lived asset or asset group;
- a current period operating cash flow loss combined with a history of operating cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; and
- a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

When an impairment indicator is present, Rockies Express first assesses the recoverability of the long-lived assets by comparing the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset to the carrying amount of the asset. If the carrying amount is higher than the undiscounted future cash flows, the fair value of the asset is assessed using a discounted cash flow analysis to determine the amount of impairment, if any, to be recognized.

Depreciation and Amortization

Depreciation is computed based on the straight-line method over the estimated useful lives of property, plant and equipment. The annual composite rate of depreciation for the years ended December 31, 2017, 2016, and 2015 was 2.86%.

Allowance for Funds Used During Construction

Included in the cost of "Property, plant and equipment, net" on the accompanying balance sheets is an allowance for funds used during construction ("AFUDC"). AFUDC represents the estimated cost of debt, from borrowed funds, or the estimated cost of capital, from equity funds, during the construction period. During the years ended December 31, 2017, 2016, and 2015, Rockies Express recognized AFUDC associated with the estimated cost of capital from equity funds of approximately $0.5 million, $24.8 million, and $6.5 million, respectively, recorded as "Other income, net" on the accompanying statements of income.

Revenue Recognition

Rockies Express provides various types of natural gas transportation services to its customers in which the natural gas remains the property of these customers at all times. In many cases (generally described as "firm service"), the customer pays a two-part rate that includes (i) a fixed-fee reserving the right to transport natural gas in Rockies Express' facilities and (ii) a per-unit rate for volumes actually transported. The fixed-fee component of the overall rate is recognized as revenue in the period the service is provided. The per-unit charge is recognized as revenue when the volumes are delivered to the customers' agreed upon delivery point. In other cases (generally described as "interruptible service"), there is no fixed-fee associated with the services because the customer accepts the possibility that service may be interrupted at the discretion of Rockies Express in order to serve customers who have purchased firm service. In the case of interruptible service, revenue is recognized in the same manner utilized for the per-unit rate for volumes transported under firm service agreements.

In addition to its "firm" and "interruptible" transportation services, Rockies Express also provides a natural gas park and loan service to assist customers in managing a short-term gas surplus or deficit and a pooling and wheeling service to assist customers in the aggregation of gas supply from physical point(s) within a specified hub to a central pooling point and the re-delivery of gas supply to physical points within the same hub. Revenues are recognized as services are provided, in accordance with the terms negotiated under these contracts.

Rockies Express recognizes revenue from natural gas sales when the natural gas is sold at a fixed or determinable price, delivery has occurred and title has transferred, and collectability of the revenue is reasonably assured.

Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt are deferred and amortized over the related financing period using the effective interest method. Deferred financing costs associated with long-term debt are presented as a reduction to the corresponding debt on the accompanying balance sheets. Deferred financing costs associated with revolving credit facilities or lines of credit are classified as noncurrent assets on the accompanying balance sheets.

Deferred Charges and Deferred Credits

Rockies Express has $2.5 million remaining of an initial $20.0 million deferred charge and deferred credit relating to a customer contract. The deferred charge is being amortized using a straight-line-method over the life of the related contract. Amortization of the deferred charge for each of the years ended December 31, 2017, 2016, and 2015 was $2.0 million and is included within transportation services revenues in the accompanying statements of income. The deferred credit is payable over a period of 10 years.

Environmental Matters

Rockies Express expenses or capitalizes, as appropriate, environmental expenditures that relate to current operations. Rockies Express expenses amounts that relate to an existing condition caused by past operations that do not contribute to current or future revenue generation. Rockies Express does not discount environmental liabilities to a net present value, and records environmental liabilities when environmental assessments and/or remedial efforts are probable and costs can be reasonably estimated. Generally, recording of these accruals coincides with the completion of a feasibility study or a commitment to a formal plan of action.

Fair Value

Fair value, as defined in the fair value measurement accounting guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price. The fair value measurement accounting guidance requires that Rockies Express make assumptions that market participants would use in pricing an asset or liability based on the best information available. These factors include nonperformance risk (the risk that an obligation will not be fulfilled) and credit risk of the reporting entity (for liabilities) and of the counterparty (for assets). The fair value measurement guidance prohibits the inclusion of transaction costs and any adjustments for blockage factors in determining the instruments' fair value. The principal or most advantageous market should be considered from the perspective of the reporting entity. The fair value of current financial assets and liabilities approximate their reported carrying amounts as of December 31, 2017 and 2016.

Income Taxes

Rockies Express is a limited liability company that has elected to be treated as a partnership for income tax purposes. Accordingly, no provision for federal or state income taxes has been recorded in the financial statements of Rockies Express and the tax effects of Rockies Express' activities accrue to its Members.

New Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a comprehensive and converged set of principles-based revenue recognition guidelines which supersede the existing industry and transaction-specific standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, entities must apply a five-step process to (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 also mandates disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The disclosure requirements include qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

Throughout 2015 and 2016, the FASB has issued a series of subsequent updates to the revenue recognition guidance in Topic 606, including ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

The amendments in ASU 2014-09, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20 are effective for public entities for annual reporting periods beginning after December 15, 2017, and for interim periods within that reporting period. Early application is permitted for annual reporting periods beginning after December 15, 2016.

Management has completed its evaluation and implemented the revised guidance using the modified retrospective method as of January 1, 2018. This approach allows Rockies Express to apply the new standard to (i) all new contracts entered into after January 1, 2018 and (ii) all existing contracts for which all (or substantially all) of the revenue has not been recognized under legacy revenue guidance as of January 1, 2018 through a cumulative adjustment to members' equity. Consolidated revenues presented in the comparative financial statements for periods prior to January 1, 2018 will not be revised.

On January 1, 2018, Rockies Express recorded a cumulative effect adjustment to equity of $125.2 million. The cumulative effect adjustment arose as a result of the allocation of the transaction price to a series of individual performance obligations in certain long-term transportation contracts with tiered-pricing arrangements. Rockies Express established a contract asset on January 1, 2018 that reflects the amount by which the revenue that would have been recognized pursuant to ASC 606 exceeds the actual cash collected from the customer for periods prior to implementation and will be reversed over the remaining term of the contract.

Rockies Express anticipates significant changes to its disclosures based on the additional requirements prescribed by the standard. These new disclosures include information regarding the significant judgments used in evaluating when and how revenue is (or will be) recognized and data related to contract assets and liabilities. Additionally, Rockies Express continues to provide internal training and awareness related to the revised guidance to key stakeholders throughout the organization and evaluate business processes, systems and controls to ensure the accuracy and timeliness of the recognition and disclosure requirements under the new revenue guidance.

ASU No. 2016-02, "Leases (Topic 842)"

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 provides a comprehensive update to the lease accounting topic in the Codification intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in ASU 2016-02 include a revised definition of a lease as well as certain scope exceptions. The changes primarily impact lessee accounting, while lessor accounting is largely unchanged from previous GAAP.

Management is currently evaluating the impact of Rockies Express' pending adoption of the revised guidance. The status of its implementation is as follows:

- Rockies Express management has formed an implementation team that meets to discuss implementation challenges, technical interpretations, industry-specific treatment of certain contract types, and project status.
- Rockies Express management is in the process of gathering data and reviewing contracts in order to identify all impacted contracts.
- Rockies Express management is evaluating the potential information technology and internal control changes that will be required for adoption based on the findings from its contract review process.
- Rockies Express management plans to provide internal training and awareness related to the revised guidance to the key stakeholders throughout its organization.

The amendments in ASU 2016-02 are effective for public entities for annual reporting periods beginning after December 15, 2018, and for interim periods within that reporting period. Early application is permitted. Rockies Express is currently evaluating the impact of ASU 2016-02. While the SEC has indicated that it will not object to certain public business entities adopting the standard using the timeline otherwise afforded to private companies, Rockies Express expects to adopt the new standard on January 1, 2019.

3. Property, Plant and Equipment

Rockies Express' property, plant and equipment, net consisted of the following:

	December 31, 2017	December 31, 2016
	(in millions)	
Natural gas pipelines	$ 7,661.2	$ 7,085.8
General and other	15.4	9.9
Construction work in progress	11.9	503.2
Accumulated depreciation and amortization	(1,749.3)	(1,535.2)
Total property, plant and equipment, net	$ 5,939.2	$ 6,063.7

Depreciation expense was approximately $218.4 million, $204.3 million and $199.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. Capitalized interest was $0.2 million, $9.3 million, and $2.8 million for the years ended December 31, 2017, 2016 and 2015, respectively.

4. Financing

Debt

Total outstanding debt as of December 31, 2017 and 2016 consisted of the following:

	December 31, 2017	December 31, 2016
	(in millions)	
6.85% senior notes due July 15, 2018	$ 550.0	$ 550.0
6.00% senior notes due January 15, 2019	525.0	525.0
5.625% senior notes due April 15, 2020	750.0	750.0
7.50% senior notes due July 15, 2038	250.0	250.0
6.875% senior notes due April 15, 2040	500.0	500.0
Less: Unamortized debt discount and deferred financing costs	(10.2)	(13.3)
Total debt	2,564.8	2,561.7
Less: Current portion	(550.0)	—
Total long-term debt	$ 2,014.8	$ 2,561.7

Rockies Express Senior Notes

The senior notes issued by Rockies Express are redeemable in whole or in part, at Rockies Express' option at any time, at redemption prices defined in the associated indenture agreements.

All payments of principal and interest with respect to the fixed rate senior notes are the sole obligation of Rockies Express. Note holders have no recourse against Rockies Express' Members or their respective officers, directors, employees, shareholders, members, managers, unit holders or affiliates for any failure by Rockies Express to perform or comply with its obligations pursuant to the notes or the indenture. As of December 31, 2017, Rockies Express was in compliance with the covenants required under the senior notes.

Maturities of Debt

The scheduled maturities of Rockies Express' outstanding debt balances as of December 31, 2017 are summarized as follows (in millions):

Year	Scheduled Maturities
2018	$ 550.0
2019	525.0
2020	750.0
2021	—
2022	—
Thereafter	750.0
Total scheduled maturities	2,575.0
Unamortized debt discount and deferred financing costs	(10.2)
Total debt	$ 2,564.8

Rockies Express has senior notes scheduled to mature within one year of the issuance of these financial statements totaling $1.075 billion. Management has obtained a letter of support from the Members of Rockies Express confirming the Members' intent and ability to provide Rockies Express with financial support through at least one year and a day beyond February 13, 2018 (the financial statement issuance date) to the extent that other sources of funding are not otherwise available to Rockies Express. This support from the Members effectively alleviates the risk surrounding the ability of Rockies Express to continue as a going concern.

Rockies Express Revolving Credit Facility

On October 1, 2015, Rockies Express entered into a $150 million senior unsecured revolving credit facility ("the revolving credit facility") with Wells Fargo Bank, N.A., as administrative agent, and a syndicate of lenders, which will mature on January 31, 2020. The revolving credit facility includes a $75 million sublimit for letters of credit and a $20 million sublimit for swing line loans and may be used for working capital and general company purposes. The revolving credit facility also contains an accordion feature whereby Rockies Express can increase the size of the credit facility to an aggregate of $200 million, subject to receiving increased or new commitments from lenders and the satisfaction of certain other conditions precedent. As of December 31, 2017, there were no outstanding borrowings or letters of credit issued under the revolving credit facility.

Borrowings under the credit facility bear interest, at Rockies Express' option, at either (a) a base rate, which will be a rate equal to the greatest of (i) the prime rate, (ii) the U.S. federal funds rate plus 0.5% and (iii) a one-month reserve adjusted Eurodollar rate plus 1.00% or (b) a reserve adjusted Eurodollar rate, plus, in each case, an applicable margin. For borrowings bearing interest based on the base rate, the applicable margin was initially 1.00%, and for loans bearing interest based on the reserve adjusted Eurodollar rate, the applicable margin was initially 2.00%. After the first full fiscal quarter, the applicable margin ranges from 0.50% to 1.25% for base rate borrowings and 1.50% to 2.25% for reserve adjusted Eurodollar rate borrowings, based upon Rockies Express' total leverage ratio. The unused portion of the credit facility is subject to a commitment fee, which ranges from 0.20% to 0.45% based upon Rockies Express' total leverage ratio.

Rockies Express has the option to have the applicable margin determined based on Rockies Express' credit ratings should Rockies Express receive an investment grade credit rating from one or more of the ratings agencies in the future. If Rockies Express were to make an election to exercise this option, the applicable margin would range from 0.125% to 1.00% for base rate borrowings and 1.125% to 2.00% for reserve adjusted Eurodollar borrowings, based on Rockies Express' credit ratings. Under such an election, the commitment fee would range from 0.125% to 0.40%, also based on Rockies Express' credit ratings.

The revolving credit facility generally requires Rockies Express to comply with various affirmative and negative covenants, including a limit on the leverage ratio (as defined in the credit agreement) of Rockies Express and restrictions on:

- incurring secured indebtedness;
- entering into mergers, consolidations and sales of assets;
- granting liens;
- entering into transactions with affiliates; and
- making restricted payments.

As of December 31, 2017, Rockies Express was in compliance with the covenants required under the revolving credit facility.

Repayment of 3.90% Senior Notes

The board of directors of Rockies Express approved repayment of the $450 million 3.90% senior notes due April 15, 2015 ("2015 Notes") which was financed through capital contributions by the Members of Rockies Express in proportion to their respective ownership interests. The capital contribution was made by each Member of Rockies Express in accordance with Section 4.3.1 of Rockies Express' Second Amended and Restated Limited Liability Company Agreement, as amended, and was used to repay the 2015 Notes on April 15, 2015.

Fair Value

The following table sets forth the carrying amount and fair value of Rockies Express' debt, which is not measured at fair value in the accompanying balance sheets as of December 31, 2017 and 2016, but for which fair value is disclosed:

	Fair Value				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Carrying Amount
	(in millions)				
December 31, 2017	$ —	$ 2,752.1	$ —	$ 2,752.1	$ 2,564.8
December 31, 2016	$ —	$ 2,684.9	$ —	$ 2,684.9	$ 2,561.7

The debt is carried at amortized cost, net of deferred financing costs. The estimated fair value of Rockies Express' outstanding private placement debt is based upon quoted market prices adjusted for illiquid markets. Rockies Express is not aware of any factors that would significantly affect the estimated fair value subsequent to December 31, 2017.

5. Members' Equity

During the years ended December 31, 2017, 2016, and 2015, Rockies Express made distributions to Members of $669.9 million, $471.6 million, and $499.0 million, respectively. The distributions paid by Rockies Express during the year ended December 31, 2017 included a distribution of the proceeds from the Ultra settlement discussed in Note 10 – *Legal and Environmental Matters.*

During the years ended December 31, 2017, 2016, and 2015, Rockies Express received contributions from Members of $92.0 million, $304.9 million, and $733.1 million, respectively. Contributions from Members during the years ended December 31, 2017 and 2016 were primarily used to fund the construction and other costs of the Zone 3 Capacity Enhancement project, as discussed in Note 9 – *Regulatory Matters*. Contributions from Members during the year ended December 31, 2015 were used to repay the 2015 Notes, as discussed in Note 4 – *Financing*, fund the construction and other costs of the Zone 3 East-to-West Project facilities and the Zone 3 Capacity Enhancement project and remaining costs associated with the Seneca Lateral Project facilities, and to increase cash on hand for working capital needs.

Additional contributions and distributions were made subsequent to December 31, 2017. For details see Note 11 – *Subsequent Events*.

6. Related Party Transactions

Rockies Express has an operating agreement with Tallgrass NatGas Operator, LLC ("NatGas"), a subsidiary of TEP, under which NatGas provides and bills Rockies Express for various services at cost including employee labor costs, information technology services, employee health and retirement benefits, and insurance for property and casualty risks. In addition, NatGas receives a management oversight fee in the amount of 1% of Rockies Express' earnings before interest, taxes, depreciation, and amortization. Rockies Express' practice is to settle receivable and payable balances that exist with affiliates in the following month.

Totals of significant transactions with affiliated companies are as follows:

	Years Ended December 31,		
	2017	2016	2015
		(in millions)	
Revenues: Transportation services [1]	$ —	$ 14.4	$ 10.8
Charges from TD:			
Compensation, benefits and other charges	$ 18.6	$ 20.6	$ 18.5
General and administrative charges from affiliate	$ 8.9	$ 9.4	$ 8.6
Management Fees:			
Tallgrass NatGas Operator, LLC	$ 8.5	$ 6.2	$ 6.3

(1) Transportation services revenue for the years ended December 31, 2016 and 2015 is primarily from Sempra Energy prior to the May 6, 2016 sale of Sempra Energy's ownership to TEP REX.

Balances with affiliated companies included in the accompanying balance sheets are as follows:

	December 31,	
	2017	2016
	(in millions)	
Payables to affiliated companies:		
TD	$ 2.3	4.5
TEP	1.3	0.6
Total payables to affiliated companies	$ 3.6	$ 5.1

Gas imbalances with affiliated shippers are as follows:

	December 31,	
	2017	2016
	(in millions)	
Affiliate gas imbalance receivables	$ 0.4	$ —
Affiliate gas imbalance payables	$ —	$ 0.2

7. Commitments and Contingent Liabilities

Leases

Total rental expense under operating leases was $29.2 million for the years ended December 31, 2017, 2016, and 2015. Future minimum commitments related to these leases as of December 31, 2017 are as follows (in millions):

Year	Future Minimum Lease Payments
2018	$ 29.2
2019	29.2
2020	29.2
2021	29.2
2022	29.2
Thereafter	146.0
Total	$ 292.0

The future minimum rental commitments are primarily attributable to a 20-year capacity lease agreement with Overthrust Pipeline Company ("Overthrust") which commenced on January 1, 2008. The capacity lease provides the right to transport on a firm basis 625 MMcf/d of natural gas through Overthrust's system from either the Williams Field Services Opal Processing Plant or the TEPPCO Pioneer Processing Plant to the Wamsutter interconnect.

Capital Expenditures

Approximately $7.7 million of Rockies Express' capital expenditure budget for 2018 had been committed for purchases of property, plant and equipment at December 31, 2017.

8. Major Customers

During 2017, three non-affiliated shippers accounted for $169.4 million (20%), $111.9 million (13%), and $101.3 million (12%), respectively of Rockies Express' total revenues. During 2016, four non-affiliated shippers accounted for $164.8 million (23%), $82.9 million (12%), $71.4 million (10%), and $70.4 million (10%), respectively of Rockies Express' total revenues. During 2015, three non-affiliated shippers accounted for $187.6 million (24%), $163.0 million (21%), and $104.6 million (13%), respectively of Rockies Express' total revenues. Rockies Express attempts to mitigate credit risk by seeking collateral or financial guarantees and letters of credit from customers.

9. Regulatory Matters

There are no regulatory proceedings challenging the transportation rates of Rockies Express. Rockies Express has made certain regulatory filings with the FERC, including the following:

Petition for Declaratory Order – FERC Docket No. RP13-969-000

In June 2013, in Docket No. RP13-969-000, Rockies Express filed with the FERC a Petition for Declaratory Order which sought a ruling that the "most favored nations" or "MFN" provisions contained in Rockies Express' negotiated rate agreements ("NRAs") with its Foundation and Anchor Shippers would not prevent Rockies Express from providing firm transportation service at rates lower than Foundation and Anchor Shippers' rates that (1) have an east-to-west primary path; (2) are for a term of one year or longer; and (3) are limited to service in one rate zone and therefore do not utilize all of the same facilities or rate zones as the service provided pursuant to the Foundation and Anchor Shipper NRAs. In November 2013, the FERC issued a declaratory order finding that the potential transactions would not trigger the MFN rights of Rockies Express' Foundation and Anchor Shippers. Various parties filed requests for rehearing of the FERC's declaratory order.

In September 2014 and December 2015, the FERC accepted amended contracts with the shippers holding MFN rights on Rockies Express, which reflect the terms of settlements between these shippers and Rockies Express. The settlements provide additional clarity with respect to the applicability of the settling shippers' MFN rights, sharing by Rockies Express of certain transportation revenues, and the withdrawal of the settling shippers from the Petition for Declaratory Order proceeding. On September 27, 2017, FERC issued an order denying the requests for rehearing of the declaratory order issued in November 2013, and no party sought judicial appeal of the FERC order denying rehearing within the statutory deadline.

2015 Annual FERC Fuel Tracking Filings - FERC Docket No. RP15-584-000

On February 27, 2015, Rockies Express made its annual fuel tracker filing with a proposed effective date of April 1, 2015 in Docket No. RP15-584-000. This filing incorporated the revised fuel and lost and unaccounted-for and power cost tracker mechanisms filed in Docket No. RP14-1003. The FERC issued an order accepting the filing on March 26, 2015 and on April 9, 2015, accepted an errata to the February 27, 2015 filing reflecting a corrected rate for the Cheyenne Booster rate (PCT Reimbursement Charge).

Seneca Lateral Facilities Conversion – FERC Docket No. CP15-102-000

On March 2, 2015 in Docket No. CP15-102-000, Rockies Express filed with the FERC an application for (1) authorization to convert certain existing and operating pipeline and compression facilities located in Noble and Monroe Counties, Ohio (Seneca Lateral Facilities described in Docket Nos. CP13-539-000 and CP14-194-000) from Natural Gas Policy Act of 1978 Section 311 authority to NGA Section 7 jurisdiction, and (2) issuance of a certificate of public convenience and necessity authorizing Rockies Express to operate and maintain the Seneca Lateral Facilities. On April 7, 2016, the FERC issued a Certificate to Rockies Express granting its requested authorizations and on June 1, 2016 Rockies Express commenced NGA service on the Seneca Lateral.

Rockies Express Zone 3 Capacity Enhancement Project – FERC Docket No. CP15-137-000

On March 31, 2015 in Docket No. CP15-137-000, Rockies Express filed with the FERC an application for authorization to construct and operate (1) three new mainline compressor stations located in Pickaway and Fayette Counties, Ohio and Decatur County, Indiana; (2) additional compressors at an existing compressor station in Muskingum County, Ohio; and (3) certain ancillary facilities. The facilities increased the Rockies Express Zone 3 east-to-west mainline capacity by 0.8 Bcf/d. Pursuant to the FERC's obligations under the National Environmental Policy Act, FERC staff issued an Environmental Assessment for the project on August 31, 2015. On February 25, 2016, the FERC issued a Certificate of Public Convenience and Necessity authorizing Rockies Express to proceed with the project. On March 14, 2016, Rockies Express commenced construction of the project facilities. The project was placed in-service for the full 0.8 Bcf/d on January 6, 2017.

2016 Annual and Interim FERC Fuel Tracking Filings - FERC Docket Nos. RP16-702 and RP17-240

On March 1, 2016, Rockies Express made its annual fuel tracker filing with a proposed effective date of April 1, 2016 in Docket No. RP16-702. The FERC issued an order accepting the filing on March 25, 2016. On December 1, 2016, Rockies Express made an interim fuel tracker filing with a proposed effective date of January 1, 2017 in Docket No. RP17-240. The FERC issued an order accepting the filing on December 29, 2016.

Electric Power Charge Clarification - FERC Docket No. RP17-285

On December 21, 2016, in Docket No. RP17-285, Rockies Express proposed certain revisions to the General Terms and Conditions of its tariff to clarify that the electric power costs associated with the operation of gas coolers installed in association with the Zone 3 Capacity Enhancement Project, at both electric and gas powered stations, will be included in the Power Cost Tracker. Several shippers submitted comments on the proposal. The FERC issued an order on January 19, 2017 accepting the proposed revisions permitting the recovery of electric power costs from the operation of both gas and electric powered compressor stations, subject to certain clarifications.

2017 Annual and Interim FERC Fuel Tracking Filings - FERC Docket Nos. RP17-401 and RP17-1064

On February 13, 2017,in Docket No. RP17-401, Rockies Express made its annual fuel and power cost tracker filing with a proposed effective date of April 1, 2017. The FERC issued an order accepting the filing, including certain requested waivers, on March 21, 2017. On September 20, 2017, Rockies Express made its interim fuel tracker filing in Docket No. RP17-1064 with a proposed effective date of November 1, 2017. The FERC issued an order accepting the filing on October 18, 2017.

Increased Frequency of FL&U and PCT Adjustments - FERC Docket No. RP18-228

On December 1, 2017, in Docket No. RP18-228, Rockies Express made a filing with the FERC to increase the frequency in which it may adjust fixed fuel and lost and unaccounted for retainages and power cost tracker charges during the year so that its recovery of fixed fuel and lost and unaccounted for charges and power costs more closely track usage. Rockies Express proposed an effective date of April 1, 2018. The comment period ended on December 13, 2017, and no parties opposed Rockies Express' filing. The matter is pending before the FERC.

10. Legal and Environmental Matters

Legal

In addition to the matters discussed below, Rockies Express is a defendant in various lawsuits arising from the day-to-day operations of its business. Although no assurance can be given, Rockies Express believes, based on its experiences to date, that the ultimate resolution of such routine items will not have a material adverse impact on its business, financial position, results of operations or cash flows.

Rockies Express has evaluated claims in accordance with the accounting guidance for contingencies that it deems both probable and reasonably estimable and, accordingly, has recorded no reserve for legal claims as of December 31, 2017 or 2016.

Mineral Management Service Lawsuit

On June 30, 2009, Rockies Express filed claims against Mineral Management Service, a former unit of the U.S. Department of Interior (collectively "Interior") for breach of its contractual obligation to sign transportation service agreements for pipeline capacity that it had agreed to take on Rockies Express. The Civilian Board of Contract Appeals ("CBCA") conducted a trial and ruled that Interior was liable for breach of contract, but limited the damages Interior was required to pay. On September 13, 2013, the United States Court of Appeals for the Federal Circuit issued a decision affirming that Interior was liable for its breach of contract, but reversing the CBCA's decision to limit damages. The case was remanded to the CBCA for the purpose of calculating damages at a hearing. On May 20, 2016, Rockies Express and Interior agreed to resolve the claims in this matter in exchange for a $65 million cash payment to Rockies Express. Interior paid the amount due Rockies Express on June 23, 2016.

Ultra Resources

In early 2016, Ultra Resources, Inc. ("Ultra") defaulted on its firm transportation service agreement for approximately 0.2 Bcf/d through November 11, 2019. In late March 2016, Rockies Express terminated Ultra's service agreement. On April 14, 2016, Rockies Express filed a lawsuit against Ultra for breach of contract and damages in Harris County, Texas, seeking approximately $303 million in damages and other relief. On April 29, 2016, Ultra and certain of its debtor affiliates filed for protection under Chapter 11 of the United States Bankruptcy Code in United States Bankruptcy Court for the Southern District of Texas, which operated as a stay of the Harris County state court proceeding.

On January 12, 2017, Rockies Express and Ultra entered into an agreement to settle Rockies Express' approximately $303 million claim against Ultra. In accordance with the settlement agreement, Ultra made a cash payment to Rockies Express of $150 million on July 12, 2017, and entered into a new, seven-year firm transportation agreement with Rockies Express commencing December 1, 2019, for west-to-east service of 0.2 Bcf/d at a rate of approximately $0.37 per dth/d, or approximately $26.8 million annually.

Michels Corporation

On June 17, 2014, Michels Corporation ("Michels") filed a complaint and request for relief against Rockies Express in the Court of Common Pleas, Monroe County, Ohio, as a result of work performed by Michels to construct the Seneca Lateral Pipeline in Ohio. Michels sought unspecified damages from Rockies Express and asserted claims of breach of contract, negligent misrepresentation, unjust enrichment and quantum meruit. Michels also filed notices of Mechanic's Liens in Monroe and Noble Counties, asserting $24.2 million as the amount due.

On February 2, 2017, Rockies Express and Michels agreed to resolve Michels' claims for a $10 million cash payment by Rockies Express. The cash payment was inclusive of approximately $5.9 million that Rockies Express had been withholding from Michels. Subsequently, Rockies Express and Michels entered into a definitive agreement with respect to the settlement and Rockies Express made the $10 million cash payment to Michels on February 16, 2017.

Environmental, Health and Safety

Rockies Express is subject to a variety of federal, state and local laws that regulate permitted activities relating to air and water quality, waste disposal, and other environmental matters. Rockies Express believes that compliance with these laws will not have a material adverse impact on its business, cash flows, financial position or results of operations. However, there can be no assurances that future events, such as changes in existing laws, the promulgation of new laws, or the development of new facts or conditions will not cause Rockies Express to incur significant costs.

11. Subsequent Events

Subsequent events, which are events or transactions that occurred after December 31, 2017 through the issuance of the accompanying financial statements, have been evaluated through February 13, 2018.

Members' Equity

Rockies Express paid distributions of $43.9 million to its Members and received contributions from its Members of $1.3 million in January 2018.

Seneca Lateral

On January 31, 2018, Rockies Express experienced an operational disruption on its Seneca Lateral due to a pipe rupture and natural gas release in a rural area in Noble County, Ohio. There were no injuries reported and no evacuations, however, the release required Rockies Express to shut off the flow through the segment. Repairs are underway to return the segment to service as soon as possible and a root cause investigation is ongoing.