

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

**[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2014

or

**[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number	Exact name of registrant as specified in its charter; State or other jurisdiction of incorporation or organization	IRS Employer Identification No.
<b>333-90553</b>	<b>MIDAMERICAN FUNDING, LLC</b> <b>(An Iowa Limited Liability Company)</b> <b>666 Grand Avenue, Suite 500</b> <b>Des Moines, Iowa 50309-2580</b> <b>515-242-4300</b>	<b>47-0819200</b>
<b>333-15387</b>	<b>MIDAMERICAN ENERGY COMPANY</b> <b>(An Iowa Corporation)</b> <b>666 Grand Avenue, Suite 500</b> <b>Des Moines, Iowa 50309-2580</b> <b>515-242-4300</b>	<b>42-1425214</b>

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

(Title of each Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

MidAmerican Funding, LLC      Yes ☐ No ☒      MidAmerican Energy Company      Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

MidAmerican Funding, LLC      Yes ☒ No ☐      MidAmerican Energy Company      Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

MidAmerican Funding, LLC      Yes ☐ No ☒      MidAmerican Energy Company      Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

MidAmerican Funding, LLC      Yes ☒ No ☐      MidAmerican Energy Company      Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers or smaller reporting companies. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filers ☐      Accelerated filers ☐      Non-accelerated filers ☒      Smaller reporting company ☐

Indicate by check mark whether either registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐    No ☒

All of the member's equity of MidAmerican Funding, LLC is held by its parent company, Berkshire Hathaway Energy Company, as of January 31, 2015.

All common stock of MidAmerican Energy Company is held by its parent company, MHC Inc., which is a direct, wholly owned subsidiary of MidAmerican Funding, LLC. As of January 31, 2015, 70,980,203 shares of MidAmerican Energy Company common stock, without par value, were outstanding.

MidAmerican Funding, LLC and MidAmerican Energy Company meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and are therefore filing portions of this Form 10-K with the reduced disclosure format specified in General Instruction I(2) of Form 10-K.

MidAmerican Funding, LLC ("MidAmerican Funding"), and MidAmerican Energy Company ("MidAmerican Energy"), separately file this combined Form 10-K. Information relating to each individual registrant is filed by such registrant on its own behalf. MidAmerican Energy makes no representation as to information relating to any other subsidiary of MidAmerican Funding.

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## **Definition of Abbreviations and Industry Terms**

When used in Forward-Looking Statements, Part I, Items 1 through 4, and Part II, Items 5 through 7A and Items 9, 9A and 9B, the following terms have the definitions indicated.

### **MidAmerican Energy and related entities**

BHE	Berkshire Hathaway Energy Company
MidAmerican Funding	MidAmerican Funding, LLC
MidAmerican Energy	MidAmerican Energy Company
MHC	MHC Inc.
Berkshire Hathaway	Berkshire Hathaway Inc. and its subsidiaries

### **Certain Industry Terms**

AFUDC	Allowance for Funds Used During Construction
CAIR	Clean Air Interstate Rule
Dodd-Frank Reform Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Dth	Decatherms
DSM	Demand-side Management
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
GHG	Greenhouse Gases
GWh	Gigawatt Hours
ICC	Illinois Commerce Commission
IUB	Iowa Utilities Board
LNG	Liquefied Natural Gas
MATS	Mercury and Air Toxics Standards
MISO	Midcontinent Independent System Operator, Inc.
MW	Megawatts
NRC	Nuclear Regulatory Commission
OCA	Iowa Office of Consumer Advocate
RCRA	Resource Conservation and Recovery Act
RTO	Regional Transmission Organization
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan

## Forward-Looking Statements

This report contains statements that do not directly or exclusively relate to historical facts. These statements are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements can typically be identified by the use of forward-looking words, such as "will," "may," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "intend," "potential," "plan," "forecast" and similar terms. These statements are based upon MidAmerican Funding's and MidAmerican Energy's current intentions, assumptions, expectations and beliefs and are subject to risks, uncertainties and other important factors. Many of these factors are outside the control of MidAmerican Funding or MidAmerican Energy and could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors include, among others:

- general economic, political and business conditions, as well as changes in, and compliance with, laws and regulations, including reliability and safety standards, affecting MidAmerican Energy's operations or related industries;
- changes in, and compliance with, environmental laws, regulations, decisions and policies that could, among other items, increase operating and capital costs, reduce generating facility output, accelerate generating facility retirements or delay generating facility construction or acquisition;
- the outcome of rate cases and other proceedings conducted by regulatory commissions or other governmental and legal bodies and MidAmerican Energy's ability to recover costs in rates in a timely manner;
- changes in economic, industry, competition or weather conditions, as well as demographic trends, new technologies and various conservation, energy efficiency and distributed generation measures and programs, that could affect customer growth and usage, electricity and natural gas supply or MidAmerican Energy's ability to obtain long-term contracts with customers and suppliers;
- performance and availability of MidAmerican Energy's generating facilities, including the impacts of outages and repairs, transmission constraints, weather, including wind, and operating conditions;
- a high degree of variance between actual and forecasted load or generation that could impact MidAmerican Energy's hedging strategy;
- changes in prices, availability and demand for wholesale electricity, coal, natural gas, other fuel sources and fuel transportation that could have a significant impact on generating capacity and energy costs;
- the financial condition and creditworthiness of MidAmerican Energy's significant customers and suppliers;
- changes in business strategy or development plans;
- availability, terms and deployment of capital, including reductions in demand for investment-grade commercial paper, debt securities and other sources of debt financing and volatility in the London Interbank Offered Rate, the base interest rate for MidAmerican Energy's credit facilities;
- changes in MidAmerican Energy's credit ratings;
- risks relating to nuclear generation;
- the impact of certain contracts used to mitigate or manage volume, price and interest rate risk, including increased collateral requirements, and changes in commodity prices, interest rates and other conditions that affect the fair value of certain contracts;
- the impact of inflation on costs and MidAmerican Energy's ability to recover such costs in regulated rates;
- increases in employee healthcare costs, including the implementation of the Affordable Care Act;
- the impact of investment performance and changes in interest rates, legislation, healthcare cost trends, mortality and morbidity on pension and other postretirement benefits expense and funding requirements;
- unanticipated construction delays, changes in costs, receipt of required permits and authorizations, ability to fund capital projects and other factors that could affect future generating facilities and infrastructure additions;
- the impact of new accounting guidance or changes in current accounting estimates and assumptions on MidAmerican Funding's or MidAmerican Energy's consolidated financial results;
- the effects of catastrophic and other unforeseen events, which may be caused by factors beyond MidAmerican Energy's control or by a breakdown or failure of its operating assets, including storms, floods, fires, explosions, litigation, wars, terrorism and embargoes; and

- other business or investment considerations that may be disclosed from time to time in MidAmerican Funding's or MidAmerican Energy's filings with the SEC or in other publicly disseminated written documents.

Further details of the potential risks and uncertainties affecting MidAmerican Funding or MidAmerican Energy are described in Item 1A and other discussions contained in this Form 10-K. MidAmerican Funding and MidAmerican Energy undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing factors should not be construed as exclusive.

## PART I

### Item 1. Business

MidAmerican Funding is an Iowa limited liability company whose sole member is BHE. BHE, a holding company that owns subsidiaries principally engaged in energy businesses, is a consolidated subsidiary of Berkshire Hathaway. MidAmerican Funding, a holding company, owns all of the outstanding common stock of MHC, which is a holding company owning all of the common stock of MidAmerican Energy; Midwest Capital Group, Inc. ("Midwest Capital"); and MEC Construction Services Co. ("MEC Construction"). MidAmerican Energy is a public utility company headquartered in Des Moines, Iowa, and incorporated in the state of Iowa. MHC, MidAmerican Funding and BHE are also headquartered in Des Moines, Iowa.

#### MIDAMERICAN FUNDING AND MHC

MidAmerican Funding conducts no business other than activities related to its debt securities and the ownership of MHC. MHC conducts no business other than the ownership of its subsidiaries and related corporate services. MHC's interests include 100% of the common stock of MidAmerican Energy, Midwest Capital and MEC Construction. MidAmerican Energy accounts for the predominant part of MidAmerican Funding's and MHC's assets, revenue and earnings. Financial information on MidAmerican Funding's segments of business is in Note 19 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

As of December 31, 2014, MidAmerican Funding and its subsidiaries had approximately 3,600 employees.

#### MIDAMERICAN ENERGY

MidAmerican Energy is a public utility company headquartered in Iowa that serves 0.7 million regulated retail electric customers in portions of Iowa, Illinois and South Dakota and 0.7 million regulated retail and transportation natural gas customers in portions of Iowa, South Dakota, Illinois and Nebraska. MidAmerican Energy is principally engaged in the business of generating, transmitting, distributing and selling electricity and in distributing, selling and transporting natural gas. MidAmerican Energy's service territory covers approximately 11,000 square miles. Metropolitan areas in which MidAmerican Energy distributes electricity at retail include Council Bluffs, Des Moines, Fort Dodge, Iowa City, Sioux City and Waterloo, Iowa; and the Quad Cities (Davenport and Bettendorf, Iowa and Rock Island, Moline and East Moline, Illinois). Metropolitan areas in which it distributes natural gas at retail include Cedar Rapids, Des Moines, Fort Dodge, Iowa City, Sioux City and Waterloo, Iowa; the Quad Cities; and Sioux Falls, South Dakota. MidAmerican Energy has a diverse customer base consisting of urban and rural residential customers and a variety of commercial and industrial customers. Principal industries served by MidAmerican Energy include processing and sales of food products; manufacturing, processing and fabrication of primary metals; farm and other non-electrical machinery; real estate; electronic data storage; cement and gypsum products; and government. In addition to retail sales and natural gas transportation, MidAmerican Energy sells electricity principally to markets operated by RTOs and natural gas to other utilities and market participants on a wholesale basis. MidAmerican Energy is a transmission-owning member of the MISO and participates in its energy and ancillary services markets.

MidAmerican Energy's regulated electric and natural gas operations are conducted under numerous franchise agreements, certificates, permits and licenses obtained from federal, state and local authorities. The franchise agreements, with various expiration dates, are typically for 20- to 25-year terms. Several of these franchise agreements give either party the right to seek amendment to the franchise agreement at one or two specified times during the term. MidAmerican Energy generally has an exclusive right to serve electric customers within its service territories and, in turn, has an obligation to provide electricity service to those customers. In return, the state utility commissions have established rates on a cost-of-service basis, which are designed to allow MidAmerican Energy an opportunity to recover its costs of providing services and to earn a reasonable return on its investment. In Illinois, MidAmerican Energy's regulated retail electric customers may choose their energy supplier.

MidAmerican Energy also has nonregulated business activities consisting predominantly of competitive electricity and natural gas. Refer to the "Nonregulated Energy Operations" section later in this Item 1 for further discussion.

MidAmerican Energy had total assets of \$13.3 billion as of December 31, 2014, and total operating revenue of \$3.7 billion for 2014. Financial information on MidAmerican Energy's segments of business is disclosed in Note 19 of Notes to Financial Statements in Item 8 of this Form 10-K.

The percentages of MidAmerican Energy's operating revenue and net income derived from the following business activities for the years ended December 31 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating revenue:</b>			
Regulated electric	48%	52%	52%
Regulated gas	27	24	20
Nonregulated energy	25	24	28
	<u>100%</u>	<u>100%</u>	<u>100%</u>
<b>Net income:</b>			
Regulated electric	86%	84%	84%
Regulated gas	10	12	8
Nonregulated energy	4	4	8
	<u>100%</u>	<u>100%</u>	<u>100%</u>

As of December 31, 2014, MidAmerican Energy had approximately 3,600 employees, of which approximately 1,500 were covered by union contracts. MidAmerican Energy has three separate contracts with locals of the International Brotherhood of Electrical Workers ("IBEW") and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union. A contract with the IBEW covering substantially all of the union employees expires April 30, 2017.

## Regulated Electric Operations

### Customers

The GWh and percentages of electricity sold to retail customers by jurisdiction for the years ended December 31 were as follows:

	<u>2014</u>		<u>2013</u>		<u>2012</u>	
Iowa	20,585	90%	20,217	90%	19,678	90%
Illinois	1,975	9	2,015	9	2,038	9
South Dakota	217	1	220	1	208	1
	<u>22,777</u>	<u>100%</u>	<u>22,452</u>	<u>100%</u>	<u>21,924</u>	<u>100%</u>



Electricity sold to retail and wholesale customers by class of customer and the average number of retail customers for the years ended December 31 were as follows:

	2014		2013		2012	
GWh sold:						
Residential	6,429	20%	6,572	20%	6,345	19%
Small general service <sup>(1)</sup>	4,084	12	4,265	13	4,175	13
Large general service <sup>(2)</sup>	10,642	33	10,001	31	9,805	30
Other	1,622	5	1,614	5	1,599	5
Total retail	22,777	70	22,452	69	21,924	67
Wholesale	9,716	30	10,226	31	10,961	33
Total GWh sold	32,493	100%	32,678	100%	32,885	100%

Average number of retail customers (in thousands):						
Residential	643	86%	637	86%	633	86%
Small general service <sup>(1)</sup>	87	12	86	12	85	12
Large general service <sup>(2)</sup>	2	—	2	—	2	—
Other	14	2	14	2	14	2
Total	746	100%	739	100%	734	100%

(1) Generally includes commercial and industrial customers with a demand of 200 kilowatts or less.

(2) Generally includes commercial and industrial customers with a demand of more than 200 kilowatts.

In addition to the variations in weather from year to year, fluctuations in economic conditions within the service territory and elsewhere can impact customer usage, particularly for industrial and wholesale customers. Wholesale sales are impacted by market prices for energy relative to the incremental cost to generate power.

There are seasonal variations in MidAmerican Energy's electricity sales that are principally related to the use of electricity for air conditioning and the related effects of weather. Additionally, electricity sales are priced higher in the summer months compared to the remaining months of the year. As a result, approximately 40% of MidAmerican Energy's regulated electric revenue is reported in the months of June, July, August and September.

The annual hourly peak demand on MidAmerican Energy's electric system usually occurs as a result of air conditioning use during the cooling season. Peak demand represents the highest demand on a given day and at a given hour. On July 21, 2014, retail customer usage of electricity caused an hourly peak demand of 4,366 MW on MidAmerican Energy's electric distribution system, which is 386 MW less than the record hourly peak demand of 4,752 MW set July 19, 2011.

## Generating Facilities and Fuel Supply

MidAmerican Energy has ownership interest in a diverse portfolio of generating facilities. The following table presents certain information regarding MidAmerican Energy's owned generating facilities as of December 31, 2014:

Generating Facility	Location	Energy Source	Year Installed	Facility Net Capacity (MW) <sup>(1)</sup>	Net Owned Capacity (MW) <sup>(1)</sup>
<b>COAL:</b>					
George Neal Unit No. 1 <sup>(2)</sup>	Sergeant Bluff, IA	Coal	1964	135	135
George Neal Unit No. 2 <sup>(2)</sup>	Sergeant Bluff, IA	Coal	1972	259	259
George Neal Unit No. 3	Sergeant Bluff, IA	Coal	1975	508	366
George Neal Unit No. 4	Salix, IA	Coal	1979	644	262
Louisa	Muscatine, IA	Coal	1983	742	653
Ottumwa	Ottumwa, IA	Coal	1981	718	373
Riverside Unit No. 5 <sup>(2)</sup>	Bettendorf, IA	Coal	1961	124	124
Walter Scott, Jr. Unit No. 1 <sup>(2)</sup>	Council Bluffs, IA	Coal	1954	39	39
Walter Scott, Jr. Unit No. 2 <sup>(2)</sup>	Council Bluffs, IA	Coal	1958	85	85
Walter Scott, Jr. Unit No. 3	Council Bluffs, IA	Coal	1978	714	565
Walter Scott, Jr. Unit No. 4	Council Bluffs, IA	Coal	2007	810	483
				4,778	3,344
<b>NATURAL GAS AND OTHER:</b>					
Greater Des Moines	Pleasant Hill, IA	Gas	2003-2004	485	485
Coralville	Coralville, IA	Gas	1970	65	65
Electrifarm	Waterloo, IA	Gas or Oil	1975-1978	188	188
Moline	Moline, IL	Gas	1970	64	64
Parr <sup>(3)</sup>	Charles City, IA	Gas	1969	17	17
Pleasant Hill	Pleasant Hill, IA	Gas or Oil	1990-1994	161	161
River Hills	Des Moines, IA	Gas	1966-1967	122	122
Sycamore	Johnston, IA	Gas or Oil	1974	148	148
28 portable power modules	Various	Oil	2000	56	56
				1,306	1,306
<b>WIND:</b>					
Adair	Adair, IA	Wind	2008	175	175
Carroll	Carroll, IA	Wind	2008	150	150
Century	Blairsburg, IA	Wind	2005-2008	200	200
Charles City	Charles City, IA	Wind	2008	75	75
Eclipse	Adair, IA	Wind	2012	200	200
Intrepid	Schaller, IA	Wind	2004-2005	176	176
Laurel	Laurel, IA	Wind	2011	120	120
Lundgren	Otho, IA	Wind	2014	250	250
Macksburg	Macksburg, IA	Wind	2014	119	119
Morning Light	Adair, IA	Wind	2012	100	100
Pomeroy	Pomeroy, IA	Wind	2007-2011	286	286
Rolling Hills	Massena, IA	Wind	2011	443	443
Victory	Westside, IA	Wind	2006	99	99
Vienna	Marshalltown, IA	Wind	2012-2013	150	150
Walnut	Walnut, IA	Wind	2008	150	150
Wellsburg	Wellsburg, IA	Wind	2014	139	139
				2,832	2,832
<b>NUCLEAR:</b>					
Quad Cities Unit Nos. 1 and 2	Cordova, IL	Uranium	1972	1,816	454
<b>HYDROELECTRIC:</b>					
Moline Unit Nos. 1-4 <sup>(3)</sup>	Moline, IL	Hydroelectric	1941	2	2
<b>Total Available Generating Capacity</b>				10,734	7,938
<b>PROJECTS UNDER CONSTRUCTION</b>					
Various wind projects <sup>(4)</sup>				625	625
				11,359	8,563

- (1) Facility Net Capacity represents the lesser of nominal ratings or any limitations under applicable interconnection, power purchase or other agreements for intermittent resources and the total net dependable capability available during summer conditions for all other units. An intermittent resource's nominal rating is the manufacturer's contractually specified capability under specified conditions. Net Owned Capacity indicates MidAmerican Energy's ownership of Facility Net Capacity.
- (2) MidAmerican Energy currently anticipates retiring Walter Scott, Jr. Unit Nos. 1 and 2 by April 15, 2015, and George Neal Unit Nos. 1 and 2 by April 15, 2016. Additionally, MidAmerican Energy currently plans to limit Riverside Unit No. 5 to natural gas combustion by March 31, 2015. Refer to "Environmental Laws and Regulations" in Item 7 of this Form 10-K for further discussion.
- (3) One of the two 17-MW Parr units and two of the Moline hydroelectric units were out of service and not accredited by the MISO in 2014.
- (4) Wind projects under construction includes 150 MW related to a project under development as of December 31, 2014.

The following table shows the percentages of MidAmerican Energy's total energy supplied by energy source for the years ended December 31:

	2014	2013	2012
Coal	55%	55%	58%
Nuclear	12	12	11
Natural gas	—	1	2
Wind and other <sup>(1)</sup>	24	22	19
Total energy generated	91	90	90
Energy purchased - short-term contracts and other	7	9	8
Energy purchased - long-term contracts (renewable) <sup>(1)</sup>	1	—	1
Energy purchased - long-term contracts (non-renewable)	1	1	1
	100%	100%	100%

- (1) All or some of the renewable energy attributes associated with generation from these generating facilities and purchases may be: (a) used in future years to comply with renewable portfolio standards or other regulatory requirements, (b) sold to third parties in the form of renewable energy credits or other environmental commodities or (c) excluded from energy purchased.

MidAmerican Energy is required to have resources available to continuously meet its customer needs. The percentage of MidAmerican Energy's energy supplied by energy source varies from year to year and is subject to numerous operational and economic factors such as planned and unplanned outages, fuel commodity prices, fuel transportation costs, weather, environmental considerations, transmission constraints, and wholesale market prices of electricity. When factors for one energy source are less favorable, MidAmerican Energy must place more reliance on other energy sources. For example, MidAmerican Energy can generate more electricity using its low cost wind-powered generating facilities when factors associated with these facilities are favorable. When factors associated with wind resources are less favorable, MidAmerican Energy must increase its reliance on more expensive generation or purchased electricity. MidAmerican Energy manages certain risks relating to its supply of electricity and fuel requirements by entering into various contracts, which may be accounted for as derivatives, which may include forwards, futures, options, swaps and other agreements. Refer to "General Regulation" in this Item 1 for a discussion of energy cost recovery by jurisdiction and to Item 7A in this Form 10-K for a discussion of commodity price risk and derivative contracts.

All of the coal-fueled generating facilities operated by MidAmerican Energy are fueled by low-sulfur, western coal from the Powder River Basin in northeast Wyoming. MidAmerican Energy's coal supply portfolio includes multiple suppliers and mines under short-term and multi-year agreements of varying terms and quantities through 2018. MidAmerican Energy believes supply from these sources is presently adequate and available to meet MidAmerican Energy's needs. MidAmerican Energy's coal supply portfolio has substantially all of its expected 2015 requirements under fixed-price contracts. MidAmerican Energy regularly monitors the western coal market for opportunities to enhance its coal supply portfolio.

MidAmerican Energy has a multi-year long-haul coal transportation agreement with BNSF Railway Company ("BNSF"), an affiliate company, for the delivery of coal to all of the MidAmerican Energy-operated coal-fueled generating facilities other than the George Neal Energy Center. Under this agreement, BNSF delivers coal directly to MidAmerican Energy's Walter Scott, Jr. Energy Center and to an interchange point with Canadian Pacific Railway for short-haul delivery to the Louisa and Riverside Energy Centers. MidAmerican Energy has a multi-year long-haul coal transportation agreement with Union Pacific Railroad Company for the delivery of coal to the George Neal Energy Center.

MidAmerican Energy is a 25% joint owner of Quad Cities Generating Station Units 1 and 2 ("Quad Cities Station"), a nuclear power plant. Exelon Generation Company, LLC ("Exelon Generation"), the 75% joint owner and the operator of Quad Cities Station, is a subsidiary of Exelon Corporation. Approximately one-third of the nuclear fuel assemblies in each reactor core at Quad Cities Station is replaced every 24 months. MidAmerican Energy has been advised by Exelon Generation that the following requirements for Quad Cities Station can be met under existing supplies or commitments: uranium requirements through 2018 and partial requirements through 2020; uranium conversion requirements through 2020 and partial requirements through 2021; enrichment requirements through 2017 and partial requirements through 2028; and fuel fabrication requirements through 2022. MidAmerican Energy has been advised by Exelon Generation that it does not anticipate it will have difficulty in contracting for uranium, uranium conversion, enrichment or fabrication of nuclear fuel needed to operate Quad Cities Station during these time periods.

MidAmerican Energy uses natural gas and oil as fuel for intermediate and peak demand electric generation, igniter fuel, transmission support and standby purposes. These sources are presently in adequate supply and available to meet MidAmerican Energy's needs.

MidAmerican Energy owns more wind-powered generating capacity than any other United States rate-regulated electric utility and believes wind-powered generation offers a viable, economical and environmentally prudent means of supplying electricity and complying with laws and regulations. Pursuant to ratemaking principles approved by the IUB, all of MidAmerican Energy's wind-powered generating facilities in service at December 31, 2014, are authorized to earn a fixed rate of return on equity over their useful lives ranging from 11.625% to 12.2% in any future Iowa rate proceeding. Renewable resources have low to no emissions and require little or no fossil fuel. MidAmerican Energy's wind-powered generating facilities are eligible for federal renewable electricity production tax credits for 10 years from the date the facilities are placed in service. Production tax credits for MidAmerican Energy's wind-powered generating facilities currently in service began expiring in late 2014, with final expiration in 2024.

MidAmerican Energy sells and purchases electricity and ancillary services related to its generation and load in wholesale markets pursuant to the tariffs in those markets. MidAmerican Energy participates predominantly in the MISO energy and ancillary service markets, which provide MidAmerican Energy with wholesale opportunities over a large market area. MidAmerican Energy can enter into wholesale bilateral transactions in addition to market activity related to its assets. MidAmerican Energy is authorized to participate in the Southwest Power Pool, Inc. and PJM Interconnection, L.L.C. ("PJM") markets and can contract with several other major transmission-owning utilities in the region. MidAmerican Energy can utilize both financial swaps and physical fixed-price electricity sales and purchases contracts to reduce its exposure to electricity price volatility.

MidAmerican Energy's total net generating capability accredited by MISO in the summer of 2014 was 5,406 MW, including a reduction for 75 MW of net capacity sales. Accredited net generating capability represents the amount of generation available to meet the requirements of MidAmerican Energy's retail customers and consists of MidAmerican Energy-owned generation, certain customer "behind the meter" generators and the net amount of capacity purchases and sales. Accredited capacity may vary from the nominal, or design, capacity ratings, particularly for wind turbines whose output is dependent upon wind levels at any given time. Additionally, the actual amount of generating capacity available at any time may be less than the accredited capacity due to regulatory restrictions, transmission constraints, fuel restrictions and generating units being temporarily out of service for inspection, maintenance, refueling, modifications or other reasons. MidAmerican Energy's accredited capacity currently exceeds MISO's minimum requirements.

### Transmission

Electricity from MidAmerican Energy's generating facilities and purchased electricity is delivered to wholesale markets and its retail customers via the transmission facilities of MidAmerican Energy and others. MidAmerican Energy participates in the MISO energy and ancillary services markets as a transmission-owning member and, accordingly, operates its transmission assets at the direction of the MISO. The MISO manages its energy and ancillary service markets using reliability-constrained economic dispatch of the region's generation. For both the day-ahead and real-time (every five minutes) markets, the MISO analyzes generation commitments to provide market liquidity and transparent pricing while maintaining transmission system reliability by minimizing congestion and maximizing efficient energy transmission. Additionally, through its FERC-approved open access transmission tariff ("OATT"), the MISO performs the role of transmission service provider throughout the MISO footprint and administers the long-term planning function. Costs of the MISO and related costs of the participants are shared among the participants through a number of mechanisms in accordance with the MISO OATT.

## Regulated Natural Gas Operations

MidAmerican Energy is engaged in the procurement, transportation, storage and distribution of natural gas for customers in its service territory. MidAmerican Energy purchases natural gas from various suppliers and contracts with interstate natural gas pipelines for transportation of the gas to MidAmerican Energy's service territory and for storage and balancing services. MidAmerican Energy sells natural gas and delivery services to end-use customers on its distribution system; sells natural gas to other utilities, municipalities and energy marketing companies; and transports natural gas through its distribution system for end-use customers who have independently secured their supply of natural gas. During 2014, 48% of the total natural gas delivered through MidAmerican Energy's distribution system was associated with transportation service.

### Customers

The percentages of natural gas sold to retail customers by jurisdiction for the years ended December 31 were as follows:

	2014	2013	2012
Iowa	77%	76%	76%
South Dakota	12	13	13
Illinois	10	10	10
Nebraska	1	1	1
	100%	100%	100%

The percentages of natural gas sold to retail and wholesale customers by class of customer, total Dth of natural gas sold, total Dth of transportation service and the average number of retail customers for the years ended December 31 were as follows:

	2014	2013	2012
Residential	49%	46%	41%
Small general service <sup>(1)</sup>	24	24	21
Large general service <sup>(1)</sup>	5	4	5
Total retail	78	74	67
Wholesale <sup>(2)</sup>	22	26	33
	100%	100%	100%
Total Dth of natural gas sold (in thousands)	115,209	115,857	99,453
Total Dth of transportation service (in thousands)	82,314	78,208	73,675
Total average number of retail customers (in thousands)	726	719	714

(1) Small and large general service customers are classified primarily based on the nature of their business and natural gas usage. Small general service customers are non-residential customers that use natural gas principally for heating. Large general service customers are non-residential customers that use natural gas principally for their manufacturing processes.

(2) Wholesale sales are generally made to other utilities, municipalities and energy marketing companies for eventual resale to end-use customers.

There are seasonal variations in MidAmerican Energy's regulated natural gas business that are principally due to the use of natural gas for heating. Typically, 50-60% of MidAmerican Energy's regulated natural gas revenue is reported in the months of January, February, March and December.

On January 6, 2014, MidAmerican Energy recorded its all-time highest peak-day delivery through its distribution system of 1,281,762 Dth. This peak-day delivery consisted of 69% traditional retail sales service and 31% transportation service. MidAmerican Energy's 2014/2015 winter heating season peak-day delivery as of February 6, 2015, was 1,128,779 Dth reached on January 7, 2015. This preliminary peak-day delivery consisted of 70% traditional retail sales service and 30% transportation service. The supply sources used by MidAmerican Energy to meet the deliveries to its traditional retail sales service customers on January 7, 2015, were as follows:

	<b>Thousands of Dth</b>	<b>Percent of Total</b>
Interstate pipeline supply	528	67%
Leased pipeline storage	233	30
MidAmerican Energy LNG facilities	24	3
	<u>785</u>	<u>100%</u>

### Fuel Supply and Capacity

MidAmerican Energy uses several strategies designed to maintain a reliable natural gas supply and reduce the impact of volatility in natural gas prices on its regulated retail natural gas customers. These strategies include the purchase of a geographically diverse supply portfolio from producers and third party energy marketing companies, the use of leased storage and LNG peaking facilities, the use of financial derivatives to fix the price on a portion of the anticipated natural gas requirements of MidAmerican Energy's customers and the maintenance of regulatory arrangements to share savings and costs with customers. Refer to "General Regulation" in this Item 1 for a discussion of purchased gas adjustment clauses ("PGA") and to Item 7A in this Form 10-K for a discussion of commodity price risk and derivative contracts.

MidAmerican Energy contracts for firm natural gas pipeline capacity to transport natural gas from key production areas and liquid market centers to its service territory through direct interconnects to the pipeline systems of several interstate natural gas pipeline systems, including Northern Natural Gas Company, an affiliate company. MidAmerican Energy has multiple pipeline interconnections into several larger markets within its distribution system. Multiple pipeline interconnections create competition among pipeline suppliers for transportation capacity to serve those markets, thus reducing costs. In addition, multiple pipeline interconnections increase delivery reliability and give MidAmerican Energy the ability to optimize delivery of the lowest cost supply from the various production areas and liquid market centers into these larger markets. Benefits to MidAmerican Energy's distribution system customers are shared among all jurisdictions through a consolidated PGA.

At times, the natural gas pipeline capacity available through MidAmerican Energy's firm capacity portfolio may exceed the requirements of retail customers on MidAmerican Energy's distribution system. Firm capacity in excess of MidAmerican Energy's system needs can be resold to other companies to achieve optimum use of the available capacity. Past IUB and South Dakota Public Utilities Commission ("SDPUC") rulings have allowed MidAmerican Energy to retain 30% of the respective jurisdictional revenue on the resold capacity, with the remaining 70% being returned to customers through the PGAs.

MidAmerican Energy utilizes natural gas storage leased from the interstate pipelines to meet retail customer requirements, manage fluctuations in demand due to changes in weather and other usage factors and manage variation in seasonal natural gas pricing. MidAmerican Energy typically withdraws natural gas from storage during the heating season when customer demand is historically at its peak and injects natural gas into storage during off-peak months when customer demand is historically lower than during the heating season. MidAmerican Energy also utilizes its three LNG facilities to meet peak day demands during the winter heating season. The leased storage and LNG facilities reduce MidAmerican Energy's dependence on natural gas purchases during the volatile winter heating season and can deliver approximately 50% of MidAmerican Energy's anticipated retail sales requirements on a peak winter day.

MidAmerican Energy attempts to optimize the value of its regulated transportation capacity, natural gas supply and leased storage arrangements by engaging in wholesale transactions. IUB and SDPUC rulings have allowed MidAmerican Energy to retain 50% of the respective jurisdictional margins earned on wholesale sales of natural gas, with the remaining 50% being returned to customers through the PGAs.

In 1995, the IUB gave initial approval of MidAmerican Energy's Incentive Gas Supply Procurement Plan, which seeks to establish a market-based reference price for key components of MidAmerican Energy's natural gas supply costs. In September 2013, the IUB extended the program through October 31, 2016. Under the program, as amended, MidAmerican Energy is required to file with the IUB annually a comparison of its actual natural gas procurement costs to the reference price. If MidAmerican Energy's actual natural gas supply costs for the applicable period were less or greater than an established tolerance band around the reference price, then MidAmerican Energy shares a portion of the savings or costs with customers. A similar program has also been in effect in South Dakota since 1995 and in October 2013 was extended through October 31, 2016. Since the implementation of these programs, MidAmerican Energy has successfully achieved savings relative to the applicable reference prices and shared such savings with its regulated retail natural gas customers. MidAmerican Energy's portion of shared savings is reflected in results of nonregulated energy operations.

MidAmerican Energy is not aware of any factors that would cause material difficulties in meeting its anticipated retail customer demand for the foreseeable future.

### **Demand-side Management**

MidAmerican Energy has provided a comprehensive set of DSM programs to its Iowa electric and gas customers since 1990 and to customers in its other jurisdictions in more recent years. The programs are designed to reduce energy consumption and more effectively manage when energy is used, including management of seasonal peak loads. Current programs offer services to customers such as energy engineering audits and information on how to improve the efficiency of their homes and businesses. To assist customers in investing in energy efficiency, MidAmerican Energy offers rebates or incentives encouraging the purchase and installation of high-efficiency equipment such as lighting, heating and cooling equipment, weatherization, motors, process equipment and systems, as well as incentives for efficient construction. Incentives are also paid to residential customers who participate in the air conditioner load control program and nonresidential customers who participate in the nonresidential load management program. Although subject to prudence reviews, state regulations allow for contemporaneous recovery of costs incurred for the DSM programs through state-specific energy efficiency service charges paid by all retail electric and gas customers. During 2014, \$106 million was expended on MidAmerican Energy's DSM programs resulting in estimated first-year energy savings of 261,000 MWh of electricity and 653,000 Dth of natural gas and an estimated peak load reduction of 319 MW of electricity and 7,345 Dth per day of natural gas.

### **Nonregulated Energy Operations**

MidAmerican Energy has nonregulated energy operations that consist of competitive electricity and natural gas retail sales and gas income-sharing arrangements. Nonregulated electric activities predominantly include sales to retail customers in Illinois, Texas, Ohio, Maryland and other states that allow customers to choose their energy supplier. Nonregulated gas activities predominantly include sales to retail customers in Iowa and Illinois. For its nonregulated retail energy activities, MidAmerican Energy purchases electricity and natural gas from producers and third party energy marketing companies and sells it directly to commercial, industrial and governmental end-users. MidAmerican Energy does not own nonregulated electricity or natural gas production assets but hedges its contracted sales obligations either with physical supply arrangements or financial products. As of December 31, 2014, MidAmerican Energy had contracts in place for the sale of electricity totaling 17,460,000 MWh with a weighted average life of 2.1 years and natural gas totaling 24,411,000 Dth with a weighted average life of 1.5 years. In addition, MidAmerican Energy manages natural gas supplies for a number of smaller commercial end-users, which includes the sale of natural gas to these customers to meet their supply requirements. Refer to Item 7A in this Form 10-K for a discussion of commodity price risk and derivative contracts.

The percentages of electricity sold to nonregulated retail customers by state for the years ended December 31 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Illinois	58%	71%	73%
Texas	17	16	13
Ohio	10	3	2
Maryland	8	6	9
Other	7	4	3
	<u>100%</u>	<u>100%</u>	<u>100%</u>



The percentages of natural gas sold to nonregulated customers by state for the years ended December 31 were as follows:

	2014	2013	2012
Iowa	87%	89%	89%
Illinois	8	7	7
Other	5	4	4
	100%	100%	100%

Nonregulated energy operations also include earnings from sharing arrangements under applicable state regulations and tariffs filed with the IUB and the SDPUC for MidAmerican Energy's regulated natural gas operations. Refer to the preceding "Regulated Natural Gas Operations" section of this Item 1 for further discussion of the sharing arrangements and the gas procurement program.

## General Regulation

MidAmerican Energy is subject to comprehensive governmental regulation, which significantly influences its operating environment, prices charged to customers, capital structure, costs and, ultimately, its ability to recover costs.

### State Regulation

MidAmerican Energy is regulated by the IUB as to retail rates, services and in other respects as provided by the laws of Iowa. MidAmerican Energy is regulated by the ICC as to bundled retail rates, unbundled delivery services, services that have not been declared to be competitive, aspects of competitive gas sales, issuance of securities, affiliate transactions, acquisition and sale of securities and in other respects as provided by the laws of Illinois. MidAmerican Energy is also subject to regulation by the SDPUC as to electric and gas retail rates and service as provided by the laws of South Dakota.

Historically, state regulatory commissions have established retail electric and natural gas rates on a cost-of-service basis, which are designed to allow MidAmerican Energy an opportunity to recover what each state regulatory commission deems to be reasonable costs of providing services, including a fair opportunity to earn a reasonable return on its investments based on its cost of debt and equity. Retail electric rates are generally based on the cost of providing traditional bundled services, including generation, transmission and distribution services. In addition to return on investment, MidAmerican Energy's cost of service generally reflects a representative level of prudent expenses, including cost of sales, operating expense, depreciation and amortization, and income and other tax expense, reduced by wholesale electricity and other revenue. The allowed operating expenses are typically based on actual historical costs adjusted for known and measurable or forecasted changes. State regulatory commissions may adjust cost of service for various reasons, including pursuant to a review of: (a) MidAmerican Energy's revenue and expenses during a defined test period and (b) MidAmerican Energy's level of investment. State regulatory commissions typically have the authority to review and change rates on their own initiative; however, they may also initiate reviews at the request of MidAmerican Energy, utility customers or organizations representing groups of customers. MidAmerican Energy and such parties, however, may agree with one another not to request a review of or changes to rates for a specified period of time.

Except for Illinois, MidAmerican Energy has an exclusive right to serve retail customers within its service territories and, in turn, has an obligation to provide service to those customers. In Illinois, state law has established a competitive environment so that all Illinois customers are free to choose their retail service supplier. For customers that choose an alternative retail energy supplier, MidAmerican Energy continues to have an ongoing obligation to deliver the supplier's energy to the retail customer. MidAmerican Energy bills the retail customer for such delivery services. MidAmerican Energy also has an obligation to serve customers at regulated cost-based rates and has a continuing obligation to serve customers who have not selected a competitive electricity provider. To date, there has been no significant loss of customers in Illinois. Also, MidAmerican Energy is evaluating how best to integrate distributed generation resources into its service and rate design, including considering such factors as maintaining high levels of customer safety and service reliability, minimizing adverse cost impacts and fairly allocating costs among all customers.



Iowa law permits rate-regulated utilities to seek ratemaking principles with the IUB prior to the construction of certain types of new generating facilities. Pursuant to this law, MidAmerican Energy has applied for and obtained IUB ratemaking principles orders for a 484-MW (MidAmerican Energy's share) coal-fueled generating facility, a 495-MW combined cycle natural gas-fueled generating facility and 2,285 MW (nominal ratings) of wind-powered generating facilities in service as of December 31, 2014, excluding the wind-powered generating facilities discussed below. These ratemaking principles authorize a fixed rate of return on equity for the respective generating facilities over the regulatory life of the facilities. As of December 31, 2014, these generating facilities totaled \$3.3 billion, or 32%, of utility plant, net and were subject to these ratemaking principles at a weighted average return on equity of 12.0% with a weighted average remaining life of 22 years.

Additionally, in August 2013, the IUB approved ratemaking principles related to the construction of up to 1,050 MW (nominal ratings) of wind-powered generating facilities, 555 MW (nominal ratings) of which were in-service as of December 31, 2014, and are not reflected in the determination of MidAmerican Energy's Iowa retail electric base rates implemented in July 2014. The ratemaking principles establish a cost cap of \$1.9 billion, including AFUDC, for the construction of 1,050 MW (nominal ratings) of wind-powered generating facilities and provide for a fixed rate of return on equity of 11.625% over the proposed 30-year useful lives of those facilities in any future Iowa rate proceeding. Until such time as these generation assets are reflected in rates, and ceasing thereafter, MidAmerican Energy will reduce its Iowa energy adjustment clause recoveries by \$3 million in 2015, \$7 million in 2016 and \$10 million for each calendar year thereafter. In February 2015, the IUB approved ratemaking principles related to the construction of up to 162 MW (nominal ratings) of wind-powered generating facilities expected to be placed in service by the end of 2015. The ratemaking principles establish a cost cap of \$243 million, including AFUDC, and provide for a fixed rate of return on equity of 11.5% over the proposed 30-year useful lives of those facilities in any future Iowa rate proceeding. Until such time as these generation assets are reflected in rates, and ceasing thereafter, MidAmerican Energy will reduce its Iowa energy adjustment clause recoveries by \$2 million per year. The cost caps ensure that, as long as the total costs of each project are below the respective cap, the investment will be deemed prudent in any future Iowa rate proceeding.

In July 2014, the IUB issued an order approving new retail electric base rates for MidAmerican Energy's Iowa customers. The order allows MidAmerican Energy to increase its base rates over approximately three years and will result in equal annualized increases in revenues of \$45 million, or 3.6% over 2012, effective August 2013 and again on January 1, 2015 and 2016, for a total annualized increase of \$135 million when fully implemented. In addition to an increase in base rates, the order approves the implementation of two new adjustment clauses. One clause relates to retail energy production costs such as fuel, fuel transportation and the impacts of the production tax credit. The second clause relates to certain electric transmission charges. The adjustment clauses provide for recovery of these costs from customers based on MidAmerican Energy's forecasted annual costs, with the variance between actual and forecasted costs to be recovered or credited in the following year. The order also approves seasonal pricing that results in a greater difference between higher base rates in effect for June through September and base rates applicable to the remaining months of the year, which MidAmerican Energy expects will shift an additional 15-25% of annual earnings into the June through September period. Additionally, the order approves a revenue sharing mechanism that shares with MidAmerican Energy's customers 80% of revenues related to equity returns above 11% and 100% of revenues related to equity returns above 14%. The customer portion of any sharing reduces rate base. The changes in seasonal pricing, adjustment clauses and new revenue sharing mechanism were effective with final base rates. MidAmerican Energy and the OCA have agreed not to seek or support an increase or decrease in the final base rates to become effective prior to January 1, 2018, unless MidAmerican Energy projects its return on equity for 2015, 2016 or 2017 to be below 10%.

In November 2014, the ICC issued an order approving a retail electric base rate increase for MidAmerican Energy's Illinois customers. The order authorizes MidAmerican Energy to increase rates by \$16 million, or 10%, annually and to implement a new adjustment clause for the recovery of certain electric transmission charges. New rates and the adjustment clause were effective in December 2014.

Under Iowa law, there are two options for temporary collection of higher rates following the filing of a request for a rate increase. Collection can begin, subject to refund, either (1) within 10 days of filing, without IUB review, or (2) 90 days after filing, with approval by the IUB, depending upon the ratemaking principles and precedents utilized. In either case, if the IUB has not issued a final order within ten months after the filing date, the temporary rates become final and any difference between the requested rate increase and the temporary rates may then be collected subject to refund until receipt of a final order. Exceptions to the ten-month limitation provide for extensions due to a utility's lack of due diligence in the rate proceeding, judicial appeals and situations involving new generating units being placed in service.

Under Illinois law, new rates may become effective 45 days after the filing of a request with the ICC, or earlier with ICC approval. The ICC has authority to suspend the proposed new rates, subject to hearing, for a period not to exceed approximately eleven months after filing.

South Dakota law authorizes the SDPUC to suspend new rates for up to six months during the pendency of rate proceedings; however, a utility may implement all or a portion of the proposed new rates six months after the filing of a request for a rate increase subject to refund pending a final order in the proceeding.

Effective with the new Iowa electric retail rates in July 2014, MidAmerican Energy has an energy cost adjustment mechanism in Iowa. Accordingly, under its current Iowa, Illinois and South Dakota electric tariffs, MidAmerican Energy is allowed to recover fluctuations in electric energy costs for its retail electric generation through fuel, or energy, cost adjustment mechanisms. The Iowa mechanism also includes production tax credits associated with wind-powered generation placed in-service prior to 2013. Eligibility for production tax credits associated with MidAmerican Energy's earliest projects began expiring in 2014. Additionally, effective with the new electric retail rates in Iowa and Illinois in July and December 2014, respectively, MidAmerican Energy has transmission adjustment clauses to recover certain transmission charges related to retail customers in those jurisdictions. The adjustment mechanisms reduce the regulatory lag for the recovery of energy and transmission costs related to retail electric customers in these jurisdictions.

MidAmerican Energy's cost of gas is collected for each jurisdiction in its gas rates through a uniform PGA, which is updated monthly to reflect changes in actual costs. Subject to prudence reviews, the PGA accomplishes a pass-through of MidAmerican Energy's cost of gas to its customers and, accordingly, has no direct effect on net income. MidAmerican Energy's DSM program costs are collected through separately established rates that are adjusted annually based on actual and expected costs, as approved by the respective state regulatory commission. As such, recovery of DSM program costs has no direct impact on net income.

### Federal Regulation

The FERC is an independent agency with broad authority to implement provisions of the Federal Power Act, the Natural Gas Act, the Energy Policy Act of 2005 ("Energy Policy Act") and other federal statutes. The FERC regulates rates for wholesale sales of electricity; transmission of electricity, including pricing and regional planning for the expansion of transmission systems; electric system reliability; utility holding companies; accounting and records retention; securities issuances; and other matters. The FERC also has the enforcement authority to assess civil penalties of up to \$1 million per day per violation of rules, regulations and orders issued under the Federal Power Act. MidAmerican Energy has implemented programs and procedures that facilitate and monitor compliance with the FERC's regulations described below. MidAmerican Energy is also subject to regulation by the NRC pursuant to the Atomic Energy Act of 1954, as amended ("Atomic Energy Act"), with respect to its ownership interest in Quad Cities Station.

### *Wholesale Electricity and Capacity*

The FERC regulates MidAmerican Energy's rates charged to wholesale customers for electricity and transmission capacity and related services. MidAmerican Energy's wholesale electricity sales and purchases occur under market-based pricing allowed by the FERC and are therefore subject to market volatility. MidAmerican Energy's authority to sell electricity in wholesale electricity markets at market-based rates is subject to triennial reviews conducted by the FERC. During such reviews, MidAmerican Energy must demonstrate a lack of market power over sales of wholesale electricity and electric generation capacity in its market area. MidAmerican Energy's most recent triennial filings were submitted in June 2014 for the FERC-defined Northeast Region and December 2014 for the FERC-defined Central Region. The June 2014 triennial filing was accepted by the FERC in January 2015, and the December 2014 triennial filing is pending before the FERC. The filings demonstrated that MidAmerican Energy satisfied the FERC's requirements for market-based rate authority. Under the FERC's market-based rules, MidAmerican Energy must also file with the FERC a notice of change in status when there is a significant change in the conditions that the FERC relied upon in granting market-based rate authority.

### *Transmission*

MidAmerican Energy participates in the MISO as a transmission-owning member. Accordingly, the MISO is the transmission provider under its FERC-approved OATT. While the MISO is responsible for directing the operation of MidAmerican Energy's transmission system, MidAmerican Energy retains ownership of its transmission assets and, therefore, is subject to the FERC's reliability standards discussed below. MidAmerican Energy's transmission business is managed and operated independently from its wholesale marketing business in accordance with the FERC Standards of Conduct.

MidAmerican Energy has approval from the MISO for four Multi-Value Projects ("MVPs") located in Iowa and Illinois that will add approximately 245 miles of 345 kV transmission line to MidAmerican Energy's transmission system. The MISO OATT allows for broad cost allocation for MidAmerican Energy's MVPs, including similar MVPs of other MISO participants. Accordingly, a significant portion of the revenue requirement associated with MidAmerican Energy's MVP investments will be shared with other MISO participants based on the MISO's cost allocation methodology, and a portion of the revenue requirement of the other participants' MVPs will be allocated to MidAmerican Energy. Additionally, MidAmerican Energy has approval from the FERC to include 100% of construction work in progress in the determination of rates for its MVPs and to use a forward-looking rate structure for all of its transmission investments and costs. The transmission assets and financial results of MidAmerican Energy's MVPs are excluded from the determination of its retail electric rates.

The FERC has established an extensive number of mandatory reliability standards developed by the North American Electric Reliability Corporation ("NERC"), including planning and operations and critical infrastructure protection standards. Compliance, enforcement and monitoring oversight of these standards is carried out by the FERC, the NERC and the Midwest Reliability Organization for MidAmerican Energy.

### *Nuclear Regulatory Commission*

#### *General*

MidAmerican Energy is subject to the jurisdiction of the NRC with respect to its license and 25% ownership interest in Quad Cities Station. Exelon Generation, the operator and 75% owner of Quad Cities Station, is under contract with MidAmerican Energy to secure and keep in effect all necessary NRC licenses and authorizations.

The NRC regulates the granting of permits and licenses for the construction and operation of nuclear generating stations and regularly inspects such stations for compliance with applicable laws, regulations and license terms. Current licenses for Quad Cities Station provide for operation until December 14, 2032. The NRC review and regulatory process covers, among other things, operations, maintenance, and environmental and radiological aspects of such stations. The NRC may modify, suspend or revoke licenses and impose civil penalties for failure to comply with the Atomic Energy Act, the regulations under such Act or the terms of such licenses.

Federal regulations provide that any nuclear operating facility may be required to cease operation if the NRC determines there are deficiencies in state, local or utility emergency preparedness plans relating to such facility, and the deficiencies are not corrected. Exelon Generation has advised MidAmerican Energy that an emergency preparedness plan for Quad Cities Station has been approved by the NRC. Exelon Generation has also advised MidAmerican Energy that state and local plans relating to Quad Cities Station have been approved by the Federal Emergency Management Agency.

The NRC also regulates the decommissioning of nuclear power plants including the planning and funding for the eventual decommissioning of the plants. In accordance with these regulations, MidAmerican Energy submits a biennial report to the NRC providing reasonable assurance that funds will be available to pay its share of the costs of decommissioning Quad Cities Station.

Under the Nuclear Waste Policy Act of 1982 ("NWSA"), the U.S. Department of Energy ("DOE") is responsible for the selection and development of repositories for, and the permanent disposal of, spent nuclear fuel and high-level radioactive wastes. Exelon Generation, as required by the NWSA, signed a contract with the DOE under which the DOE was to receive spent nuclear fuel and high-level radioactive waste for disposal beginning not later than January 1998. The DOE did not begin receiving spent nuclear fuel on the scheduled date and remains unable to receive such fuel and waste. The costs to be incurred by the DOE for disposal activities were previously being financed by fees charged to owners and generators of the waste. In accordance with a 2013 ruling by the United States Court of Appeals for the District of Columbia Circuit, the DOE, in May 2014, provided notice that, effective May 16, 2014, the spent nuclear fuel disposal fee would be zero. In 2004, Exelon Generation reached a settlement with the DOE concerning the DOE's failure to begin accepting spent nuclear fuel in 1998. As a result, Quad Cities Station has been billing the DOE, and the DOE is obligated to reimburse the station for all station costs incurred due to the DOE's delay. Exelon Generation has completed construction of an interim spent fuel storage installation ("ISFSI") at Quad Cities Station to store spent nuclear fuel in dry casks in order to free space in the storage pool. The first pad at the ISFSI is expected to facilitate storage of casks to support operations at Quad Cities Station until at least 2020. The first storage in a dry cask commenced in November 2005. By 2020, Exelon Generation plans to add a second pad to the ISFSI to accommodate storage of spent nuclear fuel through the end of operations at Quad Cities Station.

MidAmerican Energy has established a trust for the investment of funds collected for nuclear decommissioning of Quad Cities Station. The decommissioning costs are included in base rates in MidAmerican Energy's Iowa tariffs.

## *Nuclear Insurance*

MidAmerican Energy maintains financial protection against catastrophic loss associated with its interest in Quad Cities Station through a combination of insurance purchased by Exelon Generation, insurance purchased directly by MidAmerican Energy, and the mandatory industry-wide loss funding mechanism afforded under the Price-Anderson Amendments Act of 1988 ("Price Anderson"), which was amended and extended by the Energy Policy Act. The general types of coverage are: nuclear liability, property damage or loss and nuclear worker liability.

Exelon Generation purchases private market nuclear liability insurance for Quad Cities Station in the maximum available amount of \$375 million, which includes coverage for MidAmerican Energy's ownership. In accordance with Price-Anderson, excess liability protection above that amount is provided by a mandatory industry-wide Secondary Financial Protection program under which the licensees of nuclear generating facilities could be assessed for liability incurred due to a serious nuclear incident at any commercial nuclear reactor in the United States. Currently, MidAmerican Energy's aggregate maximum potential share of an assessment for Quad Cities Station is approximately \$64 million per incident, payable in installments not to exceed \$10 million annually.

The property insurance covers property damage, stabilization and decontamination of the facility, disposal of the decontaminated material and premature decommissioning arising out of a covered loss. For Quad Cities Station, Exelon Generation purchases primary and excess property insurance protection for the combined interests in Quad Cities Station, with coverage limits totaling \$2.1 billion. MidAmerican Energy also directly purchases extra expense coverage for its share of replacement power and other extra expenses in the event of a covered accidental outage at Quad Cities Station. The property and related coverages purchased directly by MidAmerican Energy and by Exelon Generation, which includes the interests of MidAmerican Energy, are underwritten by an industry mutual insurance company and contain provisions for retrospective premium assessments to be called upon based on the industry mutual board of directors' discretion for adverse loss experience. Currently, the maximum retrospective amounts that could be assessed against MidAmerican Energy from industry mutual policies for its obligations associated with Quad Cities Station total \$8 million.

The master nuclear worker liability coverage, which is purchased by Exelon Generation for Quad Cities Station, is an industry-wide guaranteed-cost policy with an aggregate limit of \$375 million for the nuclear industry as a whole, which is in effect to cover tort claims of workers in nuclear-related industries.

## **Environmental Laws and Regulations**

MidAmerican Energy is subject to federal, state and local laws and regulations regarding air and water quality, emissions performance standards, climate change, coal combustion byproduct disposal, hazardous and solid waste disposal, protected species and other environmental matters that have the potential to impact its current and future operations. In addition to imposing continuing compliance obligations, these laws and regulations provide regulators with the authority to levy substantial penalties for noncompliance including fines, injunctive relief and other sanctions. These laws and regulations are administered by the EPA and various state and local agencies. All such laws and regulations are subject to a range of interpretation, which may ultimately be resolved by the courts. Environmental laws and regulations continue to evolve, and MidAmerican Energy is unable to predict the impact of the changing laws and regulations on its operations and financial results. MidAmerican Energy believes it is in material compliance with all applicable laws and regulations.

Refer to "Environmental Laws and Regulations" in Item 7 of this Form 10-K for additional information regarding environmental laws and regulations and "Liquidity and Capital Resources" in Item 7 for MidAmerican Energy's forecasted environmental-related capital expenditures.

## MIDWEST CAPITAL

Midwest Capital is a wholly owned nonregulated subsidiary of MHC with total assets of \$4 million as of December 31, 2014. Midwest Capital's primary activity is the management of utility service area investments to support economic development. Midwest Capital's principal interest is Dakota Dunes, a 1,920-acre planned residential and commercial development in southeastern South Dakota. The major construction phase of the planned community is complete, and the marketing phase to sell developed residential and commercial lots is in progress. As of December 31, 2014, 75% of the development available for sale had been sold.

## Item 1A. Risk Factors

MidAmerican Energy and MidAmerican Funding are subject to numerous risks and uncertainties, including, but not limited to, those described below. Careful consideration of these risks, together with all of the other information included in this Form 10-K and the other public information filed by MidAmerican Energy and MidAmerican Funding, should be made before making an investment decision. Additional risks and uncertainties not presently known or that MidAmerican Energy and MidAmerican Funding currently deem immaterial may also impair their business operations.

***MidAmerican Energy is subject to operating uncertainties and events beyond its control that impact the costs to operate, maintain, repair and replace utility systems, which could adversely affect its financial results.***

The operation of complex utility systems that are spread over large geographic areas involves many operating uncertainties and events beyond MidAmerican Energy's control. These potential events include the breakdown or failure of thermal, nuclear and other electricity generating facilities and related equipment, transmission and distribution lines or other equipment or processes, which could lead to catastrophic events; unscheduled outages; strikes, lockouts or other labor-related actions; shortages of qualified labor; transmission and distribution system constraints; terrorist activities or military or other actions, including cyberattacks; fuel shortages or interruptions; unavailability of critical equipment, materials and supplies; low water flows and other weather-related impacts; performance below expected levels of output, capacity or efficiency; operator error; third party excavation errors; design, construction or manufacturing defects; and catastrophic events such as severe storms, floods, fires, earthquakes, explosions, wars, terrorism, and embargoes. A catastrophic event might result in injury or loss of life, extensive property damage or environmental or natural resource damages. Any of these events or other operational events could significantly reduce or eliminate MidAmerican Energy's revenue or significantly increase its expenses. For example, if MidAmerican Energy cannot operate its electricity or natural gas facilities at full capacity due to damage caused by a catastrophic event, its revenue could decrease and its expenses could increase due to the need to obtain energy from more expensive sources. Further, MidAmerican Energy self-insures many risks, and current and future insurance coverage may not be sufficient to replace lost revenue or cover repair and replacement costs. The scope, cost and availability of MidAmerican Energy's insurance coverage may change, including the portion that is self-insured. Any reduction of MidAmerican Energy's revenue or increase in its expenses resulting from the risks described above, could adversely affect its financial results.

***MidAmerican Energy is subject to extensive federal, state and local legislation and regulation, including numerous environmental, health, safety, reliability and other laws and regulations that affect its operations and costs. These laws and regulations are complex, dynamic and subject to new interpretations or change. In addition, new laws and regulations are continually being proposed and enacted that impose new or revised requirements or standards on MidAmerican Energy.***

MidAmerican Energy is required to comply with numerous federal, state and local laws and regulations that have broad application to MidAmerican Energy and limit its ability to independently make and implement management decisions regarding, among other items, constructing, acquiring or disposing of operating assets; acquiring businesses; operating and maintaining generating facilities and transmission and distribution system assets; setting rates charged to customers; establishing capital structures and issuing debt or equity securities; transacting with affiliates; and paying dividends or similar distributions. These laws and regulations are followed in developing MidAmerican Energy's safety and compliance programs and procedures and are implemented and enforced by federal, state and local regulatory agencies, such as, among others, the Occupational Safety and Health Administration, the FERC, the EPA, the NRC and the IUB.

Compliance with applicable laws and regulations generally requires MidAmerican Energy to obtain and comply with a wide variety of licenses, permits, inspections, audits and other approvals. Further, compliance with laws and regulations can require significant capital and operating expenditures, including expenditures for new equipment, inspection, cleanup costs, removal and remediation costs, damages arising out of contaminated properties and refunds, fines, penalties and injunctive measures affecting operating assets for failure to comply with environmental regulations. Compliance activities pursuant to existing or new laws and regulations could be prohibitively expensive or otherwise uneconomical. As a result, MidAmerican Energy could be required to shut down some facilities or materially alter their operations. Further, MidAmerican Energy may not be able to obtain or maintain all required environmental or other regulatory approvals and permits for its operating assets or development projects. Delays in, or active opposition by third parties to, obtaining any required environmental or regulatory authorizations or failure to comply with the terms and conditions of the authorizations may increase costs or prevent or delay MidAmerican Energy from operating its facilities, developing or favorably locating new facilities or expanding existing facilities. If MidAmerican Energy fails to comply with any environmental or other regulatory requirements, it may be subject to penalties and fines or other sanctions, including changes to the way its electricity generating facilities are operated that may adversely impact generation. The costs of complying with laws and regulations could adversely affect its financial results. Not being able to operate existing facilities or develop new generating facilities to meet customer electricity needs could require MidAmerican Energy to increase its purchases of electricity on the wholesale market, which could increase market and price risks and adversely affect its financial results.

Existing laws and regulations, while comprehensive, are subject to changes and revisions from ongoing policy initiatives by legislators and regulators and to interpretations that may ultimately be resolved by the courts. For example, changes in laws and regulations could result in, but are not limited to, increased competition within MidAmerican Energy's service territories; new environmental requirements, including the implementation of renewable portfolio standards and GHG emissions reduction goals; the issuance of new or stricter air quality standards; the implementation of energy efficiency mandates; the issuance of regulations governing the management and disposal of coal combustion byproducts; changes in forecasting requirements; changes to MidAmerican Energy's service territories as a result of condemnation or takeover by municipalities or other governmental entities, particularly where it lacks the exclusive right to serve its customers; or the inability of MidAmerican Energy to recover its costs. In addition to changes in existing legislation and regulation, new laws and regulations are likely to be enacted from time to time that impose additional or new requirements or standards on MidAmerican Energy's businesses.

Implementing actions required under, and otherwise complying with, new federal and state laws and regulations and changes in existing ones are among the most challenging aspects of managing utility operations. MidAmerican Energy cannot accurately predict the type or scope of future laws and regulations that may be enacted, changes in existing ones or new interpretations by agency orders or court decisions nor can MidAmerican Energy determine their impact on it at this time; however, any one of these could adversely affect MidAmerican Energy's financial results through higher capital expenditures and operating costs or restrict or otherwise cause an adverse change in how MidAmerican Energy operates its business. To the extent that MidAmerican Energy is not allowed by its regulators to recover or cannot otherwise recover the costs to comply with new laws and regulations or changes in existing ones, the costs of complying with such additional requirements could have a material adverse effect on MidAmerican Energy's financial results. Additionally, even if such costs are recoverable in rates, if they are substantial and result in rates increasing to levels that substantially reduce customer demand, this could have a material adverse effect on MidAmerican Energy's financial results.

***Recovery of costs and certain activities by MidAmerican Energy are subject to regulatory review and approval, and the inability to recover costs or undertake certain activities may adversely affect its financial results.***

#### *State Rate Proceedings*

MidAmerican Energy establishes rates for its regulated retail service through state regulatory proceedings. These proceedings typically involve multiple parties, including government bodies and officials, consumer advocacy groups and various consumers of energy, who have differing concerns but generally have the common objective of limiting rate increases while also requiring MidAmerican Energy to ensure system reliability. Decisions are subject to judicial appeal, potentially leading to further uncertainty associated with the approval proceedings.

States set retail rates based in part upon the state regulatory commission's acceptance of an allocated share of total utility costs, including any impact of non-tariffed revenues. When states adopt different methods to calculate interjurisdictional cost allocations, some costs may not be incorporated into rates of any state. Ratemaking is also generally done on the basis of estimates of normalized costs, so if a given year's realized costs are higher than normalized costs, rates may not be sufficient to cover those costs. In some cases, actual costs are lower than the normalized or estimated costs recovered through rates and from time-to-time may result in a state regulator requiring refunds to customers. Each state regulatory commission generally sets rates based on a test year established in accordance with that commission's policies. The test year data adopted by each state regulatory commission may create a lag between the incurrence of a cost and its recovery in rates. Each state regulatory commission also decides the allowed levels of expense, investment and capital structure that it deems are just and reasonable in providing the service and may disallow recovery in rates for any costs that it believes do not meet such standard. Additionally, each state regulatory commission establishes the allowed rate of return MidAmerican Energy will be given an opportunity to earn on its sources of capital. While rate regulation is premised on providing a fair opportunity to earn a reasonable rate of return on invested capital, the state regulatory commissions do not guarantee that MidAmerican Energy will be able to realize a reasonable rate of return.

The FERC authorizes cost-based rates associated with MidAmerican Energy's transmission facilities. Under the Federal Power Act, the MISO, on behalf of its members, including MidAmerican Energy, may voluntarily file, or may be obligated to file, for changes, including general rate changes, to its system-wide transmission service rates. General rate changes implemented may be subject to refund. The FERC also has responsibility for approving both cost- and market-based rates under which MidAmerican Energy sells electricity at wholesale and has broad jurisdiction over energy markets. The FERC may impose price limitations, bidding rules and other mechanisms to address some of the volatility of these markets or could revoke or restrict the ability of MidAmerican Energy to sell electricity at market-based rates, which could adversely affect its financial results. The FERC also maintains rules concerning standards of conduct, affiliate restrictions, interlocking directorates and cross-subsidization. As a transmission owning member of the MISO, MidAmerican Energy is also subject to MISO-directed modifications of market rules, which are subject to FERC approval and operational procedures. The FERC may also impose substantial civil penalties for any non-compliance with the Federal Power Act and the FERC's rules and orders.

The NERC has standards in place to ensure the reliability of the electric transmission grid and generation system. MidAmerican Energy is subject to the NERC's regulations and periodic audits to ensure compliance with those regulations. The NERC may carry out enforcement actions for non-compliance and administer significant financial penalties, subject to the FERC's review.

***MidAmerican Energy is actively pursuing, developing and constructing new or expanded facilities, the completion and expected costs of which are subject to significant risk, and it has significant funding needs related to its planned capital expenditures.***

MidAmerican Energy actively pursues, develops and constructs new or expanded facilities. It expects to incur substantial annual capital expenditures over the next several years. Such expenditures include and may include in the future, among others, construction and other costs for new electricity generating facilities, electric transmission or distribution projects, environmental control and compliance systems, and continued maintenance and upgrades of existing assets.

Development and construction of major facilities are subject to substantial risks, including fluctuations in the price and availability of commodities, manufactured goods, equipment, labor, siting and permitting and changes in environmental and operational compliance matters, load forecasts and other items over a multi-year construction period, as well as counterparty risk and the economic viability of MidAmerican Energy's suppliers, customers and contractors. Certain of MidAmerican Energy's construction projects are substantially dependent upon a single supplier or contractor and replacement of such supplier or contractor may be difficult and cannot be assured. These risks may result in the inability to timely complete a project or higher than expected costs to complete an asset and place it in service. Such costs may not be recoverable in the regulated rates or market or contract prices MidAmerican Energy is able to charge its customers. Delays in construction of renewable projects may result in delayed in-service dates, which may result in the loss of anticipated revenue or income tax benefits. It is also possible that additional generation needs may be obtained through power purchase agreements, which could increase long-term purchase obligations and force reliance on the operating performance of a third party. The inability to successfully and timely complete a project, avoid unexpected costs or recover any such costs could adversely affect MidAmerican Energy's financial results.

Furthermore, MidAmerican Energy depends upon both internal and external sources of liquidity to provide working capital and to fund capital requirements. If it is unable to obtain funding from external sources, it may need to postpone or cancel planned capital expenditures. Failure to construct these planned projects could limit opportunities for growth, increase operating costs and adversely affect the reliability of electricity service to its customers.

***A significant sustained decrease in demand for electricity or natural gas in the markets served by MidAmerican Energy would decrease its operating revenue, could impact our planned capital expenditures and could adversely affect its financial results.***

A significant sustained decrease in demand for electricity or natural gas in the markets served by MidAmerican Energy would decrease its operating revenue, could impact our planned capital expenditures and could adversely affect its financial results. Factors that could lead to a decrease in market demand include, among others:

- a depression, recession or other adverse economic condition that results in a lower level of economic activity or reduced spending by consumers on electricity or natural gas;
- an increase in the market price of electricity or natural gas or a decrease in the price of other competing forms of energy;
- efforts by customers, legislators and regulators to reduce the consumption of electricity generated or distributed by MidAmerican Energy through various conservation, energy efficiency and distributed generation measures and programs;
- higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of natural gas or other fuel sources for electricity generation or that limit the use of natural gas or the generation of electricity from fossil fuels;
- a shift to more energy-efficient or alternative fuel machinery or an improvement in fuel economy, whether as a result of technological advances by manufacturers, legislation mandating higher fuel economy or lower emissions, price differentials, incentives or otherwise;
- a reduction in the state or federal subsidies or tax incentives that are provided to agricultural, industrial or other customers, or a significant sustained change in prices for commodities such as ethanol or corn for ethanol manufacturers; and
- sustained mild weather that reduces heating or cooling needs.

***MidAmerican Energy's operating results may fluctuate on a seasonal and quarterly basis and may be adversely affected by weather.***

In the markets in which MidAmerican Energy operates, demand for electricity peaks during the summer months when cooling needs are higher. Market prices for electricity also generally peak at that time. In addition, demand for natural gas and other fuels generally peaks during the winter when heating needs are higher. This is especially true in MidAmerican Energy's retail natural gas business. Further, extreme weather conditions, such as heat waves, winter storms or floods could cause these seasonal fluctuations to be more pronounced. Additionally, MidAmerican Energy has added substantial wind-powered generating capacity, which is also a climate-dependent resource.

As a result, the overall financial results of MidAmerican Energy may fluctuate substantially on a seasonal and quarterly basis. MidAmerican Energy has historically provided less service, and consequently earned less income, when weather conditions are mild. Unusually mild weather in the future may adversely affect its financial results through lower revenue or margins. Conversely, unusually extreme weather conditions could increase its costs to provide services and could adversely affect its financial results. The extent of fluctuation in MidAmerican Energy's financial results may change depending on a number of factors related to its regulatory environment and contractual agreements, including its ability to recover energy costs and the existence of revenue sharing provisions.



***MidAmerican Energy is subject to market risk associated with the wholesale energy markets, which could adversely affect MidAmerican Energy's financial results.***

In general, MidAmerican Energy's primary market risk is adverse fluctuations in the market price of wholesale electricity and fuel, including natural gas, coal and fuel oil, which is compounded by volumetric changes affecting the availability of or demand for electricity and fuel. The market price of wholesale electricity may be influenced by several factors, such as the adequacy or type of generating capacity, scheduled and unscheduled outages of generating facilities, prices and availability of fuel sources for generation, disruptions or constraints to transmission and distribution facilities, weather conditions, demand for electricity, economic growth and changes in technology. Volumetric changes are caused by fluctuations in generation or changes in customer needs that can be due to the weather, electricity and fuel prices, the economy, regulations or customer behavior. For example, MidAmerican Energy purchases electricity and fuel in the open market as part of its normal operating business. If market prices rise, especially in a time when larger than expected volumes must be purchased at market prices, MidAmerican Energy may incur significantly greater expense than anticipated. Likewise, if electricity market prices decline in a period when MidAmerican Energy is a net seller of electricity in the wholesale market, it could earn less revenue. Although MidAmerican Energy has energy cost adjustment mechanisms in Iowa, Illinois and South Dakota, the risks associated with changes in market prices may not be fully mitigated.

***A downgrade in MidAmerican Energy's credit ratings could negatively affect its access to capital, increase the cost of borrowing or raise energy transaction credit support requirements.***

MidAmerican Energy's long-term debt is rated by various rating agencies. MidAmerican Energy cannot assure that its long-term debt ratings will not be reduced in the future. Although none of its outstanding debt has rating-downgrade triggers that would accelerate a repayment obligation, a credit rating downgrade would increase the borrowing costs and commitment fees on its revolving credit agreements and other financing arrangements, perhaps significantly. In addition, it would likely be required to pay a higher interest rate in future financings, and the potential pool of investors and funding sources would likely decrease. Further, access to the commercial paper market, its principal source of short-term borrowings, could be significantly limited resulting in higher interest costs.

Most of MidAmerican Energy's large wholesale customers, suppliers and counterparties require MidAmerican Energy to have sufficient creditworthiness in order to enter into transactions, particularly in the wholesale energy markets. If its credit ratings were to decline, especially below investment grade, financing costs and borrowings would likely increase because certain counterparties may require collateral in the form of cash, a letter of credit or some other form of security for existing transactions and as a condition to entering into future transactions with MidAmerican Energy. Such amounts may be material and may adversely affect MidAmerican Energy's liquidity and cash flows.

***Potential terrorist activities and the impact of military or other actions, including cyberattacks, could adversely affect MidAmerican Energy's financial results.***

The ongoing threat of terrorism and the impact of military or other actions by nations or politically, ethnically or religiously motivated organizations or individuals regionally or globally may create increased political, economic, social and financial market instability, which could subject MidAmerican Energy's operations to increased risks. Additionally, the United States government has issued warnings that energy assets, specifically pipeline, nuclear generation, transmission and other electric utility infrastructure, are potential targets for terrorist attacks, including cyberattacks. Cyberattacks could adversely affect MidAmerican Energy's ability to operate its facilities, information technology and business systems, or compromise confidential customer and employee information. Political, economic, social or financial market instability or damage to or interference with the operating assets of MidAmerican Energy, customers or suppliers may result in business interruptions, lost revenue, higher commodity prices, disruption in fuel supplies, lower energy consumption and unstable markets, particularly with respect to electricity and natural gas, and increased security, repair or other costs, any of which may materially adversely affect MidAmerican Energy in ways that cannot be predicted at this time. Any of these risks could materially affect MidAmerican Energy's financial results. Furthermore, instability in the financial markets as a result of terrorism, sustained or significant cyberattacks, or war could also materially adversely affect MidAmerican Energy's ability to raise capital.

***MidAmerican Energy is subject to the unique risks associated with nuclear generation.***

The ownership and operation of nuclear power plants, such as MidAmerican Energy's 25% ownership interest in Quad Cities Station, involves certain risks. These risks include, among other items, mechanical or structural problems, inadequacy or lapses in maintenance protocols, the impairment of reactor operation and safety systems due to human error, the costs of storage, handling and disposal of nuclear materials, compliance with and changes in regulation of nuclear power plants, limitations on the amounts and types of insurance coverage commercially available, and uncertainties with respect to the technological and financial aspects of decommissioning nuclear facilities at the end of their useful lives. The prolonged unavailability of Quad Cities Station could have a materially adverse effect on MidAmerican Energy's financial results, particularly when the cost to produce power at the plant is significantly less than market wholesale prices. The following are among the more significant of these risks:

- *Operational Risk* - Operations at any nuclear power plant could degrade to the point where the plant would have to be shut down. If such degradations were to occur, the process of identifying and correcting the causes of the operational downgrade to return the plant to operation could require significant time and expense, resulting in both lost revenue and increased fuel and purchased electricity costs to meet supply commitments. Rather than incurring substantial costs to restart the plant, the plant could be shut down. Furthermore, a shut-down or failure at any other nuclear power plant could cause regulators to require a shut-down or reduced availability at Quad Cities Station.

In addition, issues relating to the disposal of nuclear waste material, including the availability, unavailability and expense of a permanent repository for spent nuclear fuel could adversely impact operations as well as the cost and ability to decommission nuclear power plants, including Quad Cities Station, in the future.

- *Regulatory Risk* - The NRC may modify, suspend or revoke licenses and impose civil penalties for failure to comply with applicable Atomic Energy Act regulations or the terms of the licenses of nuclear facilities. Unless extended, the NRC operating licenses for Quad Cities Station will expire in 2032. Changes in regulations by the NRC could require a substantial increase in capital expenditures or result in increased operating or decommissioning costs.
- *Nuclear Accident and Catastrophic Risks* - Accidents and other unforeseen catastrophic events have occurred at nuclear facilities other than Quad Cities Station, both in the United States and elsewhere, such as at the Fukushima Daiichi nuclear power plant in Japan as a result of the earthquake and tsunami in March 2011. The consequences of an accident or catastrophic event can be severe and include loss of life and property damage. Any resulting liability from a nuclear accident or catastrophic event could exceed MidAmerican Energy's resources, including insurance coverage.

***MidAmerican Energy is subject to counterparty performance risk, which could adversely affect its financial results.***

MidAmerican Energy is subject to counterparty performance risk related to performance of contractual obligations by wholesale suppliers, customers, contractors and other participants in organized RTO markets. MidAmerican Energy relies on wholesale suppliers to deliver commodities, primarily natural gas, coal and electricity, in accordance with short- and long-term contracts. Failure or delay by suppliers to provide these commodities pursuant to existing contracts could disrupt the delivery of electricity and require MidAmerican Energy to incur additional expenses to meet customer needs. In addition, when these contracts terminate, MidAmerican Energy may be unable to purchase the commodities on terms equivalent to the terms of current contracts.

MidAmerican Energy relies on wholesale customers to take delivery of the energy they have committed to purchase. Failure of customers to take delivery may require MidAmerican Energy to find other customers to take the energy at lower prices than the original customers committed to pay. If MidAmerican Energy's wholesale customers are unable to fulfill their obligations, there may be a significant adverse impact on MidAmerican Energy's financial results.

***Inflation and changes in commodity prices and fuel transportation costs may adversely affect MidAmerican Energy's financial results.***

Inflation and increases in commodity prices and fuel transportation costs may affect MidAmerican Energy's business by increasing both operating and capital costs. As a result of existing rate agreements, contractual arrangements or competitive price pressures, MidAmerican Energy may not be able to pass the costs of inflation on to its customers. If MidAmerican Energy is unable to manage cost increases or pass them on to its customers, its financial results could be adversely affected.

***Poor performance of plan and fund investments and other factors impacting the pension and other postretirement benefit plans and nuclear decommissioning trust funds could unfavorably impact MidAmerican Energy's cash flows and liquidity.***

Costs of providing MidAmerican Energy's defined benefit pension and other postretirement benefit plans depend upon a number of factors, including the rates of return on plan assets, the level and nature of benefits provided, discount rates, mortality assumptions, the interest rates used to measure required minimum funding levels, changes in benefit design, tax deductibility and funding limits, changes in laws and government regulation and MidAmerican Energy's required or voluntary contributions made to the plans. MidAmerican Energy's pension plans are in underfunded positions. Even if sustained growth in the investments over future periods increases the value of these plans' assets, MidAmerican Energy will likely be required to make cash contributions to fund these plans in the future. Additionally, the plans have investments in domestic and foreign equity and debt securities and other investments that are subject to loss. Losses from investments could add to the volatility, size and timing of future contributions.

In addition, MidAmerican Energy is required to fund over time the projected costs of decommissioning Quad Cities Station, a nuclear power plant. Funds MidAmerican Energy has invested in a nuclear decommissioning trust are invested in debt and equity securities and poor performance of these investments will reduce the amount of funds available for their intended purpose, which could require MidAmerican Energy to make additional cash contributions. Such cash funding obligations, which are also impacted by the other factors described above, could have a material impact on MidAmerican Energy's liquidity by reducing its available cash.

***Disruptions in the financial markets could affect MidAmerican Energy's ability to obtain debt financing, draw upon or renew existing credit facilities, and have other adverse effects on MidAmerican Energy.***

Disruptions in the financial markets could affect MidAmerican Energy's ability to obtain debt financing, or to draw upon or renew existing credit facilities, and have other adverse effects on MidAmerican Energy. Significant dislocations and liquidity disruptions in the United States and global credit markets, such as those that occurred in 2008 and 2009, may materially impact liquidity in the bank and debt capital markets, making financing terms less attractive for borrowers that are able to find financing and, in other cases, may cause certain types of debt financing, or any financing, to be unavailable. Additionally, economic uncertainty in the United States or globally may adversely affect the United States' credit markets and could negatively impact MidAmerican Energy's ability to access funds on favorable terms or at all. If MidAmerican Energy is unable to access the bank and debt markets to meet liquidity and capital expenditure needs, it may adversely affect the timing and amount of MidAmerican Energy's capital expenditures and its financial results.

***MidAmerican Energy may be involved in a variety of legal proceedings, the outcomes of which are uncertain and could adversely affect its financial results.***

MidAmerican Energy is, and in the future may become, a party to a variety of legal proceedings. Litigation is subject to many uncertainties, and MidAmerican Energy cannot predict the outcome of individual matters with certainty. It is possible that the final resolution of some of the matters in which MidAmerican Energy may be involved could result in additional material payments substantially in excess of established reserves or in terms that could require MidAmerican Energy to change business practices and procedures or divest ownership of assets. Further, litigation could result in the imposition of financial penalties or injunctions and adverse regulatory consequences, any of which could limit MidAmerican Energy's ability to take certain desired actions or the denial of needed permits, licenses or regulatory authority to conduct its business, including the siting or permitting of facilities. Any of these outcomes could have a material adverse effect on MidAmerican Energy's financial results.

***BHE could exercise control over MidAmerican Funding and MidAmerican Energy in a manner that would benefit BHE to the detriment of MidAmerican Funding's creditors or MidAmerican Energy's creditors.***

BHE is the sole member of MidAmerican Funding and, accordingly, indirectly owns all of MidAmerican Energy's common stock and has effective control over all decisions requiring shareholder approval. In circumstances involving a conflict of interest between BHE and MidAmerican Funding's or MidAmerican Energy's creditors, BHE could exercise its control in a manner that would benefit BHE to the detriment of the creditors.

**Item 1B. Unresolved Staff Comments**

Not applicable.

## Item 2. Properties

MidAmerican Energy's regulated utility properties consist of the physical assets necessary to support its electricity and natural gas businesses and include mainly electric generation, transmission and distribution facilities, gas distribution facilities and related rights of way and easements. It is the opinion of management that the principal depreciable properties owned by MidAmerican Energy are in good operating condition and well maintained. MidAmerican Energy's most individually significant properties are its electric generation facilities. For information regarding these facilities, please refer to the "Regulated Electric Operations" discussion in Item 1 of this Form 10-K.

The right to construct and operate MidAmerican Energy's electric transmission and distribution facilities across certain property was obtained in most circumstances through negotiations and, where necessary, through the exercise of the power of eminent domain, which MidAmerican Energy continues to have in each of the jurisdictions in which it operates those facilities. With respect to real property, each of the electric transmission and distribution facilities fall into two basic categories: (1) parcels that are owned in fee, such as certain of the electric generation stations and electric substations; and (2) parcels where the interest derives from leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities permitting the use of such land for the construction, operation and maintenance of the electric transmission and distribution facilities. MidAmerican Energy believes it has satisfactory title to all of the real property making up the facilities in all material respects.

Pursuant to MidAmerican Energy's mortgage dated September 9, 2013, MidAmerican Energy's first mortgage bonds, currently and from time to time outstanding, are secured by a first mortgage lien on substantially all of its electric generating, transmission and distribution property within the State of Iowa, subject to certain exceptions and permitted encumbrances. As of December 31, 2014, MidAmerican Energy's eligible property subject to the lien of the mortgage totaled approximately \$12 billion based on original cost. Additionally, MidAmerican Energy's senior notes outstanding are equally and ratably secured with the first mortgage bonds as required by the indentures under which the senior notes were issued.

The electric transmission system of MidAmerican Energy at December 31, 2014, included 1,000 miles of 345 kilovolt ("kV") lines, 1,400 miles of 161 kV lines and 1,400 miles of 69 kV lines. MidAmerican Energy's electric distribution system included 37,800 miles of distribution lines and 380 substations at December 31, 2014. Gas property consists primarily of natural gas main and service lines, meters and related distribution equipment, including feeder lines to communities served from natural gas pipelines owned by others. The gas distribution facilities of MidAmerican Energy included 23,000 miles of gas main and service lines as of December 31, 2014. In addition, gas property includes three LNG plants and one propane-air plant. Refer to the "Regulated Natural Gas Operations" discussion in Item 1 of this Form 10-K for information regarding these facilities.

Utility plant, including construction work in progress and net of accumulated depreciation, by functional classification is as follows as of December 31 (in millions):

	<u>2014</u>	<u>2013</u>
Electric:		
Generation	\$ 6,724	\$ 5,933
Transmission	978	743
Distribution	1,866	1,768
Gas distribution	942	884
	<u>\$ 10,510</u>	<u>\$ 9,328</u>

Refer to Note 19 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K for a discussion of operating segments.

## Item 3. Legal Proceedings

None.

## Item 4. Mine Safety Disclosures

None.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

All common stock of MidAmerican Energy is held by its parent company, MHC, which is a direct, wholly owned subsidiary of MidAmerican Funding. MidAmerican Funding is an Iowa limited liability company whose membership interest is held solely by BHE.

In 2013, MidAmerican Energy declared and paid dividends of \$125 million to MHC.

For a discussion of regulatory restrictions that limit MidAmerican Energy's ability to pay dividends on common stock, refer to "Debt Authorizations and Related Matters" in Item 7 and to Note 8 of Notes to Financial Statements in Item 8 of this Form 10-K.

### Item 6. Selected Financial Data

The following tables set forth selected consolidated historical financial data of MidAmerican Energy and MidAmerican Funding, which should be read in conjunction with the information in Item 7 of this Form 10-K and with their respective historical financial statements and notes thereto in Item 8 of this Form 10-K. The selected historical financial data has been derived from each company's audited historical financial statements and notes thereto.

#### MIDAMERICAN ENERGY COMPANY SELECTED FINANCIAL DATA (Amounts in millions)

	Years Ended December 31,				
	2014	2013	2012	2011	2010
<b>Statement of Operations Data:</b>					
Operating revenue	\$ 3,740	\$ 3,403	\$ 3,242	\$ 3,501	\$ 3,810
Operating income	422	356	370	429	459
Net income <sup>(1)</sup>	417	350	355	319	357
Earnings on common stock	417	349	354	318	357
	As of December 31,				
	2014	2013	2012	2011	2010
<b>Balance Sheet Data:</b>					
Total assets	\$ 13,257	\$ 11,869	\$ 11,232	\$ 10,310	\$ 9,010
Long-term debt <sup>(2)</sup>	4,056	3,552	3,259	3,115	2,865
MidAmerican Energy common shareholder's equity	4,250	3,845	3,608	3,244	2,931

(1) Net income for 2012, 2011 and 2010 reflects \$16 million, \$35 million and \$61 million, respectively, of income tax benefits recognized for changes in MidAmerican Energy's tax accounting methods used to determine current income tax deductions. Refer to Note 10 of Notes to Financial Statements in Item 8 of this Form 10-K.

(2) Includes current portion.

**MIDAMERICAN FUNDING, LLC AND SUBSIDIARIES**  
**SELECTED FINANCIAL DATA**  
(Amounts in millions)

	<b>Years Ended December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Consolidated Statement of Operations Data:</b>					
Operating revenue	\$ 3,762	\$ 3,413	\$ 3,247	\$ 3,503	\$ 3,815
Operating income	423	357	369	428	460
Net income <sup>(1)</sup>	409	341	343	305	340
Net income attributable to MidAmerican Funding	409	340	342	304	340

	<b>As of December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Consolidated Balance Sheet Data:</b>					
Total assets	\$ 14,544	\$ 13,167	\$ 12,530	\$ 11,605	\$ 10,310
Long-term debt <sup>(2)</sup>	4,381	3,877	3,584	3,440	3,390
MidAmerican Funding member's equity	5,073	4,677	4,324	3,972	3,673
Note payable to affiliate	136	135	246	231	14

(1) Net income for 2012, 2011 and 2010 reflects \$16 million, \$35 million and \$61 million, respectively, of income tax benefits recognized for changes in MidAmerican Energy's tax accounting methods used to determine current income tax deductions. Refer to Note 10 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

(2) Includes current portion.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **General**

MidAmerican Funding is an Iowa limited liability company whose sole member is BHE. MidAmerican Funding owns all of the outstanding common stock of MHC, which owns all of the common stock of MidAmerican Energy, Midwest Capital and MEC Construction. MHC, MidAmerican Funding and BHE are headquartered in Des Moines, Iowa.

The following is management's discussion and analysis of certain significant factors that have affected the consolidated financial condition and results of operations of MidAmerican Funding and its subsidiaries and MidAmerican Energy as presented in this joint filing. Information in Management's Discussion and Analysis related to MidAmerican Energy, whether or not segregated, also relates to MidAmerican Funding. Information related to other subsidiaries of MidAmerican Funding pertains only to the discussion of the financial condition and results of operations of MidAmerican Funding. Where necessary, discussions have been segregated under the heading "MidAmerican Funding" to allow the reader to identify information applicable only to MidAmerican Funding. Explanations include management's best estimate of the impact of weather, customer growth and other factors. This discussion should be read in conjunction with Item 6 of this Form 10-K and the historical Consolidated Financial Statements and Notes to Consolidated Financial Statements in Item 8 of this Form 10-K. MidAmerican Energy's and MidAmerican Funding's actual results in the future could differ significantly from the historical results.

### **Results of Operations**

#### Overview

##### **MidAmerican Energy -**

MidAmerican Energy's earnings on common stock for 2014 was \$417 million, an increase of \$68 million, or 19%, compared to 2013 due to an increase in regulated electric retail gross margin from higher Iowa electric retail rates and higher industrial electricity sales, higher regulated gas gross margin from colder winter temperatures in 2014, a decrease in depreciation and amortization expense due to changes in depreciation rates in 2014 and 2013 and higher AFUDC, partially offset by higher other operating expenses and higher interest on long-term debt from the issuance of first mortgage bonds in September 2013 and April 2014, net of the effect of related debt retirements in December 2013 and May 2014.

MidAmerican Energy's earnings on common stock for 2013 was \$349 million, a decrease of \$5 million, or 1%, compared to 2012 due to a lower regulated electric wholesale gross margin from higher costs for purchased power and generation, a lower nonregulated electric gross margin due to continued competitive pressures, higher fossil-fueled generating facility maintenance and higher depreciation and amortization expense primarily as a result of additional wind-powered generating facilities placed in service in the second half of 2012 net of the impact of depreciation rate changes in 2012 and 2013. The decreases in earnings on common stock were partially offset by a higher regulated electric retail gross margin due to adjustment clauses in Iowa and Illinois, interim Iowa electric retail rates implemented in August 2013 and higher retail sales volumes, and higher regulated gas gross margin due to colder temperatures in 2013 primarily from the unusually warm temperatures in 2012.

##### **MidAmerican Funding -**

Net income attributable to MidAmerican Funding for 2014 was \$409 million, an increase of \$69 million, or 20%, compared to \$340 million for 2013. Net income attributable to MidAmerican Funding for 2013 was \$340 million, a decrease of \$2 million, or 1%, compared to \$342 million for 2012. The variances in net income attributable to MidAmerican Funding were due principally to the factors discussed for MidAmerican Energy.

## Regulated Electric Gross Margin

A comparison of key results related to regulated electric gross margin is as follows for the years ended December 31:

	2014	2013	Change		2013	2012	Change	
Gross margin (in millions):								
Operating revenue	\$ 1,817	\$ 1,762	\$ 55	3 %	\$ 1,762	\$ 1,694	\$ 68	4 %
Cost of fuel, energy and capacity	532	517	15	3	517	458	59	13
Gross margin	<u>\$ 1,285</u>	<u>\$ 1,245</u>	<u>\$ 40</u>	3	<u>\$ 1,245</u>	<u>\$ 1,236</u>	<u>\$ 9</u>	1
Sales (GWh):								
Residential	6,429	6,572	(143)	(2)%	6,572	6,345	227	4 %
Small general service	4,084	4,265	(181)	(4)	4,265	4,175	90	2
Large general service	10,642	10,001	641	6	10,001	9,805	196	2
Other	1,622	1,614	8	—	1,614	1,599	15	1
Total retail	22,777	22,452	325	1	22,452	21,924	528	2
Wholesale	9,716	10,226	(510)	(5)	10,226	10,961	(735)	(7)
Total sales	<u>32,493</u>	<u>32,678</u>	<u>(185)</u>	(1)	<u>32,678</u>	<u>32,885</u>	<u>(207)</u>	(1)
Average number of retail customers (in thousands)								
	746	739	7	1 %	739	734	5	1 %
Average revenue per MWh:								
Retail	\$ 66.92	\$ 65.76	\$ 1.16	2 %	\$ 65.76	\$ 63.58	\$ 2.18	3 %
Wholesale	\$ 26.48	\$ 25.08	\$ 1.40	6 %	\$ 25.08	\$ 25.15	\$ (0.07)	— %
Heating degree days								
	6,899	6,733	166	2 %	6,733	5,169	1,564	30 %
Cooling degree days	933	1,143	(210)	(18)%	1,143	1,394	(251)	(18)%
Sources of energy (GWh) <sup>(1)</sup> :								
Coal	18,234	18,222	12	— %	18,222	19,459	(1,237)	(6)%
Nuclear	3,842	3,889	(47)	(1)	3,889	3,880	9	—
Natural gas	114	267	(153)	(57)	267	623	(356)	(57)
Wind and other <sup>(2)</sup>	7,965	7,458	507	7	7,458	6,415	1,043	16
Total energy generated	30,155	29,836	319	1	29,836	30,377	(541)	(2)
Energy purchased	3,029	3,528	(499)	(14)	3,528	3,249	279	9
Total	<u>33,184</u>	<u>33,364</u>	<u>(180)</u>	(1)	<u>33,364</u>	<u>33,626</u>	<u>(262)</u>	(1)

(1) GWh amounts are net of energy used by the related generating facilities.

(2) All or some of the renewable energy attributes associated with generation from these generating facilities may be: (a) used in future years to comply with renewable portfolio standards or other regulatory requirements or (b) sold to third parties in the form of renewable energy credits or other environmental commodities.



Electric gross margin for 2014 increased \$40 million compared to 2013 due to a \$34 million increase in retail gross margin and a \$6 million increase in transmission revenue. Retail gross margin for 2014 was positively affected by \$49 million from higher electric retail rates in Iowa and \$22 million from higher recoveries of DSM program costs. These increases were partially offset by (1) \$16 million from higher retail energy costs, primarily due to higher coal-fueled generation costs per unit and higher purchased power costs, (2) \$14 million from lower sales volumes for higher-priced, weather-sensitive customers as a result of milder summer temperatures in 2014, net of greater industrial sales volumes, and (3) \$7 million from lower steam sales, partially due to the expiration of a contract, and lower sales of renewable energy credits. The increase in Iowa electric retail rates includes the increase in base rates implemented in August 2013 and, effective with the implementation of final base rates in August 2014, changes in rate structure related to seasonal pricing that result in higher rates from June to September and lower rates in the remaining months and new adjustment clauses for recovery of retail energy production and transmission costs. Transmission revenue increased due to revenue from MidAmerican Energy's Multi-Value Projects ("MVPs"), which are expected to increase substantially as the projects are constructed over the next two years. Wholesale gross margin was unchanged compared to 2013 as a higher average margin per megawatt hour sold was offset by lower sales volumes primarily due to the higher retail energy requirements.

Electric gross margin for 2013 increased \$9 million compared to 2012 due to a \$59 million increase in retail gross margin and a \$4 million increase in transmission revenue, partially offset by a \$54 million decrease in wholesale gross margin. Retail gross margin increased due to \$36 million from higher electric retail rates, \$34 million from higher retail sales volumes due to a higher use per customer and customer growth, and \$4 million from greater sales of renewable energy credits. The higher electric retail rates reflect adjustment clauses implemented in Iowa and Illinois in the first half of 2012 and interim Iowa electric retail rates implemented in August 2013 that provide for a \$45 million annualized increase in revenue. The increases in retail gross margin were partially offset by a \$15 million decrease from higher retail generation costs primarily from new coal transportation agreements effective in 2013. Wholesale gross margin decreased primarily due to a lower average margin per megawatt hour sold from higher prices for, and volumes of, purchased power and an increase in generation costs primarily from new coal transportation agreements.

#### Regulated Gas Gross Margin

A comparison of key results related to regulated gas gross margin is as follows for the years ended December 31:

	2014	2013	Change		2013	2012	Change	
<b>Gross margin (in millions):</b>								
Operating revenue	\$ 996	\$ 824	\$ 172	21%	\$ 824	\$ 659	\$ 165	25 %
Cost of gas sold	720	558	162	29	558	424	134	32
Gross margin	<u>\$ 276</u>	<u>\$ 266</u>	<u>\$ 10</u>	4	<u>\$ 266</u>	<u>\$ 235</u>	<u>\$ 31</u>	13
<b>Natural gas throughput (000's Dths):</b>								
Residential	56,224	53,725	2,499	5%	53,725	41,326	12,399	30 %
Small general service	28,256	27,308	948	3	27,308	20,926	6,382	30
Large general service	5,335	5,017	318	6	5,017	4,586	431	9
Other	48	45	3	7	45	31	14	45
Total retail sales	89,863	86,095	3,768	4	86,095	66,869	19,226	29
Wholesale sales	25,346	29,762	(4,416)	(15)	29,762	32,584	(2,822)	(9)
Total sales	115,209	115,857	(648)	(1)	115,857	99,453	16,404	16
Gas transportation service	82,314	78,208	4,106	5	78,208	73,675	4,533	6
Total gas throughput	<u>197,523</u>	<u>194,065</u>	<u>3,458</u>	2	<u>194,065</u>	<u>173,128</u>	<u>20,937</u>	12
<b>Average number of retail customers (in thousands)</b>								
	726	719	7	1%	719	714	5	1 %
Average revenue per retail Dth sold	\$ 9.24	\$ 7.87	\$ 1.37	17%	\$ 7.87	\$ 8.11	\$ (0.24)	(3)%
Average cost of natural gas per retail Dth sold	\$ 6.54	\$ 5.16	\$ 1.38	27%	\$ 5.16	\$ 5.03	\$ 0.13	3 %
<b>Combined retail and wholesale average cost of natural gas per Dth sold</b>								
	\$ 6.25	\$ 4.81	\$ 1.44	30%	\$ 4.81	\$ 4.26	\$ 0.55	13 %
Heating degree days	7,209	7,036	173	2%	7,036	5,442	1,594	29 %

Regulated gas revenue includes PGAs through which MidAmerican Energy is allowed to recover the cost of gas sold from its retail gas utility customers. Consequently, fluctuations in the cost of gas sold do not directly affect gross margin or net income because regulated gas revenue reflects comparable fluctuations through the PGAs.

For 2014 compared to 2013, MidAmerican Energy's combined retail and wholesale average per-unit cost of gas sold increased 30%, resulting in an increase of \$165 million in gas revenue and cost of gas sold. Additionally, higher retail sales volumes from colder winter temperatures in 2014 increased revenue, though partially offset by lower revenue from reduced wholesale volumes. The decrease in total sales volumes reduced cost of gas sold for 2014. Gas gross margin increased \$10 million for 2014 compared to 2013 due to higher retail sales volumes as a result of colder winter temperatures in 2014 and a \$4 million increase in revenue from recoveries of DSM program costs.

For 2013 compared to 2012, MidAmerican Energy's combined retail and wholesale average per-unit cost of gas sold increased 13%, resulting in an increase of \$64 million in gas revenue and cost of gas sold. Additionally, the increase in total sales volumes compared to 2012 increased revenue and cost of gas sold for 2013. Gas gross margin increased \$31 million for 2013 compared to 2012 primarily due to higher retail sales volumes as a result of colder temperatures in 2013 primarily from unusually warm temperatures in 2012.

### Regulated Operating Costs and Expenses

Other operating expenses of \$477 million for 2014 increased \$42 million compared to 2013 due to \$25 million of higher DSM program costs, which are matched by increases in related electric and gas revenue, \$8 million of expense resulting from a one-time refund in June 2014 to MidAmerican Energy's customers for insurance recoveries related to environmental matters, \$6 million of higher transmission costs from MISO, \$4 million of higher healthcare benefits costs, \$3 million of higher generation operations costs and \$3 million of higher electric and gas distribution costs partially due to inclement weather in 2014. The increases were partially offset by a \$9 million decrease in pension and postretirement costs and \$2 million from the 2013 write-off of Iowa carbon reduction study costs. Other operating expenses of \$435 million for 2013 increased \$8 million compared to 2012 due to an increase of \$3 million in each of gas distribution costs, transmission costs from MISO and pension and postretirement costs, \$2 million of higher DSM program costs and \$2 million from the write-off of Iowa carbon reduction study costs, partially offset by \$6 million from lower administrative costs.

Maintenance expense of \$222 million for 2014 decreased \$2 million compared to 2013 due to lower nuclear generating facility and transmission maintenance costs, substantially offset by \$5 million of higher wind-powered generating facility maintenance costs. Maintenance expense of \$224 million for 2013 increased \$4 million compared to 2012 due to higher fossil-fueled generating facility maintenance costs of \$13 million primarily related to a Louisa Generating Station outage, partially offset by lower distribution and other power generation maintenance.

Depreciation and amortization expense of \$351 million for 2014 decreased \$52 million compared to 2013 due to a \$79 million reduction in utility plant depreciation for changes in depreciation rates in 2013 and 2014, as discussed below, partially offset by \$28 million from utility plant additions. Depreciation and amortization expense of \$403 million for 2013 increased \$11 million compared to 2012 due to a \$31 million increase in utility plant depreciation primarily from additional wind-powered generating facilities placed in service in the second half of 2012, partially offset by a \$14 million decrease for the net effect of changes in depreciation rates in 2012 and 2013, as discussed below, a \$3 million decrease in a regulatory expense related to nuclear decommissioning accruals and a \$3 million decrease from the discontinued amortization of Iowa carbon study costs.

During the third quarter of 2012, MidAmerican Energy revised its depreciation rates for certain coal-fueled generation facility assets reflecting shorter estimated useful lives resulting in a \$5 million increase in depreciation and amortization expense for 2012 and \$11 million annually based on depreciable plant balances at the time of the change. During the third quarter of 2013, MidAmerican Energy revised its depreciation rates for certain electric generating facilities based on the results of a new depreciation study. The new rates reflect longer estimated useful lives for wind-powered generating facilities placed in service in 2011 and 2012 and a lower accrual rate for the cost of removal regulatory liability related to coal-fueled generating facilities. The effect of this change was to reduce depreciation and amortization expense by \$20 million for 2013 and \$49 million annually based on depreciable plant balances at the time of the change. Effective January 1, 2014, MidAmerican Energy revised depreciation rates for certain electric generating facilities based on the results of its 2013 Iowa electric retail rate case. The new depreciation rates reflect longer estimated useful lives for certain generating facilities. The effect of this change was to reduce depreciation and amortization expense by \$50 million annually based on depreciable plant balances at the time of the change.

## Nonregulated Gross Margin

MidAmerican Energy -

	2014	2013	Change		2013	2012	Change	
<b>Gross margin (in millions):</b>								
Nonregulated operating revenue	\$ 927	\$ 817	\$ 110	13 %	\$ 817	\$ 889	\$ (72)	(8)%
Nonregulated cost of sales	863	764	99	13	764	807	(43)	(5)
Nonregulated gross margin	<u>\$ 64</u>	<u>\$ 53</u>	<u>\$ 11</u>	21	<u>\$ 53</u>	<u>\$ 82</u>	<u>\$ (29)</u>	(35)
<b>Nonregulated electric retail sales (GWh)</b>	<u>9,730</u>	<u>9,497</u>	<u>233</u>	2 %	<u>9,497</u>	<u>10,327</u>	<u>(830)</u>	(8)%
<b>Nonregulated gas sales (000's Dths)</b>	<u>31,605</u>	<u>36,887</u>	<u>(5,282)</u>	(14)%	<u>36,887</u>	<u>36,470</u>	<u>417</u>	1 %

MidAmerican Energy's nonregulated gross margin increased \$11 million for 2014 compared to 2013 and decreased \$29 million for 2013 compared to 2012. The following table presents the margins related to various nonregulated activities (in millions):

	2014	2013	2012
Nonregulated electric	\$ 46	\$ 49	\$ 72
Nonregulated gas	9	2	3
Income sharing arrangements under regulated gas tariffs	9	2	3
Other	—	—	4
	<u>\$ 64</u>	<u>\$ 53</u>	<u>\$ 82</u>

For 2014 compared to 2013, nonregulated operating revenue and cost of sales increased primarily due to higher prices and per-unit costs, respectively, for gas and electric sales. The impact of a decrease in nonregulated gas sales volumes was largely offset by an increase in nonregulated electric sales volumes. Nonregulated gross margin increased due to higher revenue from the portion of margins on regulated gas wholesale sales that is retained by MidAmerican Energy and higher nonregulated gas margins, primarily from the increase in price, partially offset by lower nonregulated electric margins due to the increase in per-unit cost.

For 2013 compared to 2012, lower volumes, prices and costs for electric sales, partially offset by higher volumes, prices and costs for gas sales resulted in decreases to nonregulated operating revenue and cost of sales. Nonregulated gross margins declined primarily due to competitive pressures that reduced the volumes and margin per unit in MidAmerican Energy's nonregulated electric business.

## Non-Operating Income

MidAmerican Energy -

Allowance for equity funds of \$39 million for 2014 increased \$20 million compared to 2013 as a result of higher construction work-in-progress balances primarily related to construction of wind-powered generating facilities. Allowance for equity funds of \$19 million for 2013 increased \$5 million compared to 2012 as a result of higher construction work-in-progress balances primarily related to emissions control equipment at three of MidAmerican Energy's jointly owned generating units.

MidAmerican Energy's other, net totaled \$9 million for 2014, \$15 million for 2013 and \$9 million for 2012. The variance for 2014 and 2013 compared to the preceding year was primarily due to fluctuations in returns from corporate-owned life insurance policies.

## Fixed Charges

### MidAmerican Energy -

Interest on long-term debt of \$173 million for 2014 increased \$23 million compared to 2013 due to higher interest expense from the issuance of first mortgage bonds totaling \$950 million in September 2013 and \$850 million in April 2014, partially offset by a decrease in interest expense from the payment in December 2013 of amounts owed for the construction of wind-powered generating facilities that were deferred in 2011 and the redemption of \$350 million of 4.65% senior notes in May 2014. Refer to Note 8 of Notes to Financial Statements in Item 8 of this Form 10-K for further discussion of first mortgage bonds and deferred construction payments.

Interest on long-term debt of \$150 million for 2013 increased \$8 million compared to 2012 due to higher interest expense from the issuance of \$950 million of first mortgage bonds in September 2013 and a larger balance of amounts owed for the construction of wind-powered generating facilities that were deferred in 2012 and 2011. These increases in interest on long-term debt were partially offset by a decrease from MidAmerican Energy's redemption of \$275 million of 5.125% senior notes in June 2012.

Allowance for borrowed funds of \$16 million for 2014 increased \$9 million compared to 2013 primarily due to higher construction work-in-progress balances related to the construction of wind-powered generating facilities. Allowance for borrowed funds of \$7 million for 2013 increased \$2 million compared to 2012 as a result of higher construction work-in-progress balances primarily related to emissions control equipment at three of MidAmerican Energy's jointly owned generating units.

## Income Tax Benefit

### MidAmerican Energy -

MidAmerican Energy's income tax benefit was \$104 million for 2014, an increase of \$1 million compared to \$103 million for 2013, with an effective tax rate of (33)% for 2014 and (42)% for 2013. The change in the effective tax rate was due to higher pre-tax income, partially offset by the effects of ratemaking and an increase of \$11 million in production tax credits.

MidAmerican Energy's income tax benefit was \$103 million for 2013, an increase of \$4 million compared to \$99 million for 2012, with an effective tax rate of (42)% for 2013 and (39)% for 2012. The change in the effective tax rate was due to an increase in production tax credits of \$31 million in 2013, partially offset by lower income tax benefits from the effects of ratemaking and a reduction in income tax benefits related to changes in the income tax accounting methods used to determine current deductibility of certain utility costs, as discussed below.

MidAmerican Energy's income tax benefit for the year ended December 31, 2012, reflects \$16 million of federal income tax benefits recognized in connection with an income tax method change for income tax years prior to 2012 related to repair costs for its regulated utility electric transmission and distribution assets based on guidance published by the Internal Revenue Service. The income tax method change results in current deductibility for applicable repair costs, which are capitalized for book purposes. MidAmerican Energy retroactively applied the method changes and deducted amounts related to prior years' costs on the tax return that includes the year of change. State utility rate regulation in Iowa requires that the tax effect of certain temporary differences be flowed through immediately to customers. Therefore, certain deferred amounts that would otherwise have been recognized in income tax expense have been included as changes in regulatory assets in recognition of MidAmerican Energy's ability to recover increased tax expense when such temporary differences reverse. This treatment of such temporary differences impacts income tax expense and effective income tax rates from year to year.

Federal renewable electricity production tax credits are earned as energy from qualifying wind-powered generating facilities is produced and sold based on a per-kilowatt rate pursuant to the applicable federal income tax law. Wind-powered generating facilities are eligible for the credits for 10 years from the date the qualifying generating facilities are placed in service. A portion of MidAmerican Energy's credits related to wind-powered generating facilities placed in service in 2004 began expiring in late 2014. A credit of \$0.023, \$0.023 and \$0.022 per kilowatt hour was available for 2014, 2013 and 2012 production, respectively, which resulted in \$183 million, \$172 million and \$141 million, respectively, in recognized production tax credits.

### MidAmerican Funding -

MidAmerican Funding's income tax benefit was \$110 million, \$110 million and \$108 million for 2014, 2013 and 2012, respectively, and effective tax rates were (37)%, (48)% and (46)% for 2013, 2012 and 2011, respectively. The change in effective tax rates was due principally to the factors discussed for MidAmerican Energy.

## **Liquidity and Capital Resources**

As of December 31, 2014, MidAmerican Energy's total net liquidity was \$389 million consisting of \$29 million of cash and cash equivalents and \$605 million of credit facilities reduced by \$195 million of the credit facilities reserved to support MidAmerican Energy's variable-rate tax-exempt bond obligations and \$50 million of short-term debt. As of December 31, 2014, MidAmerican Funding's total net liquidity was \$394 million, including \$1 million of additional cash and cash equivalents and MHC's \$4 million credit facility.

### Cash Flows From Operating Activities

MidAmerican Energy's net cash flows from operating activities were \$823 million, \$735 million and \$1.276 billion for 2014, 2013 and 2012, respectively. MidAmerican Funding's net cash flows from operating activities were \$820 million, \$721 million and \$1.260 billion for 2014, 2013 and 2012, respectively. The variances in net cash flows were predominantly due to the timing of MidAmerican Energy's income tax cash flows with BHE, which totaled net cash receipts from BHE of \$149 million, \$36 million and \$692 million for 2014, 2013 and 2012, respectively. Income tax cash flows for 2013 reflect the payment of \$159 million of income tax liability generated in 2012, while income tax cash flows for 2012 reflect the receipt of \$274 million of income tax benefits generated in 2011. In addition to the effects of timing, income tax cash receipts for 2013 decreased compared to 2012 due to lower income tax benefits from bonus depreciation in 2013 due to less qualifying property being placed in service in 2013, partially offset by an increase in income tax benefits from greater production tax credits in 2013. The timing of MidAmerican Energy's income tax cash flows from period to period can be significantly affected by the estimated federal income tax payment methods and assumptions for each payment date.

Additionally, cash flows from operations for 2014 increased from higher gross margins for regulated electric and regulated gas businesses, partially offset by greater collateral requirements related to derivative positions and higher interest paid as a result of the issuance of long-term debt in 2013 and 2014. For 2013, the impact of income tax cash flows was partially offset by a reduction in MidAmerican Energy's contributions to its defined benefit pension plan and higher cash receipts from regulated retail customers compared to 2012.

In December 2014, the Tax Increase Prevention Act of 2014 (the "Act") was signed into law, extending the 50% bonus depreciation for qualifying property purchased and placed in-service before January 1, 2015 and before January 1, 2016 for certain longer-lived assets. Production tax credits were extended for wind power and other forms of non-solar renewable energy projects that begin construction before the end of 2014. As a result of the timing of the Act and income tax cash flows with BHE, MidAmerican Energy had a federal income tax receivable of \$307 million as of December 31, 2014, which is expected to benefit cash flows from operations in 2015.

### Cash Flows From Investing Activities

MidAmerican Energy's net cash flows from investing activities were \$(1.521) billion, \$(1.012) billion and \$(639) million for 2014, 2013 and 2012, respectively. MidAmerican Funding's net cash flows from investing activities were \$(1.519) billion, \$(1.012) billion and \$(638) million for 2014, 2013 and 2012, respectively. Net cash flows from investing activities consist almost entirely of utility construction expenditures, which increased for 2014 primarily due to greater expenditures for the construction of wind-powered generating facilities and Multi-Value transmission projects. Utility construction expenditures increased for 2013 compared to 2012 due to greater expenditures for the construction of wind-powered generating facilities. These cash basis amounts exclude equity AFUDC and deferred vendor payments of \$406 million for 2012 related to wind-powered generating facilities, as discussed in "Long-term Debt" below. MidAmerican Energy placed in service 511 MW, 44 MW and 407 MW of wind-powered generating facilities during 2014, 2013 and 2012, respectively. Purchases and proceeds related to available-for-sale securities consist of activity within the Quad Cities nuclear decommissioning trust.

## Cash Flows From Financing Activities

MidAmerican Energy's net cash flows from financing activities were \$533 million, \$117 million and \$(284) million for 2014, 2013 and 2012, respectively. MidAmerican Funding's net cash flows from financing activities were \$535 million, \$131 million and \$(269) million for 2014, 2013 and 2012, respectively. In April 2014, MidAmerican Energy issued \$150 million of 2.40% First Mortgage Bonds due March 2019, \$300 million of 3.50% First Mortgage Bonds due October 2024 and \$400 million of 4.40% First Mortgage Bonds due October 2044. The net proceeds were used for the optional redemption in May 2014 of \$350 million of MidAmerican Energy's 4.65% Senior Notes due October 2014 and for general corporate purposes. In 2014, MidAmerican Energy received \$50 million through its commercial paper program. In September 2013, MidAmerican Energy issued \$350 million of 2.40% First Mortgage Bonds due March 2019, \$250 million of 3.70% First Mortgage Bonds due September 2023 and \$350 million of 4.80% First Mortgage Bonds due September 2043. The net proceeds were used for the repayment of \$669 million of long-term debt from deferred vendor payments maturing December 31, 2013, and for general corporate purposes. In January 2013, MidAmerican Energy paid common dividends of \$125 million to MHC Inc. and, in April 2013, paid \$28 million for the redemption of all outstanding shares of its preferred securities. In June 2012, MidAmerican Energy redeemed \$275 million of 5.125% senior notes due January 2013. MidAmerican Funding received \$1 million in 2014, paid \$111 million in 2012 and received \$15 million in 2011 through its note payable with BHE.

### *Long-term Debt*

In conjunction with the construction of wind-powered generating facilities in 2012, MidAmerican Energy accrued in gross utility plant in service amounts for turbine purchases it was not contractually obligated to pay until December 2015. The amount ultimately payable was discounted and recognized upon delivery of the equipment as long-term debt. The discount is being amortized as interest expense over the period until payment is due using the effective interest method.

### *Debt Authorizations and Related Matters*

MidAmerican Energy has authority from the FERC to issue through June 30, 2016, commercial paper and bank notes aggregating \$605 million at interest rates not to exceed the applicable London Interbank Offered Rate ("LIBOR") plus a spread of 400 basis points. MidAmerican Energy has a \$600 million unsecured credit facility expiring in March 2018. MidAmerican Energy may request that the banks extend the credit facility up to two years. The credit facility, which supports MidAmerican Energy's commercial paper program and its variable-rate tax-exempt bond obligations and provides for the issuance of letters of credit, has a variable interest rate based on LIBOR or a base rate, at MidAmerican Energy's option, plus a spread that varies based on MidAmerican Energy's credit ratings for senior unsecured long-term debt securities. Additionally, MidAmerican Energy has a \$5 million unsecured credit facility for general corporate purposes.

MidAmerican Energy currently has an effective registration statement with the SEC to issue up to \$800 million of additional long-term debt securities through November 12, 2016. Additionally, in January 2015, MidAmerican Energy filed a request with the FERC for authorization to issue between April 1, 2015 and March 31, 2017, long-term securities totaling up to \$1.70 billion at interest rates not to exceed the applicable United States Treasury rate plus a spread of 175 basis points. MidAmerican Energy has authorizations from the ICC to issue up to an aggregate of \$800 million of additional long-term debt securities, of which \$50 million expires December 19, 2015, and \$750 million expires December 9, 2016.

In conjunction with the March 1999 merger, MidAmerican Energy committed to the IUB to use commercially reasonable efforts to maintain an investment grade rating on its long-term debt and to maintain its common equity level above 42% of total capitalization unless circumstances beyond its control result in the common equity level decreasing to below 39% of total capitalization. MidAmerican Energy must seek the approval of the IUB of a reasonable utility capital structure if MidAmerican Energy's common equity level decreases below 42% of total capitalization, unless the decrease is beyond the control of MidAmerican Energy. MidAmerican Energy is also required to seek the approval of the IUB if MidAmerican Energy's equity level decreases to below 39%, even if the decrease is due to circumstances beyond the control of MidAmerican Energy. If MidAmerican Energy's common equity level were to drop below the required thresholds, MidAmerican Energy's ability to issue debt could be restricted. As of December 31, 2014, MidAmerican Energy's common equity ratio was 51% computed on a basis consistent with its commitment. As a result of MidAmerican Energy's regulatory commitment to maintain its common equity above certain thresholds, MidAmerican Energy could dividend \$1.3 billion as of December 31, 2014, without falling below 42%, and MidAmerican Funding had restricted net assets of \$2.9 billion.

MidAmerican Funding or one of its subsidiaries, including MidAmerican Energy, may from time to time seek to acquire its outstanding debt securities through cash purchases in the open market, privately negotiated transactions or otherwise. Any debt securities repurchased by MidAmerican Funding or one of its subsidiaries may be reissued or resold by MidAmerican Funding or one of its subsidiaries from time to time and will depend on prevailing market conditions, the issuing company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

#### Future Uses of Cash

MidAmerican Energy and MidAmerican Funding have available a variety of sources of liquidity and capital resources, both internal and external, including net cash flows from operating activities, public and private debt offerings, the issuance of commercial paper, the use of unsecured revolving credit facilities, and other sources. These sources are expected to provide funds required for current operations, capital expenditures, debt retirements and other capital requirements. The availability and terms under which MidAmerican Energy and MidAmerican Funding have access to external financing depends on a variety of factors, including their credit ratings, investors' judgment of risk and conditions in the overall capital markets, including the condition of the utility industry.

#### *Utility Construction Expenditures*

MidAmerican Energy's primary need for capital is utility construction expenditures. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of these reviews, which may consider, among other factors, changes in environmental and other rules and regulations; impacts to customers' rates; outcomes of regulatory proceedings; changes in income tax laws; general business conditions; load projections; system reliability standards; the cost and efficiency of construction labor, equipment and materials; commodity prices; and the cost and availability of capital. Prudently incurred expenditures for compliance-related items such as pollution-control technologies, replacement generation, nuclear decommissioning and associated operating costs are generally incorporated into MidAmerican Energy's regulated retail rates.

MidAmerican Energy's historical and forecasted capital expenditures, each of which exclude amounts for non-cash equity AFUDC and other non-cash items, for the years ended December 31 are as follows (in millions):

	<b>Historical</b>			<b>Forecasted</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Construction and other development projects	\$ 369	\$ 607	\$ 1,040	\$ 987	\$ 239	\$ 111
Operating projects	276	419	486	429	353	311
<b>Total</b>	<b>\$ 645</b>	<b>\$ 1,026</b>	<b>\$ 1,526</b>	<b>\$ 1,416</b>	<b>\$ 592</b>	<b>\$ 422</b>

MidAmerican Energy's historical and forecasted capital expenditures include the following:

- The construction of wind-powered generating facilities totaling \$767 million for 2014, \$401 million for 2013 and \$168 million for 2012, excluding \$406 million of costs in 2012 for which payments are due in December 2015. In August 2013, the IUB approved ratemaking principles related to the construction of up to 1,050 MW (nominal ratings) of wind-powered generating facilities, 555 MW (nominal ratings) of which were in service as of December 31, 2014, with the remaining 495 MW (nominal ratings) to be placed in service in 2015. Additionally, in February 2015, the IUB approved ratemaking principles for the construction of an additional 162 MW (nominal ratings) of wind-powered generating facilities to be placed in service in 2015. Forecasted capital expenditures included in the table above related to the total 657 MW (nominal ratings) to be placed in service in 2015 are \$787 million. MidAmerican Energy expects all of these wind-powered generating facilities to qualify for federal production tax credits. MidAmerican Energy continues to evaluate additional cost effective wind-powered generation.
- Environmental projects, primarily at George Neal Energy Center Units 3 and 4 and Ottumwa Generating Station, totaling \$76 million for 2014, \$171 million for 2013 and \$189 million for 2012 to install or upgrade emissions control equipment for the reduction of sulfur dioxide, nitrogen oxides and particulate matter emissions. MidAmerican Energy anticipates costs for environmental projects will total \$190 million between 2015 and 2017 and consist primarily of expenditures for the management of coal combustion residuals. Refer to "Coal Combustion Byproduct Disposal" in the Environmental Laws and Regulation section later in this Item 7 for further discussion.

- Transmission Multi-Value Project ("MVPs") investments totaling \$144 million for 2014, \$20 million for 2013 and \$5 million for 2012. MidAmerican Energy has approval from the MISO for four MVPs located in Iowa and Illinois totaling approximately \$541 million in capital expenditures, excluding non-cash equity AFUDC. Forecasted capital expenditures for these MVPs are \$152 million, \$177 million and \$26 million, for 2015, 2016 and 2017, respectively. These projects, which will add approximately 245 miles of 345 kV transmission line to MidAmerican Energy's transmission system, will be owned and operated by MidAmerican Energy.
- Remaining expenditures primarily relate to routine operating projects for distribution, generation, transmission and other infrastructure needed to serve existing and expected demand.

### Contractual Obligations

MidAmerican Energy and MidAmerican Funding have contractual cash obligations that may affect their financial condition. The following table summarizes the material contractual cash obligations of MidAmerican Energy and MidAmerican Funding as of December 31, 2014 (in millions):

	Payments Due By Periods					
	2015	2016-2017	2018-2019	2020 & beyond	Total	
MidAmerican Energy:						
Long-term debt	\$ 426	\$ 288	\$ 850	\$ 2,507	\$ 4,071	
Interest payments on long-term debt <sup>(1)(2)</sup>	164	329	265	1,882	2,640	
Coal, electricity and natural gas contract commitments <sup>(1)</sup>	368	398	88	72	926	
Construction obligations <sup>(1)</sup>	767	62	—	—	829	
Operating leases, easements and other commitments <sup>(1)</sup>	47	107	141	746	1,041	
	1,772	1,184	1,344	5,207	9,507	
MidAmerican Funding parent:						
Long-term debt	—	—	—	325	325	
Interest payments on long-term debt <sup>(1)</sup>	23	45	45	213	326	
	23	45	45	538	651	
Total contractual cash obligations	\$ 1,795	\$ 1,229	\$ 1,389	\$ 5,745	\$ 10,158	

(1) Not reflected on the Consolidated Balance Sheets.

(2) Includes interest payments for tax-exempt bond obligations with interest rates scheduled to reset periodically prior to maturity. Future variable interest rates are assumed to equal December 31, 2014 rates.

MidAmerican Energy has other types of commitments that relate primarily to construction expenditures (in "Utility Construction Expenditures" section above) and asset retirement obligations (Note 12), which have not been included in the above table because the amount or timing of the cash payments is not certain. Refer to Notes 8, 12 and 15 in Notes to Financial Statements in Item 8 of this Form 10-K for additional information.



## **Regulatory Matters**

In July 2014, the IUB issued an order approving new retail electric base rates for MidAmerican Energy's Iowa customers. The order allows MidAmerican Energy to increase its base rates over approximately three years and will result in equal annualized increases in revenues of \$45 million, or 3.6% over 2012, effective August 2013 and again on January 1, 2015 and 2016, for a total annualized increase of \$135 million when fully implemented. In addition to an increase in base rates, the order approves the implementation of two new adjustment clauses. One clause relates to retail energy production costs such as fuel, fuel transportation and the impacts of the production tax credit. The second clause relates to certain electric transmission charges. The adjustment clauses provide for recovery of these costs from customers based on MidAmerican Energy's forecasted annual costs, with the variance between actual and forecasted costs to be recovered or credited in the following year. The order also approves seasonal pricing that results in a greater difference between higher base rates in effect for June through September and base rates applicable to the remaining months of the year, which MidAmerican Energy expects will shift an additional 15-25% of annual earnings into the June through September period. Additionally, the order approves a revenue sharing mechanism that shares with MidAmerican Energy's customers 80% of revenues related to equity returns above 11% and 100% of revenues related to equity returns above 14%. The customer portion of any sharing reduces rate base. The changes in seasonal pricing, adjustment clauses and new revenue sharing mechanism were effective with final base rates. MidAmerican Energy and the OCA have agreed not to seek or support an increase or decrease in the final base rates to become effective prior to January 1, 2018, unless MidAmerican Energy projects its return on equity for 2015, 2016 or 2017 to be below 10%.

In November 2014, the ICC issued an order approving a retail electric base rate increase for MidAmerican Energy's Illinois customers. The order authorizes MidAmerican Energy to increase rates by \$16 million, or 10%, annually and to implement a new adjustment clause for the recovery of certain electric transmission charges. New rates and the adjustment clause were effective in December 2014.

## **Environmental Laws and Regulations**

MidAmerican Energy is subject to federal, state and local laws and regulations regarding air and water quality, emissions performance standards, climate change, coal combustion byproduct disposal, hazardous and solid waste disposal, protected species and other environmental matters that have the potential to impact its current and future operations. In addition to imposing continuing compliance obligations, these laws and regulations provide regulators with the authority to levy substantial penalties for noncompliance including fines, injunctive relief and other sanctions. These laws and regulations are administered by the EPA and various state and local agencies. MidAmerican Energy believes it is in material compliance with all applicable laws and regulations, although many are subject to interpretation that may ultimately be resolved by the courts. Refer to "Liquidity and Capital Resources" for discussion of MidAmerican Energy's forecasted environmental-related capital expenditures.

### *Clean Air Act Regulations*

The Clean Air Act is a federal law administered by the EPA that provides a framework for protecting and improving the nation's air quality and controlling sources of air emissions. The implementation of new standards is generally outlined in SIPs, which are a collection of regulations, programs and policies to be followed. SIPs vary by state and are subject to public hearings and EPA approval. Some states may adopt additional or more stringent requirements than those implemented by the EPA. The major Clean Air Act programs most directly affecting MidAmerican Energy's operations are described below.

#### *National Ambient Air Quality Standards*

Under the authority of the Clean Air Act, the EPA sets minimum national ambient air quality standards for six principal pollutants, consisting of carbon monoxide, lead, nitrogen oxides, particulate matter, ozone and sulfur dioxide, considered harmful to public health and the environment. Areas that achieve the standards, as determined by ambient air quality monitoring, are characterized as being in attainment, while those that fail to meet the standards are designated as being nonattainment areas. Generally, sources of emissions in a nonattainment area that are determined to contribute to the nonattainment are required to reduce emissions. Most air quality standards require measurement over a defined period of time to determine the average concentration of the pollutant present. Currently, with the exceptions described in the following paragraphs, air quality monitoring data indicates that all counties where MidAmerican Energy's major emission sources are located are in attainment of the current national ambient air quality standards.

In November 2014, the EPA released a new proposal to strengthen the national ambient air quality standard for ground level ozone from the current level of 75 parts per billion to a level between 65 and 70 parts per billion. Review or revision is required to be complete by October 2015. Until the standards' review or revision is complete, the EPA is proceeding with implementation of the 2008 ozone standards.

In January 2010, the EPA finalized a one-hour air quality standard for nitrogen dioxide at 100 parts per billion. In February 2012, the EPA published final designations indicating that based on air quality monitoring data, all areas of the country are designated as "unclassifiable/attainment" for the 2010 nitrogen dioxide national ambient air quality standard.

In June 2010, the EPA finalized a new national ambient air quality standard for sulfur dioxide. Under the 2010 rule, areas must meet a one-hour standard of 75 parts per billion utilizing a three-year average. The rule utilizes source modeling in addition to the installation of ambient monitors where sulfur dioxide emissions impact populated areas. Attainment designations were due by June 2012; however, citing a lack of sufficient information to make the designations, the EPA did not issue its final designations until July 2013 and determined, at that date, that a portion of Muscatine County, Iowa was in nonattainment for the one-hour sulfur dioxide standard. MidAmerican Energy's Louisa coal-fueled generating facility is located just outside of Muscatine County, south of the violating monitor. In its final designation, the EPA indicated that it was not yet prepared to conclude that the emissions from the Louisa coal-fueled generating facility contribute to the monitored violation or to other possible violations, and that in a subsequent round of designations, the EPA will make decisions for areas and sources outside Muscatine County. MidAmerican Energy does not believe a subsequent nonattainment designation will have a material impact on the Louisa coal-fueled generating facility.

In December 2012, the EPA finalized more stringent fine particulate matter national ambient air quality standards, reducing the annual standard from 15 micrograms per cubic meter to 12 micrograms per cubic meter and retaining the 24-hour standard at 35 micrograms per cubic meter. The EPA did not set a separate secondary visibility standard, choosing to rely on the existing secondary 24-hour standard to protect against visibility impairment. In December 2014, the EPA issued final area designations for the 2012 fine particulate matter standard. Based on these designations, the areas in which the Company operates generating facilities have been classified as "unclassifiable/attainment." Unless additional monitoring suggests otherwise, MidAmerican Energy does not anticipate that any impacts of the revised standard will be significant.

As new, more stringent national ambient air quality standards are adopted, the number of counties designated as nonattainment areas is likely to increase. Businesses operating in newly designated nonattainment counties could face increased regulation and costs to monitor or reduce emissions. For instance, existing major emissions sources may have to install reasonably available control technologies to achieve certain reductions in emissions and undertake additional monitoring, recordkeeping and reporting. The construction or modification of facilities that are sources of emissions could also become more difficult in nonattainment areas. Until new requirements are promulgated and additional monitoring and modeling is conducted, the impacts on MidAmerican Energy cannot be determined.

#### *Mercury and Air Toxics Standards*

In March 2011, the EPA proposed a rule that requires coal-fueled generating facilities to reduce mercury emissions and other hazardous air pollutants through the establishment of "Maximum Achievable Control Technology" standards. The final rule, MATS, was published in the Federal Register in February 2012, with an effective date of April 16, 2012, and requires that new and existing coal-fueled generating facilities achieve emission standards for mercury, acid gases and other non-mercury hazardous air pollutants. Existing sources are required to comply with the new standards by April 16, 2015. Individual sources may be granted up to one additional year, at the discretion of the Title V permitting authority, to complete installation of controls or for transmission system reliability reasons. MidAmerican Energy believes that its emissions reduction projects completed to date or currently permitted or planned for installation, including scrubbers, baghouses and electrostatic precipitators, are consistent with the EPA's MATS and will support MidAmerican Energy's ability to comply with the final rule's standards for acid gases and non-mercury metallic hazardous air pollutants. MidAmerican Energy is proceeding with additional actions to reduce mercury emissions through the installation of controls and use of sorbent injection at certain of its coal-fueled generating facilities to otherwise comply with the final rule's standards.

MidAmerican Energy plans to retire four coal-fueled generating units between 2015 and 2016 as the least-cost alternative to comply with the MATS. Walter Scott, Jr. Energy Center Units 1 and 2 are to be retired by April 15, 2015, and George Neal Energy Center Units 1 and 2 are to be retired by April 15, 2016. These units produced 2.1 million MWh of electricity, or 7% of MidAmerican Energy's owned generation production, during 2014. A fifth unit, Riverside Generating Station, will be limited to natural gas combustion by March 31, 2015.

Incremental costs to install and maintain emissions control equipment at MidAmerican Energy's coal-fueled generating facilities and any resulting shut down of what have traditionally been low cost coal-fueled generating facilities will likely increase the cost of providing service to customers. Numerous lawsuits have been filed in the United States Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") challenging the MATS. In April 2014, the D.C. Circuit upheld the MATS requirements. In November 2014, the United States Supreme Court agreed to hear the MATS appeal on the limited issue of whether the EPA unreasonably refused to consider costs in determining whether it is appropriate to regulate hazardous air pollutants emitted by electric utilities. The outcome of the United States Supreme Court's decision is uncertain and until the court renders its decision or otherwise implements a stay of the MATS requirements, MidAmerican Energy is proceeding to fulfill its legal obligations to comply with the MATS.

#### *Clean Air Interstate Rule, Clean Air Transport Rule and Cross-State Air Pollution Rule*

The EPA promulgated the CAIR in March 2005 to reduce emissions of nitrogen oxides and sulfur dioxide, precursors of ozone and particulate matter, from down-wind sources. The CAIR required states in the eastern United States, including Iowa, to reduce emissions by implementing a plan based on a market-based cap-and-trade system, emissions reductions, or both. The CAIR created separate trading programs for nitrogen oxides and sulfur dioxide emissions credits. The nitrogen oxides and sulfur dioxide emissions reductions were planned to be accomplished in two phases, in 2009-2010 and 2015. After the CAIR was overturned by the D.C. Circuit in 2008, the EPA proposed a successor rule, which became known as the Cross-State Air Pollution Rule ("CSAPR"), to address interstate transport of sulfur dioxide and nitrogen oxides emissions in 27 eastern and Midwestern states. Upon full implementation in 2014, the CSAPR would have reduced total sulfur dioxide emissions by 73% and nitrogen oxides emissions by 54% at electric generating facilities in the 27-state region as compared to 2005 levels.

After additional litigation over the rule, the United States Supreme Court issued a decision on April 29, 2014, upholding the 2011 CSAPR, concluding that the EPA's allocation of emissions reductions in upwind states permissibly considered the cost-effectiveness of achieving downwind attainment and that the EPA had authority under the Clean Air Act to impose federal implementation plans immediately after disapproving state implementation plans. The United States Supreme Court remanded the case to the D.C. Circuit for further action. The D.C. Circuit's previous stay of the rule was lifted in October 2014 and the first phase of the rule was implemented January 1, 2015.

MidAmerican Energy has installed emissions controls at some of its coal-fueled generating facilities to comply with the CSAPR and may purchase emissions allowances to meet a portion of its compliance obligations. The cost of these allowances is subject to market conditions at the time of purchase and historically has not been material. MidAmerican Energy believes that the controls installed to date are consistent with the reductions to be achieved from implementation of the final rule.

MidAmerican Energy operates natural gas-fueled generating facilities in Iowa, which are subject to the CSAPR. However, the provisions are not anticipated to have a material impact on MidAmerican Energy.

#### *New Source Review*

Under existing New Source Review ("NSR") provisions of the Clean Air Act, any facility that emits regulated pollutants is required to obtain a permit from the EPA or a state regulatory agency prior to (a) beginning construction of a new major stationary source of a regulated pollutant or (b) making a physical or operational change to an existing stationary source of such pollutants that increases certain levels of emissions, unless the changes are exempt under the regulations (including routine maintenance, repair and replacement of equipment). In general, projects subject to NSR regulations require pre-construction review and permitting under the Prevention of Significant Deterioration ("PSD") provisions of the Clean Air Act. Under the PSD program, a project that emits threshold levels of regulated pollutants must undergo an analysis to determine the best available control technology and evaluate the most effective emissions controls after consideration of a number of factors. Violations of NSR regulations, which may be alleged by the EPA, states, environmental groups and others, potentially subject a company to material fines and other sanctions and remedies, including installation of enhanced pollution controls and funding of supplemental environmental projects.

Numerous changes have been proposed to the NSR rules and regulations over a period of years. In addition to the proposed changes, differing interpretations by the EPA and the courts create risk and uncertainty for entities when seeking permits for new projects and installing emissions controls at existing facilities under NSR requirements. MidAmerican Energy monitors these changes and interpretations to ensure permitting activities are conducted in accordance with the applicable requirements.

As part of an industry-wide investigation to assess compliance with the NSR and PSD provisions, the EPA has requested information and supporting documentation from numerous utilities regarding their capital projects for various coal-fueled generating facilities. A NSR enforcement case against an unrelated utility has been decided by the United States Supreme Court, holding that an increase in the annual emissions of a generating facility, when combined with a modification (i.e., a physical or operational change), may trigger NSR permitting. Between 2002 and 2003, MidAmerican Energy responded to requests for information relating to capital projects at MidAmerican Energy's coal-fueled generating facilities.

In October 2011, MidAmerican Energy received a request from the EPA Region 7 pursuant to Section 114 of the Clean Air Act for information on its coal-fueled generating facilities to supplement the requests made in 2002 and 2003. MidAmerican Energy submitted its response to the October 2011 request in December 2011. MidAmerican Energy cannot predict the outcome of this matter at this time.

### *Climate Change*

While significant measures to regulate GHG emissions at the federal level were considered by the United States Congress in 2010, comprehensive climate change legislation has not been adopted. In June 2013, President Obama issued a Climate Action Plan, which, among other things, required the EPA to address GHG emissions from new, modified and existing fossil-fueled generating facilities under the Clean Air Act. Regulation of GHG emissions has proceeded under various provisions of the Clean Air Act since the EPA's December 2009 findings that GHG emissions threaten public health and welfare.

### *GHG Tailoring Rule*

In May 2010, the EPA finalized the GHG "Tailoring Rule" requiring new or modified sources of GHG emissions with increases of 75,000 or more tons per year of total GHG to determine the best available control technology for their GHG emissions beginning in January 2011. New or existing major sources are also subject to Title V operating permit requirements for GHG. Beginning July 1, 2011 through June 30, 2013, new construction projects that emit GHG emissions of at least 100,000 tons per year and modifications of existing facilities that increase GHG emissions by at least 75,000 tons per year became subject to permitting requirements. While the final rule also required facilities that were previously not subject to Title V permitting requirements to obtain Title V permits if they emit at least 100,000 tons per year of carbon dioxide equivalents, litigation over the Tailoring Rule resulted in a decision by the United States Supreme Court in June 2014 that the EPA could not utilize the Tailoring Rule to impose GHG permitting requirements on sources not otherwise subject to Clean Air Act permitting provisions. That decision did not impact MidAmerican Energy's sources that are already subject to Clean Air Act permitting. MidAmerican Energy has obtained permits to install emissions reduction equipment at existing generating facilities to comply with the transport rule (previously referenced as CSAPR and in its current implementation of the CAIR requirements) and was required to assess the impacts of the projects on GHG emissions. A GHG emissions limit was imposed on the permits for those projects. MidAmerican Energy's management believes compliance with the GHG limits under these permits will not result in a material adverse impact on its operations. To date, permitting authorities implementing the GHG Tailoring Rule have included efficiency improvements to demonstrate compliance with best available control technology for GHG, as well as requiring emissions limits for GHGs in permits, which have not had a material impact on MidAmerican Energy's financial results.

Under the Clean Air Act, the EPA may establish emissions standards that reflect the degree of emissions reductions achievable through the best technology that has been demonstrated, taking into consideration the cost of achieving those reductions and any non-air quality health and environmental impact and energy requirements. The EPA entered into a settlement agreement with a number of parties, including certain state governments and environmental groups, in December 2010 to promulgate emissions standards covering GHG. In April 2012, the EPA proposed new source performance standards for new fossil-fueled generating facilities that would limit emissions of carbon dioxide to 1,000 pounds per MWh. As part of his Climate Action Plan, President Obama announced a national climate change strategy and issued a presidential memorandum requiring the EPA to issue a re-proposed GHG new source performance standard for fossil-fueled generating facilities by September 2013. The September 2013 GHG new source performance standards released by the EPA set different standards for coal-fueled and natural gas-fueled generating facilities. The proposed standard for natural gas-fueled generating facilities considers the size of the unit and the electricity sent to the grid from the unit, establishing a standard of 1,000 to 1,100 pounds of carbon dioxide per MWh. The standard proposed for coal-fueled generating facilities is 1,100 pounds of carbon dioxide per MWh on an annual basis or 1,000 to 1,050 pounds of carbon dioxide per MWh averaged over a seven-year period, both of which would require partial carbon capture and sequestration. The proposed standards were published in the Federal Register January 8, 2014, and the public comment period closed in May 2014. Any new fossil-fueled generating facilities constructed by MidAmerican Energy will be required to meet the GHG new source performance standards, which are expected to be finalized in the summer of 2015.

In June 2014, the EPA released proposed regulations to address GHG emissions from existing fossil-fueled generating facilities, referred to as the Clean Power Plan, under Section 111(d) of the Clean Air Act. The EPA's proposal calculated state-specific emission rate targets to be achieved based on four building blocks that it determined were the "Best System of Emission Reduction." The four building blocks include: (a) a 6% heat rate improvement from coal-fueled generating facilities; (b) increased utilization of existing combined-cycle natural gas-fueled generating facilities to 70%; (c) increased deployment of renewable and non-carbon generating resources; and (d) increased energy efficiency. Under the EPA's proposal, states may utilize any measure to achieve the specified emission reduction goals, with an initial implementation period of 2020-2029 and the final goal to be achieved by 2030. When fully implemented, the proposal is expected to reduce carbon dioxide emissions in the power sector to 30% below 2005 levels by 2030. The public comment period closed December 1, 2014, and the final guidelines are scheduled to be issued in the summer of 2015. States are required to submit implementation plans by June 2016, but they may request an extension to June 2017, or June 2018 if they plan to participate in a regional compliance program. The impacts of the proposal on MidAmerican Energy cannot be determined until the EPA finalizes the proposal and the states develop their implementation plans. MidAmerican Energy has historically pursued cost-effective projects, including plant efficiency improvements, increased diversification of its generating fleet to include deployment of renewable and lower carbon generating resources, and advancement of customer energy efficiency programs.

In November 2014, President Obama announced the United States and China had reached a climate change agreement under which the United States intends to achieve an economy-wide target of reducing its emissions by 26% to 28% below 2005 levels in 2025 and China would peak its GHG emissions around 2030 and increase the share of non-fossil fuels in primary energy consumption to 20% by 2030.

While the discussion continues at the federal and international level over the direction of climate change policy, several states have continued to implement state-specific laws or regional initiatives to report or mitigate GHG emissions. In addition, governmental, non-governmental and environmental organizations have become more active in pursuing climate change related litigation under existing laws.

In the absence of comprehensive climate legislation or regulation, MidAmerican Energy has continued to invest in lower- and non-carbon generating resources and to operate in an environmentally responsible manner. Examples of MidAmerican Energy's significant investments in programs and facilities that mitigate its GHG emissions include:

- MidAmerican Energy owns the largest portfolio of wind-powered generating capacity in the United States among rate-regulated utilities. As of December 31, 2014, MidAmerican Energy had 3,457 MW of wind-powered generating capacity in operation and under construction at a total cost when constructed of approximately \$6 billion. As of December 31, 2014, 2,832 MW of wind-powered generating capacity was in service.
- Investments in transmission systems that: (a) address customer load growth; (b) improve system reliability; (c) reduce transmission system constraints; (d) provide access to diverse generation resources, including renewable resources; and (e) improve the flow of electricity.

- MidAmerican Energy has offered customers a comprehensive set of DSM programs for more than 20 years. The programs assist customers to manage the timing of their usage, as well as to reduce overall energy consumption, resulting in lower utility bills.

New federal, regional, state and international accords, legislation, regulation, or judicial proceedings limiting GHG emissions could have a material adverse impact on MidAmerican Energy, the United States and the global economy. Companies and industries with higher GHG emissions, such as utilities with significant coal-fueled generating facilities, will be subject to more direct impacts and greater financial and regulatory risks. The impact is dependent on numerous factors, none of which can be meaningfully quantified at this time. These factors include, but are not limited to, the magnitude and timing of GHG emissions reduction requirements; the design of the requirements; the cost, availability and effectiveness of emissions control technology; the price, distribution method and availability of offsets and allowances used for compliance; government-imposed compliance costs; and the existence and nature of incremental cost recovery mechanisms. Examples of how new requirements may impact MidAmerican Energy include:

- Additional costs may be incurred to purchase required emissions allowances under any market-based cap-and-trade system in excess of allocations that are received at no cost. These purchases would be necessary until new technologies could be developed and deployed to reduce emissions or lower carbon generation is available;
- Acquiring and renewing construction and operating permits for new and existing generating facilities may be costly and difficult;
- Additional costs may be incurred to purchase and deploy new generating technologies;
- Costs may be incurred to retire existing coal-fueled generating facilities before the end of their otherwise useful lives or to convert them to burn fuels, such as natural gas or biomass, that result in lower emissions;
- Operating costs may be higher and generating unit outputs may be lower;
- Higher interest and financing costs and reduced access to capital markets may result to the extent that financial markets view climate change and GHG emissions as a greater business risk; and
- MidAmerican Energy's electric transmission and retail sales may be impacted in response to changes in customer demand and requirements to reduce GHG emissions.

The impact of events or conditions caused by climate change, whether from natural processes or human activities, could vary widely, from highly localized to worldwide, and the extent to which a utility's operations may be affected is uncertain. Climate change may cause physical and financial risk through, among other things, sea level rise, changes in precipitation and extreme weather events. Consumer demand for energy may increase or decrease, based on overall changes in weather and as customers promote lower energy consumption through the continued use of energy efficiency programs or other means. Availability of resources to generate electricity, such as water for hydroelectric production and cooling purposes, may also be impacted by climate change and could influence MidAmerican Energy's existing and future electricity generating portfolio. These issues may have a direct impact on the costs of electricity production and increase the price customers pay or their demand for electricity.

### *GHG Litigation*

MidAmerican Energy closely monitors ongoing environmental litigation. Numerous lawsuits have been unsuccessfully pursued against the industry that attempt to link GHG emissions to public or private harm. The lower courts initially refrained from adjudicating the cases under the "political question" doctrine, because of their inherently political nature. These cases have typically been appealed to federal appellate courts and, in certain circumstances, to the United States Supreme Court. An adverse ruling in similar cases would likely result in increased regulation and costs for GHG emitters, including MidAmerican Energy's generating facilities.

## *Water Quality Standards*

The federal Water Pollution Control Act ("Clean Water Act") establishes the framework for maintaining and improving water quality in the United States through a program that regulates, among other things, discharges to and withdrawals from waterways. The Clean Water Act requires that cooling water intake structures reflect the "best technology available for minimizing adverse environmental impact" to aquatic organisms. After significant litigation, the EPA released a proposed rule under §316(b) of the Clean Water Act to regulate cooling water intakes at existing facilities. The final rule was released in May 2014, and became effective in October 2014. Under the final rule, existing facilities that withdraw at least 25% of their water exclusively for cooling purposes and have a design intake flow of greater than two million gallons per day are required to reduce fish impingement (i.e., when fish and other aquatic organisms are trapped against screens when water is drawn into a facility's cooling system) by choosing one of seven options. Facilities that withdraw at least 125 million gallons of water per day from waters of the United States must also conduct studies to help their permitting authority determine what site-specific controls, if any, would be required to reduce entrainment of aquatic organisms (i.e., when organisms are drawn into the facility). MidAmerican Energy is assessing the options for compliance at its generating facilities impacted by the final rule and will complete impingement and entrainment studies. All of MidAmerican Energy's coal-fueled generating facilities, except Louisa, Ottumwa and Walter Scott, Jr. Unit 4, which have water cooling towers, withdraw more than 125 million gallons per day of water from waters of the United States for once-through cooling applications. The standards are required to be met as soon as possible after the effective date of the final rule, but no later than eight years thereafter. The costs of compliance with the cooling water intake structure rule cannot be fully determined until the prescribed studies are conducted. In the event that MidAmerican Energy's existing intake structures require modification, the costs are not anticipated to be significant to its financial statements.

In June 2013, the EPA published proposed effluent limitation guidelines and standards for the steam electric power generating sector. These guidelines, which had not been revised since 1982, were revised in response to the EPA's concerns that the addition of controls for air emissions have changed the effluent discharged from coal- and natural gas-fueled generating facilities. While the EPA expected the final rule to be published in May 2014, the final rule is now scheduled for release by September 30, 2015. It is likely that the new guidelines will impose more stringent limits on wastewater discharges from coal-fueled generating facilities and associated ash and scrubber ponds. However, until the revised guidelines are finalized, MidAmerican Energy cannot predict the impact on its generating facilities.

In April 2014, the EPA and the United States Army Corps of Engineers issued a joint proposal to address "Waters of the United States" to clarify protection under the Clean Water Act for streams and wetlands. The proposed rule comes as a result of United States Supreme Court decisions in 2001 and 2006 that created confusion regarding jurisdictional waters that were subject to permitting under either nationwide or individual permitting requirements. As currently proposed, a variety of projects that otherwise would have qualified for streamlined permitting processes under nationwide or regional general permits will be required to undergo more lengthy and costly individual permit procedures based on an extension of waters that will be deemed jurisdictional. The public comment period closed November 14, 2014. Until the rule is finalized, MidAmerican Energy cannot determine whether projects that include construction and demolition will face more complex permitting issues, higher costs or increased requirements for compensatory mitigation.

## *Coal Combustion Byproduct Disposal*

In May 2010, the EPA released a proposed rule to regulate the management and disposal of coal combustion byproducts, presenting two alternatives to regulation under the RCRA. The public comment period closed in November 2010. The final rule was released by the EPA on December 19, 2014 and will be effective 180 days after it is published in the Federal Register. The final rule regulates coal combustion byproducts as non-hazardous waste under RCRA Subtitle D and establishes minimum nationwide standards for the disposal of coal combustion residuals. Under the final rule, surface impoundments and landfills utilized for coal combustion byproducts may need to be closed unless they can meet the more stringent regulatory requirements.

As defined by the final rule, MidAmerican Energy owns or operates seven surface impoundments and four landfills that contain coal combustion byproducts. MidAmerican Energy is assessing the requirements of the final rule to determine the costs of compliance.

## *Other*

Other laws, regulations and agencies to which MidAmerican Energy is subject include, but are not limited to:

- The federal Comprehensive Environmental Response, Compensation and Liability Act and similar state laws may require any current or former owners or operators of a disposal site, as well as transporters or generators of hazardous substances sent to such disposal site, to share in environmental remediation costs.
- The Nuclear Waste Policy Act of 1982, under which the United States Department of Energy is responsible for the selection and development of repositories for, and the permanent disposal of, spent nuclear fuel and high-level radioactive wastes. Refer to Note 12 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding nuclear decommissioning obligations.

MidAmerican Energy expects it will be allowed to recover the prudently incurred costs to comply with the environmental laws and regulations discussed above. MidAmerican Energy's planning efforts take into consideration the complexity of balancing factors such as: (a) pending environmental regulations and requirements to reduce emissions, address waste disposal, ensure water quality, and protect wildlife; (b) avoidance of excessive reliance on any one generation technology; (c) costs and trade-offs of various resource options including energy efficiency, demand response programs, and renewable generation; (d) state-specific energy policies, resource preferences, and economic development efforts; (e) additional transmission investment to reduce power costs and increase efficiency and reliability of the integrated transmission system; and (f) keeping rates affordable. Due to the number of generating units impacted by environmental regulations, deferring installation of compliance-related projects is often not feasible or cost effective and places MidAmerican Energy at risk of not having access to necessary capital, material, and labor while attempting to perform major equipment installations in a compressed timeframe concurrent with other utilities across the country. Therefore, MidAmerican Energy has established installation schedules with permitting agencies that coordinate compliance timeframes with construction and tie-in of major environmental compliance projects as units are scheduled off-line for planned maintenance outages; these coordinated efforts help reduce costs associated with replacement power and maintain system reliability.

## **Collateral and Contingent Features**

Debt securities of MidAmerican Energy are rated by credit rating agencies. Assigned credit ratings are based on each rating agency's assessment of MidAmerican Energy's ability to, in general, meet the obligations of its issued debt securities. The credit ratings are not a recommendation to buy, sell or hold securities, and there is no assurance that a particular credit rating will continue for any given period of time. As of December 31, 2014, MidAmerican Energy's credit ratings for its senior secured debt and its issuer credit ratings for senior unsecured debt from the three recognized credit rating agencies were investment grade. As a result of the issuance of first mortgage bonds by MidAmerican Energy in September 2013, its then outstanding senior unsecured debt was equally and ratably secured with such first mortgage bonds. Refer to Note 8 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K for a discussion of MidAmerican Energy's first mortgage bonds.

MidAmerican Funding and MidAmerican Energy have no credit rating downgrade triggers that would accelerate the maturity dates of its outstanding debt, and a change in ratings is not an event of default under the applicable debt instruments. MidAmerican Energy's unsecured revolving credit facilities do not require the maintenance of a minimum credit rating level in order to draw upon their availability. However, commitment fees and interest rates under the credit facilities are tied to credit ratings and increase or decrease when the ratings change. A ratings downgrade could also increase the future cost of commercial paper, short- and long-term debt issuances or new credit facilities.

In accordance with industry practice, certain wholesale agreements, including derivative contracts, contain credit support provisions that in part base MidAmerican Energy's collateral requirements on its credit ratings for senior unsecured debt as reported by one or more of the three recognized credit rating agencies. These agreements may either specifically provide bilateral rights to demand cash or other security if credit exposures on a net basis exceed specified rating-dependent threshold levels ("credit-risk-related contingent features") or provide the right for counterparties to demand "adequate assurance," or in some cases terminate the contract, in the event of a material adverse change in MidAmerican Energy's creditworthiness. These rights can vary by contract and by counterparty. If all credit-risk-related contingent features or adequate assurance provisions for these agreements had been triggered as of December 31, 2014, MidAmerican Energy would have been required to post \$234 million of additional collateral. MidAmerican Energy's collateral requirements could fluctuate considerably due to market price volatility, changes in credit ratings, changes in legislation or regulation, or other factors. Refer to Note 13 of Notes to Financial Statements in Item 8 of this Form 10-K for a discussion of MidAmerican Energy's collateral requirements specific to its derivative contracts.



In July 2010, the President signed into law the Dodd-Frank Reform Act. The Dodd-Frank Reform Act reshapes financial regulation in the United States by creating new regulators, regulating markets and firms not previously regulated, and providing new enforcement powers to regulators. Virtually all major areas of the Dodd-Frank Reform Act are and have been subject to extensive rulemaking proceedings being conducted both jointly and independently by multiple regulatory agencies, many of which have been completed and others that have not yet been finalized.

MidAmerican Energy is a party to derivative contracts, including over-the-counter derivative contracts. The Dodd-Frank Reform Act provides for extensive new regulation of over-the-counter derivative contracts and certain market participants, including imposition of position limits, mandatory clearing, exchange trading, capital, margin, reporting, recordkeeping and business conduct requirements. Many of these requirements are primarily for "swap dealers" and "major swap participants," but many of these also impose some requirements on almost all market participants, including MidAmerican Energy. The Dodd-Frank Reform Act provides certain exemptions from many of these requirements for commercial end-users when using derivatives to hedge or mitigate commercial risk of their businesses. MidAmerican Energy qualifies or believes it will qualify for many of these exemptions. MidAmerican Energy generally does not enter into over-the-counter derivative contracts for purposes unrelated to hedging or mitigating commercial risk and has determined that it is not a swap dealer or major swap participant. The outcome of pending and remaining Dodd-Frank Reform Act rulemaking proceedings cannot be predicted, but requirements resulting from these proceedings could directly impact MidAmerican Energy or could have impacts to energy and other markets in general that could have an impact on MidAmerican Energy's financial results.

### **Inflation**

Historically, overall inflation and changing prices in the economies where MidAmerican Energy operates have not had a significant impact on its financial results. MidAmerican Energy operates under cost-of-service based rate structures administered by various state commissions and the FERC. Under these rate structures, MidAmerican Energy is allowed to include prudent costs in its rates, including the impact of inflation. MidAmerican Energy attempts to minimize the potential impact of inflation on its operations through the use of fuel, energy and other cost adjustment clauses and bill riders, by employing prudent risk management and hedging strategies and by considering, among other areas, inflation's impact on purchases of energy, operating expenses, materials and equipment costs, contract negotiations, future capital spending programs, and long-term debt issuances. There can be no assurance that such actions will be successful.

### **New Accounting Pronouncements**

For a discussion of new accounting pronouncements affecting MidAmerican Energy and MidAmerican Funding, refer to Note 2 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

### **Critical Accounting Estimates**

Certain accounting measurements require management to make estimates and judgments concerning transactions that will be settled several years in the future. Amounts recognized on the Financial Statements based on such estimates involve numerous assumptions subject to varying and potentially significant degrees of judgment and uncertainty and will likely change in the future as additional information becomes available. The following critical accounting estimates are impacted significantly by MidAmerican Energy's methods, judgments and assumptions used in the preparation of the Financial Statements and should be read in conjunction with MidAmerican Energy's Summary of Significant Accounting Policies included in Note 2 of Notes to Financial Statements in Item 8 of this Form 10-K.

#### *Accounting for the Effects of Certain Types of Regulation*

MidAmerican Energy prepares its financial statements in accordance with authoritative guidance for regulated operations, which recognizes the economic effects of regulation. Accordingly, MidAmerican Energy defers the recognition of certain costs or income if it is probable that, through the ratemaking process, there will be a corresponding increase or decrease in future regulated rates. Regulatory assets and liabilities are established to reflect the impacts of these deferrals, which will be recognized in earnings in the periods the corresponding changes in regulated rates occur.

MidAmerican Energy continually evaluates the applicability of the guidance for regulated operations and whether its regulatory assets and liabilities are probable of inclusion in future regulated rates by considering factors such as a change in the regulator's approach to setting rates from cost-based ratemaking to another form of regulation, other regulatory actions or the impact of competition, that could limit MidAmerican Energy's ability to recover its costs. MidAmerican Energy believes the application of the guidance for regulated operations is appropriate, and its existing regulatory assets and liabilities are probable of inclusion in future regulated rates. The evaluation reflects the current political and regulatory climate at both the federal and state levels. If it becomes no longer probable that the deferred costs or income will be included in future regulated rates, the related regulatory assets and liabilities will be written off to net income, returned to customers or re-established as accumulated other comprehensive income (loss). Total regulatory assets were \$908 million and total regulatory liabilities were \$837 million as of December 31, 2014. Refer to Note 4 of Notes to Financial Statements in Item 8 of this Form 10-K for additional information regarding regulatory assets and liabilities.

#### *Impairment of Goodwill*

MidAmerican Funding's Consolidated Balance Sheet as of December 31, 2014, includes goodwill from the acquisition of MHC totaling \$1.3 billion. Goodwill is allocated to each reporting unit. MidAmerican Funding evaluates goodwill for impairment at least annually and completed its annual review as of October 31. Additionally, no indicators of impairment were identified as of December 31, 2014. Significant judgment is required in estimating the fair value of the reporting unit and performing goodwill impairment tests. MidAmerican Funding uses a variety of methods to estimate a reporting unit's fair value, principally discounted projected future net cash flows. Key assumptions used include, but are not limited to, the use of estimated future cash flows; multiples of earnings; and an appropriate discount rate. Estimated future cash flows are impacted by, among other factors, growth rates, changes in regulations and rates, ability to renew contracts and estimates of future commodity prices. In estimating future cash flows, MidAmerican Funding incorporates current market information, as well as historical factors.

#### *Pension and Other Postretirement Benefits*

MidAmerican Energy sponsors defined benefit pension and other postretirement benefit plans that cover the majority of the employees of BHE and its domestic energy subsidiaries other than PacifiCorp and NV Energy Inc. MidAmerican Energy recognizes the funded status of its defined benefit pension and other postretirement benefit plans on the Balance Sheets. Funded status is the fair value of plan assets minus the benefit obligation as of the measurement date. As of December 31, 2014, MidAmerican Energy recognized a net liability totaling \$100 million for the funded status of its defined benefit pension and other postretirement benefit plans. As of December 31, 2014, amounts not yet recognized as a component of net periodic benefit cost that were included in regulatory assets and regulatory liabilities totaled \$42 million and \$5 million, respectively.

The expense and benefit obligations relating to these defined benefit pension and other postretirement benefit plans are based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, expected long-term rate of return on plan assets and healthcare cost trend rates. These key assumptions are reviewed annually and modified as appropriate. MidAmerican Energy believes that the assumptions utilized in recording obligations under the plans are reasonable based on prior plan experience and current market and economic conditions. Refer to Note 11 of Notes to Financial Statements in Item 8 of this Form 10-K for disclosures about MidAmerican Energy's defined benefit pension and other postretirement benefit plans, including the key assumptions used to calculate the funded status and net periodic benefit cost for these plans as of and for the year ended December 31, 2014.

MidAmerican Energy chooses a discount rate based upon high quality debt security investment yields in effect as of the measurement date that corresponds to the expected benefit period. The pension and other postretirement benefit liabilities increase as the discount rate is reduced.

In establishing its assumption as to the expected long-term rate of return on plan assets, MidAmerican Energy utilizes the expected asset allocation and return assumptions for each asset class based on historical performance and forward-looking views of the financial markets. Pension and other postretirement benefits expense increases as the expected long-term rate of return on plan assets decreases. MidAmerican Energy regularly reviews its actual asset allocations and rebalances its investments to its targeted allocations when considered appropriate.

MidAmerican Energy chooses a healthcare cost trend rate that reflects the near and long-term expectations of increases in medical costs and corresponds to the expected benefit payment periods. The healthcare cost trend rate is assumed to gradually decline to 5% by 2019 at which point the rate of increase is assumed to remain constant. Refer to Note 11 of Notes to Financial Statements in Item 8 of this Form 10-K for healthcare cost trend rate sensitivity disclosures.

The key assumptions used may differ materially from period to period due to changing market and economic conditions. These differences may result in a significant impact to pension and other postretirement benefits expense and the funded status. If changes were to occur for the following key assumptions, the approximate effect on the Financial Statements of the total plan before allocations to affiliates would be as follows (in millions):

	Pension Plans		Other Postretirement Benefit Plans	
	+0.5%	-0.5%	+0.5%	-0.5%
<b>Effect on December 31, 2014 Benefit Obligations:</b>				
Discount rate	\$ (39)	\$ 43	\$ (11)	\$ 11
<b>Effect on 2014 Periodic Cost:</b>				
Discount rate	1	(1)	—	1
Expected rate of return on plan assets	(3)	3	(1)	1

A variety of factors affect the funded status of the plans, including asset returns, discount rates, plan changes and MidAmerican Energy's funding policy for each plan.

#### *Income Taxes*

In determining MidAmerican Funding's and MidAmerican Energy's income taxes, management is required to interpret complex income tax laws and regulations, which includes consideration of regulatory implications imposed by MidAmerican Energy's various regulatory jurisdictions. MidAmerican Funding's and MidAmerican Energy's income tax returns are subject to continuous examinations by federal, state and local tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. MidAmerican Funding and MidAmerican Energy recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Consolidated Financial Statements from such a position are measured based on the largest benefit that is more-likely-than-not to be realized upon ultimate settlement. Although the ultimate resolution of their federal, state and local tax examinations is uncertain, each company believes it has made adequate provisions for its income tax positions. The aggregate amount of any additional income tax liabilities that may result from these examinations, if any, is not expected to have a material impact on its consolidated financial results. Refer to Note 10 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding income taxes.

MidAmerican Energy is required to pass income tax benefits related to certain property-related basis differences and other various differences on to its customers in Iowa. These amounts were recognized as a net regulatory asset totaling \$730 million as of December 31, 2014, and will be included in regulated rates when the temporary differences reverse.

#### *Revenue Recognition - Unbilled Revenue*

Revenue from electric and natural gas customers is recognized as electricity or natural gas is delivered or services are provided. The determination of customer billings is based on a systematic reading of meters and rates. At the end of each month, energy provided to customers since the date of the last meter reading is estimated, and the corresponding unbilled revenue is recorded. Unbilled revenue was \$131 million as of December 31, 2014. Factors that can impact the estimate of unbilled energy include, but are not limited to, seasonal weather patterns, total volumes supplied to the system, line losses, economic impacts and composition of sales among customer classes. Estimates are reversed in the following month and actual revenue is recorded based on subsequent meter readings.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

MidAmerican Energy's Balance Sheets include assets and liabilities with fair values that are subject to market risks. MidAmerican Energy's significant market risks are primarily associated with commodity prices, interest rates and the extension of credit to counterparties with which it transacts. The following discussion addresses the significant market risks associated with MidAmerican Energy's business activities. MidAmerican Energy has established guidelines for credit risk management. Refer to Notes 2 and 13 of Notes to Financial Statements in Item 8 of this Form 10-K for additional information regarding MidAmerican Energy's contracts accounted for as derivatives.

### Commodity Price Risk

MidAmerican Energy is principally exposed to electricity, natural gas, coal and fuel oil commodity price risk as it has an obligation to serve retail customer load in its regulated service territory. MidAmerican Energy also provides nonregulated retail electricity and natural gas services in competitive markets. MidAmerican Energy's load and generating facilities represent substantial underlying commodity positions. Exposures to commodity prices consist mainly of variations in the price of fuel required to generate electricity, wholesale electricity that is purchased and sold, and natural gas supply for regulated and nonregulated retail customers. Commodity prices are subject to wide price swings as supply and demand are impacted by, among many other unpredictable items, weather, market liquidity, generating facility availability, customer usage, storage, and transmission and transportation constraints. MidAmerican Energy does not engage in a material amount of proprietary trading activities. To mitigate a portion of its commodity price risk, MidAmerican Energy uses commodity derivative contracts, which may include forwards, futures, options, swaps and other agreements, to effectively secure future supply or sell future production generally at fixed prices. MidAmerican Energy does not hedge all of its commodity price risk, thereby exposing the unhedged portion to changes in market prices. MidAmerican Energy's exposure to commodity price risk is generally limited by its ability to include the costs in regulated rates, which is subject to regulatory lag that occurs between the time the costs are incurred and when the costs are included in regulated rates, as well as the impact of any customer sharing resulting from cost adjustment mechanisms.

The table that follows summarizes MidAmerican Energy's price risk on commodity contracts accounted for as derivatives, excluding collateral netting of \$47 million and \$- million, as of December 31, 2014 and 2013, respectively, and shows the effects of a hypothetical 10% increase and 10% decrease in forward market prices with the contracted or expected volumes. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios (dollars in millions):

	Fair Value - Net Asset (Liability)	Estimated Fair Value after Hypothetical Change in Price	
		10% increase	10% decrease
<b><u>As of December 31, 2014:</u></b>			
Not designated as hedging contracts	\$ (36)	\$ (31)	\$ (41)
Designated as hedging contracts	(38)	7	(83)
Total commodity derivative contracts	<u>\$ (74)</u>	<u>\$ (24)</u>	<u>\$ (124)</u>
<b><u>As of December 31, 2013:</u></b>			
Not designated as hedging contracts	\$ (17)	\$ (27)	\$ (7)
Designated as hedging contracts	(10)	27	(47)
Total commodity derivative contracts	<u>\$ (27)</u>	<u>\$ —</u>	<u>\$ (54)</u>

The majority of MidAmerican Energy's commodity derivative contracts not designated as hedging contracts are recoverable from customers in regulated rates and, therefore, net unrealized gains and losses associated with interim price movements on commodity derivative contracts do not expose MidAmerican Energy to earnings volatility. As of December 31, 2014 and 2013, a net regulatory asset of \$38 million and \$10 million, respectively, was recorded related to the net derivative liability of \$36 million and \$17 million, respectively. For MidAmerican Energy's commodity derivative contracts designated as hedging contracts, net unrealized gains and losses associated with interim price movements on commodity derivative contracts, to the extent the hedge is considered effective, generally do not expose MidAmerican Energy to earnings volatility. The settled cost of these commodity derivative contracts is generally included in regulated rates. Financial results would be negatively impacted if the costs of wholesale electricity, natural gas or fuel are higher than what is included in regulated rates, including the impacts of adjustment mechanisms.

## Interest Rate Risk

MidAmerican Energy and MidAmerican Funding are exposed to interest rate risk on their outstanding variable-rate short- and long-term debt and future debt issuances. MidAmerican Energy and MidAmerican Funding manage interest rate risk by limiting their exposure to variable interest rates primarily through the issuance of fixed-rate long-term debt and by monitoring market changes in interest rates. As a result of the fixed interest rates, the fixed-rate long-term debt does not expose MidAmerican Energy or MidAmerican Funding to the risk of loss due to changes in market interest rates. Additionally, because fixed-rate long-term debt is not carried at fair value on the Consolidated Balance Sheets, changes in fair value would impact earnings and cash flows only if MidAmerican Energy or MidAmerican Funding were to reacquire all or a portion of these instruments prior to their maturity. MidAmerican Energy or MidAmerican Funding may from time to time enter into interest rate derivative contracts, such as interest rate swaps or locks, to mitigate their exposure to interest rate risk. The nature and amount of their short- and long-term debt can be expected to vary from period to period as a result of future business requirements, market conditions and other factors. Refer to Notes 8, 9 and 14 of Notes to Consolidated Financial Statements in Item 1 of this Form 10-K for additional discussion of MidAmerican Energy's and MidAmerican Funding's short- and long-term debt.

As of December 31, 2014 and 2013, MidAmerican Energy had short- and long-term variable-rate obligations totaling \$245 million and \$195 million, respectively, that expose MidAmerican Energy to the risk of increased interest expense in the event of increases in short-term interest rates. The market risk related to MidAmerican Energy's variable-rate debt as of December 31, 2014, is not hedged. If variable interest rates were to increase by 10% from December 31 levels, it would not have a material effect on MidAmerican Energy's annual interest expense. The carrying value of the variable-rate obligations approximates fair value as of December 31, 2014 and 2013.

## Credit Risk

MidAmerican Energy is exposed to counterparty credit risk associated with wholesale energy supply and marketing activities with other utilities, energy marketing companies, financial institutions and other market participants. Additionally, MidAmerican Energy participates in the regional transmission organization ("RTO") markets and has indirect credit exposure related to other participants, although RTO credit policies are designed to limit exposure to credit losses from individual participants. Credit risk may be concentrated to the extent MidAmerican Energy's counterparties have similar economic, industry or other characteristics and due to direct or indirect relationships among the counterparties. Before entering into a transaction, MidAmerican Energy analyzes the financial condition of each significant wholesale counterparty, establishes limits on the amount of unsecured credit to be extended to each counterparty, and evaluates the appropriateness of unsecured credit limits on an ongoing basis. To further mitigate wholesale counterparty credit risk, MidAmerican Energy enters into netting and collateral arrangements that may include margining and cross-product netting agreements and obtains third-party guarantees, letters of credit and cash deposits. If required, MidAmerican Energy exercises rights under these arrangements, including calling on the counterparty's credit support arrangement.

Substantially all of MidAmerican Energy's electric wholesale sales revenue results from participation in RTOs, including the MISO and the PJM. MidAmerican Energy's share of historical losses from defaults by other RTO market participants has not been material. As of December 31, 2014, MidAmerican Energy's aggregate direct credit exposure from electric wholesale marketing counterparties was not material.

**Item 8. Financial Statements and Supplementary Data**

MidAmerican Energy Company

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of  
MidAmerican Energy Company  
Des Moines, Iowa

We have audited the accompanying balance sheets and statements of capitalization of MidAmerican Energy Company (the "Company") as of December 31, 2014 and 2013, and the related statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the Company's financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MidAmerican Energy Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Des Moines, Iowa  
February 27, 2015

**MIDAMERICAN ENERGY COMPANY**  
**BALANCE SHEETS**  
(Amounts in millions)

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Utility plant, net:		
Electric	\$ 13,426	\$ 11,936
Gas	1,432	1,365
Gross utility plant in service	14,858	13,301
Accumulated depreciation and amortization	(4,954)	(4,710)
Utility plant in service, net	9,904	8,591
Construction work in progress	606	737
Total utility plant, net	10,510	9,328
Current assets:		
Cash and cash equivalents	29	194
Receivables, net	433	454
Income taxes receivable	307	50
Inventories	185	229
Other	87	64
Total current assets	1,041	991
Other assets:		
Regulatory assets	908	748
Investments and nonregulated property, net	634	598
Other	164	204
Total other assets	1,706	1,550
<b>Total assets</b>	<b>\$ 13,257</b>	<b>\$ 11,869</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization:		
MidAmerican Energy common shareholder's equity	\$ 4,250	\$ 3,845
Long-term debt, excluding current portion	3,630	3,202
Total capitalization	7,880	7,047
Current liabilities:		
Short-term debt	50	—
Current portion of long-term debt	426	350
Accounts payable	392	368
Taxes accrued	128	118
Interest accrued	40	37
Other	131	97
Total current liabilities	1,167	970
Other liabilities:		
Deferred income taxes	2,663	2,294
Asset retirement obligations	432	430
Regulatory liabilities	837	875
Other	278	253
Total other liabilities	4,210	3,852
<b>Total capitalization and liabilities</b>	<b>\$ 13,257</b>	<b>\$ 11,869</b>

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



**MIDAMERICAN ENERGY COMPANY**  
**STATEMENTS OF OPERATIONS**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating revenue:</b>			
Regulated electric	\$ 1,817	\$ 1,762	\$ 1,694
Regulated gas	996	824	659
Nonregulated	927	817	889
Total operating revenue	3,740	3,403	3,242
<b>Operating costs and expenses:</b>			
Regulated:			
Cost of fuel, energy and capacity	532	517	458
Cost of gas sold	720	558	424
Other operating expenses	477	435	427
Maintenance	222	224	220
Depreciation and amortization	351	403	392
Property and other taxes	123	119	115
Total regulated operating costs and expenses	2,425	2,256	2,036
Nonregulated:			
Cost of sales	863	764	807
Other	30	27	29
Total nonregulated operating costs and expenses	893	791	836
Total operating costs and expenses	3,318	3,047	2,872
<b>Operating income</b>	<b>422</b>	<b>356</b>	<b>370</b>
<b>Non-operating income:</b>			
Interest income	1	1	1
Allowance for equity funds	39	19	14
Other, net	9	15	9
Total non-operating income	49	35	24
<b>Fixed charges:</b>			
Interest on long-term debt	173	150	142
Other interest expense	1	1	1
Allowance for borrowed funds	(16)	(7)	(5)
Total fixed charges	158	144	138
<b>Income before income tax benefit</b>	<b>313</b>	<b>247</b>	<b>256</b>
Income tax benefit	(104)	(103)	(99)
<b>Net income</b>	<b>417</b>	<b>350</b>	<b>355</b>
Preferred dividends	—	1	1
<b>Earnings on common stock</b>	<b>\$ 417</b>	<b>\$ 349</b>	<b>\$ 354</b>

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

**MIDAMERICAN ENERGY COMPANY**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 417	\$ 350	\$ 355
Other comprehensive (loss) income, net of tax:			
Unrealized gains on available-for-sale securities, net of tax of \$1, \$1 and \$2	1	1	3
Unrealized (losses) gains on cash flow hedges, net of tax of \$(10), \$9 and \$4	(13)	12	7
Total other comprehensive (loss) income, net of tax	(12)	13	10
Comprehensive income	\$ 405	\$ 363	\$ 365

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

**MIDAMERICAN ENERGY COMPANY**  
**STATEMENTS OF CHANGES IN EQUITY**  
(Amounts in millions)

	<b>MidAmerican Energy Shareholders' Equity</b>					
	<b>Accumulated</b>					
	<b>Common</b>	<b>Retained</b>	<b>Other</b>	<b>Preferred</b>	<b>Noncontrolling</b>	<b>Total</b>
	<b>Stock</b>	<b>Earnings</b>	<b>Comprehensive</b>	<b>Securities</b>	<b>Interests</b>	<b>Equity</b>
			<b>Loss, Net</b>			
<b>Balance, December 31, 2011</b>	\$ 562	\$ 2,716	\$ (34)	\$ 27	\$ 1	\$ 3,272
Net income	—	355	—	—	—	355
Other comprehensive income	—	—	10	—	—	10
Disposition of subsidiary	—	—	—	—	(1)	(1)
Preferred dividends	—	(1)	—	—	—	(1)
<b>Balance, December 31, 2012</b>	562	3,070	(24)	27	—	3,635
Net income	—	350	—	—	—	350
Other comprehensive income	—	—	13	—	—	13
Common dividends	—	(125)	—	—	—	(125)
Redemption of preferred securities	(1)	—	—	(27)	—	(28)
<b>Balance, December 31, 2013</b>	561	3,295	(11)	—	—	3,845
Net income	—	417	—	—	—	417
Other comprehensive loss	—	—	(12)	—	—	(12)
<b>Balance, December 31, 2014</b>	<u>\$ 561</u>	<u>\$ 3,712</u>	<u>\$ (23)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,250</u>

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

**MIDAMERICAN ENERGY COMPANY**  
**STATEMENTS OF CASH FLOWS**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>			
Net income	\$ 417	\$ 350	\$ 355
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	351	403	392
Deferred income taxes and amortization of investment tax credits	300	103	178
Changes in other assets and liabilities	47	57	49
Other, net	(57)	(27)	(21)
Changes in other operating assets and liabilities:			
Receivables, net	(3)	(58)	(14)
Inventories	44	13	(40)
Derivative collateral, net	(53)	5	4
Contributions to pension and other postretirement benefit plans, net	(2)	8	(53)
Accounts payable	30	23	12
Taxes accrued, net	(252)	(164)	420
Other current assets and liabilities	1	22	(6)
Net cash flows from operating activities	<u>823</u>	<u>735</u>	<u>1,276</u>
<b>Cash flows from investing activities:</b>			
Utility construction expenditures	(1,526)	(1,026)	(645)
Purchases of available-for-sale securities	(88)	(114)	(64)
Proceeds from sales of available-for-sale securities	80	102	45
Proceeds from sales of other investments	8	15	7
Other, net	5	11	18
Net cash flows from investing activities	<u>(1,521)</u>	<u>(1,012)</u>	<u>(639)</u>
<b>Cash flows from financing activities:</b>			
Dividends	—	(125)	(1)
Proceeds from long-term debt	847	947	—
Repayments of long-term debt	(356)	(670)	(283)
Redemption of preferred securities	—	(28)	—
Net proceeds from short-term debt	50	—	—
Other, net	(8)	(7)	—
Net cash flows from financing activities	<u>533</u>	<u>117</u>	<u>(284)</u>
<b>Net change in cash and cash equivalents</b>	<b>(165)</b>	<b>(160)</b>	<b>353</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>194</b>	<b>354</b>	<b>1</b>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 29</u></b>	<b><u>\$ 194</u></b>	<b><u>\$ 354</u></b>

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

**MIDAMERICAN ENERGY COMPANY**  
**STATEMENTS OF CAPITALIZATION**  
(Amounts in millions, except share amounts)

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>MidAmerican Energy common shareholder's equity:</b>		
Common shares, no par; 350,000,000 authorized; 70,980,203 outstanding	\$ 561	\$ 561
Retained earnings	3,712	3,295
Accumulated other comprehensive loss, net:		
Unrealized losses on available-for-sale securities, net of tax of \$(2) and \$(3)	(3)	(4)
Unrealized losses on cash flow hedges, net of tax of \$(14) and \$(4)	(20)	(7)
MidAmerican Energy common shareholder's equity	<u>4,250</u>	<u>3,845</u>
<b>Long-term debt, excluding current portion:</b>		
First mortgage bonds:		
2.40%, due 2019	500	350
3.70%, due 2023	250	250
3.50%, due 2024	300	—
4.80%, due 2043	350	350
4.40%, due 2044	400	—
Notes:		
5.95% Series, due 2017	250	250
5.3% Series, due 2018	350	350
6.75% Series, due 2031	400	400
5.75% Series, due 2035	300	300
5.8% Series, due 2036	350	350
Turbine purchase obligation, 1.43%, due 2015	—	426
Variable-rate tax-exempt bond obligation series (2014- 0.07%, 2013- 0.08%):		
Due 2016	34	34
Due 2017	4	4
Due 2023, issued in 1993	7	7
Due 2023, issued in 2008	57	57
Due 2024	35	35
Due 2025	13	13
Due 2038	45	45
Obligations under capital leases	—	—
Unamortized debt discount	(15)	(19)
Total long-term debt, excluding current portion	<u>3,630</u>	<u>3,202</u>
<b>Total capitalization</b>	<u><u>\$ 7,880</u></u>	<u><u>\$ 7,047</u></u>

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

## **MIDAMERICAN ENERGY COMPANY NOTES TO FINANCIAL STATEMENTS**

### **(1) Company Organization**

MidAmerican Energy Company ("MidAmerican Energy") is a public utility with electric and natural gas operations and is the principal subsidiary of MHC Inc. ("MHC"). MHC is a holding company that conducts no business other than the ownership of its subsidiaries and related corporate services. MHC's nonregulated subsidiaries include Midwest Capital Group, Inc. and MEC Construction Services Co. MHC is the direct wholly owned subsidiary of MidAmerican Funding, LLC, ("MidAmerican Funding"), which is an Iowa limited liability company with Berkshire Hathaway Energy Company ("BHE") as its sole member. BHE is a consolidated subsidiary of Berkshire Hathaway Inc. ("Berkshire Hathaway").

### **(2) Summary of Significant Accounting Policies**

#### *Use of Estimates in Preparation of Financial Statements*

The preparation of the Financial Statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates include, but are not limited to, the effects of regulation; certain assumptions made in accounting for pension and other postretirement benefits; asset retirement obligations ("AROs"); income taxes; unbilled revenue; valuation of certain financial assets and liabilities, including derivative contracts; and accounting for contingencies. Actual results may differ from the estimates used in preparing the Financial Statements.

#### *Accounting for the Effects of Certain Types of Regulation*

MidAmerican Energy's utility operations are subject to the regulation of the Iowa Utilities Board ("IUB"), the Illinois Commerce Commission ("ICC"), the South Dakota Public Utilities Commission, and the Federal Energy Regulatory Commission ("FERC"). MidAmerican Energy's accounting policies and the accompanying Financial Statements conform to GAAP applicable to rate-regulated enterprises and reflect the effects of the ratemaking process.

MidAmerican Energy prepares its financial statements in accordance with authoritative guidance for regulated operations, which recognizes the economic effects of regulation. Accordingly, MidAmerican Energy defers the recognition of certain costs or income if it is probable that, through the ratemaking process, there will be a corresponding increase or decrease in future regulated rates. Regulatory assets and liabilities are established to reflect the impacts of these deferrals, which will be recognized in earnings in the periods the corresponding changes in regulated rates occur.

MidAmerican Energy continually evaluates the applicability of the guidance for regulated operations and whether its regulatory assets and liabilities are probable of inclusion in future regulated rates by considering factors such as a change in the regulator's approach to setting rates from cost-based ratemaking to another form of regulation, other regulatory actions or the impact of competition, that could limit MidAmerican Energy's ability to recover its costs. MidAmerican Energy believes the application of the guidance for regulated operations is appropriate, and its existing regulatory assets and liabilities are probable of inclusion in future regulated rates. The evaluation reflects the current political and regulatory climate at both the federal and state levels. If it becomes no longer probable that the deferred costs or income will be included in future regulated rates, the related regulatory assets and liabilities will be written off to net income, returned to customers or re-established as accumulated other comprehensive income (loss) ("AOCI").

#### *Fair Value Measurements*

As defined under GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. Different valuation techniques may be appropriate under the circumstances to determine the value that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not under duress. Nonperformance or credit risk is considered in determining fair value. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

### *Cash Equivalents and Restricted Cash and Investments*

Cash equivalents consist of funds invested in money market mutual funds, United States Treasury Bills and other investments with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by legal requirements, loan agreements or other contractual provisions. Restricted amounts are included in other current assets and investments and nonregulated property, net on the Balance Sheets.

### *Investments*

MidAmerican Energy's management determines the appropriate classification of investments in debt and equity securities at the acquisition date and reevaluates the classification at each balance sheet date. Investments that management does not intend to use or is restricted from using in current operations are presented as noncurrent on the Balance Sheets.

Available-for-sale securities are carried at fair value with realized gains and losses, as determined on a specific identification basis, recognized in earnings and unrealized gains and losses recognized in AOCI, net of tax. Realized and unrealized gains and losses on securities in a trust related to the decommissioning of the Quad Cities Generating Station Units 1 and 2 ("Quad Cities Station") are recorded as a net regulatory liability because MidAmerican Energy expects to recover costs for these activities through regulated rates. Held-to-maturity securities are carried at amortized cost, reflecting the ability and intent to hold the securities to maturity.

Investments gains and losses arise when investments are sold (as determined on a specific identification basis) or are other-than-temporarily impaired. If a decline in value of an investment below cost is deemed other than temporary, the cost of the investment is written down to fair value, with a corresponding charge to earnings. Factors considered in judging whether an impairment is other than temporary include: the financial condition, business prospects and creditworthiness of the issuer; the relative amount of the decline; MidAmerican Energy's ability and intent to hold the investment until the fair value recovers; and the length of time that fair value has been less than cost. Impairment losses on equity securities are charged to earnings. With respect to an investment in a debt security, any resulting impairment loss is recognized in earnings if MidAmerican Energy intends to sell, or expects to be required to sell, the debt security before its amortized cost is recovered. If MidAmerican Energy does not expect to ultimately recover the amortized cost basis even if it does not intend to sell the security, the credit loss component is recognized in earnings and any difference between fair value and the amortized cost basis, net of the credit loss, is reflected in other comprehensive income (loss) ("OCI"). For regulated investments, any impairment charge is offset by the establishment of a regulatory asset to the extent recovery in regulated rates is probable.

### *Allowance for Doubtful Accounts*

Receivables are stated at the outstanding principal amount, net of an estimated allowance for doubtful accounts. The allowance for doubtful accounts is based on MidAmerican Energy's assessment of the collectibility of amounts owed to it by its customers. This assessment requires judgment regarding the ability of customers to pay or the outcome of any pending disputes. As of December 31, 2014 and 2013, the allowance for doubtful accounts totaled \$7 million and \$10 million, respectively, and is included in receivables, net on the Balance Sheets.

### *Derivatives*

MidAmerican Energy employs a number of different derivative contracts, including forwards, futures, options, swaps and other agreements, to manage price risk for electricity, natural gas and other commodities, and interest rate risk. Derivative contracts are recorded on the Balance Sheets as either assets or liabilities and are stated at estimated fair value unless they are designated as normal purchases or normal sales and qualify for the exception afforded by GAAP. Derivative balances reflect offsetting permitted under master netting agreements with counterparties and cash collateral paid or received under such agreements. Cash collateral received from or paid to counterparties to secure derivative contract assets or liabilities in excess of amounts offset is included in other current assets on the Balance Sheets.

Commodity derivatives used in normal business operations that are settled by physical delivery, among other criteria, are eligible for and may be designated as normal purchases or normal sales. Normal purchases or normal sales contracts are not marked to market, and settled amounts are recognized as operating revenue or cost of sales on the Statements of Operations.

For MidAmerican Energy's derivatives not designated as hedging contracts, the settled amount is generally included in regulated rates. Accordingly, the net unrealized gains and losses associated with interim price movements on contracts that are accounted for as derivatives and probable of inclusion in regulated rates are recorded as regulatory assets and liabilities. For MidAmerican Energy's derivatives not designated as hedging contracts and for which changes in fair value are not recorded as regulatory assets and liabilities, unrealized gains and losses are recognized on the Statements of Operations as nonregulated operating revenue for sales contracts and as nonregulated cost of sales for purchase contracts and electricity and natural gas swap contracts.

For MidAmerican Energy's derivatives designated as hedging contracts, MidAmerican Energy formally assesses, at inception and thereafter, whether the hedging contract is highly effective in offsetting changes in the hedged item. MidAmerican Energy formally documents hedging activity by transaction type and risk management strategy.

Changes in the estimated fair value of a derivative contract designated and qualified as a cash flow hedge, to the extent effective, are included on the Statements of Changes in Equity as AOCI, net of tax, until the contract settles and the hedged item is recognized in earnings. MidAmerican Energy discontinues hedge accounting prospectively when it has determined that a derivative contract no longer qualifies as an effective hedge, or when it is no longer probable that the hedged forecasted transaction will occur. When hedge accounting is discontinued because the derivative contract no longer qualifies as an effective hedge, future changes in the estimated fair value of the derivative contract are charged to earnings. Gains and losses related to discontinued hedges that were previously recorded in AOCI will remain in AOCI until the contract settles and the hedged item is recognized in earnings, unless it becomes probable that the hedged forecasted transaction will not occur, at which time associated deferred amounts in AOCI are immediately recognized in earnings.

### *Inventories*

Inventories consist mainly of materials and supplies, totaling \$101 million and \$95 million as of December 31, 2014 and 2013, respectively, coal stocks, totaling \$54 million and \$109 million as of December 31, 2014 and 2013, respectively, and natural gas in storage, totaling \$24 million and \$19 million as of December 31, 2014 and 2013, respectively. The cost of materials and supplies, coal stocks and fuel oil is determined using the average cost method. The cost of stored natural gas is determined using the last-in-first-out method. With respect to stored natural gas, the replacement cost would be \$41 million and \$36 million higher as of December 31, 2014 and 2013, respectively.

### *Utility Plant, Net*

#### *General*

Additions to utility plant are recorded at cost. MidAmerican Energy capitalizes all construction-related material, direct labor and contract services, as well as indirect construction costs. Indirect construction costs include debt allowance for funds used during construction ("AFUDC") and equity AFUDC. The cost of additions and betterments are capitalized, while costs incurred that do not improve or extend the useful lives of the related assets are generally expensed. Additionally, MidAmerican Energy has regulatory arrangements in Iowa in which the carrying cost of certain utility plant has been reduced for amounts associated with electric returns on equity exceeding specified thresholds.

Depreciation and amortization for MidAmerican Energy's utility operations are computed by applying the composite or straight-line method based on either estimated useful lives or mandated recovery periods as prescribed by its various regulatory authorities. Depreciation studies are completed by MidAmerican Energy to determine the appropriate group lives, net salvage and group depreciation rates. These studies are reviewed and rates are ultimately approved by the applicable regulatory commission. Net salvage includes the estimated future residual values of the assets and any estimated removal costs recovered through approved depreciation rates. Estimated removal costs are recorded as either a cost of removal regulatory liability or an ARO liability on the Balance Sheets, depending on whether the obligation meets the requirements of an ARO. As actual removal costs are incurred, the associated liability is reduced.



During the third quarter of 2012, MidAmerican Energy revised its depreciation rates for certain coal-fueled generation facilities reflecting shorter estimated useful lives. The effect of this change increased depreciation and amortization expense by \$5 million in 2012 and \$11 million annually based on depreciable plant balances at the time of the change. During the third quarter of 2013, MidAmerican Energy revised its depreciation rates for certain electric generating facilities based on the results of a new depreciation study. The new rates reflect longer estimated useful lives for wind-powered generating facilities placed in service in 2011 and 2012 and a lower accrual rate for the cost of removal regulatory liability related to coal-fueled generating facilities. The effect of this change was to reduce depreciation and amortization expense by \$20 million in 2013 and \$49 million annually based on depreciable plant balances at the time of the change. Effective January 1, 2014, MidAmerican Energy revised depreciation rates for certain electric generating facilities based on the results of its 2013 Iowa electric retail rate case. The new depreciation rates reflect longer estimated useful lives for certain generating facilities. The effect of this change was to reduce depreciation and amortization expense by \$50 million annually based on depreciable plant balances at the time of the change.

The average depreciation and amortization rates applied to depreciable utility plant for the years ended December 31 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Electric	2.8%	3.3%	3.3%
Gas	2.8%	2.8%	2.8%

Generally, when MidAmerican Energy retires or sells a component of utility plant, it charges the original cost, net of any proceeds from the disposition to accumulated depreciation. Any gain or loss on disposals of nonregulated assets is recorded through earnings.

Debt and equity AFUDC, which represent the estimated costs of debt and equity funds necessary to finance the construction of its regulated facilities, is capitalized by MidAmerican Energy as a component of utility plant, with offsetting credits to the Statements of Operations. AFUDC is computed based on guidelines set forth by the FERC. After construction is completed, MidAmerican Energy is permitted to earn a return on these costs as a component of the related assets, as well as recover these costs through depreciation expense over the useful lives of the related assets.

#### *Asset Retirement Obligations*

MidAmerican Energy recognizes AROs when it has a legal obligation to perform decommissioning or removal activities upon retirement of an asset. MidAmerican Energy's AROs are primarily related to decommissioning of the Quad Cities Station and obligations associated with its other generating facilities. The fair value of an ARO liability is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made, and is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset. Subsequent to the initial recognition, the ARO liability is adjusted for any revisions to the original estimate of undiscounted cash flows (with corresponding adjustments to utility plant) and for accretion of the ARO liability due to the passage of time. The difference between the ARO liability, the corresponding ARO asset included in utility plant, net and amounts recovered in rates to satisfy such liabilities is recorded as a regulatory asset or liability.

#### *Impairment*

MidAmerican Energy evaluates long-lived assets for impairment, including utility plant, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable or the assets are being held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus the residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated fair value. The impacts of regulation are considered when evaluating the carrying value of regulated assets. For all other assets, any resulting impairment loss is reflected on the Statements of Operations.

### *Revenue Recognition*

Revenue from electric and natural gas customers is recognized as electricity or natural gas is delivered or services are provided. Revenue recognized includes billed and unbilled amounts. As of December 31, 2014 and 2013, unbilled revenue was \$131 million and \$145 million, respectively, and is included in receivables, net on the Balance Sheets.

The determination of revenue from an individual customer is based on a systematic reading of meters and rates. At the end of each month, amounts of energy provided to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recorded. Factors that can impact the estimate of unbilled energy include, but are not limited to, seasonal weather patterns compared to normal, total volumes supplied to the system, line losses, economic impacts and composition of customer classes. Estimates are reversed in the following month and actual revenue is recorded based on subsequent meter readings.

All of MidAmerican Energy's regulated retail electric and gas sales are subject to energy adjustment clauses. MidAmerican Energy also has costs that are recovered, at least in part, through bill riders, including demand-side management costs. The clauses and riders allow MidAmerican Energy to adjust the amounts charged for electric and gas service as the related costs change. The costs recovered in revenue through use of the adjustment clauses and bill riders are charged to expense in the same year the related revenue is recognized. At any given time, these costs may be over or under collected from customers. The total under collection included in receivables at December 31, 2014 and 2013, was \$25 million and \$49 million, respectively.

### *Sales and Excise Tax*

MidAmerican Energy collects from its customers sales and excise taxes assessed by governmental authorities on transactions with customers and later remits the collected taxes to the appropriate authority. If the obligation to pay a particular tax resides with the customer, MidAmerican Energy reports such taxes collected on a net basis and, accordingly, they do not affect the Statement of Operations. Taxes for which the obligation resides with MidAmerican Energy are reported on a gross basis in operating revenue and operating expenses. The amounts reported on a gross basis are not material.

### *Unamortized Debt Premiums, Discounts and Financing Costs*

Premiums, discounts and financing costs incurred for the issuance of long-term debt are amortized over the term of the related financing using the effective interest method.

### *Income Taxes*

MidAmerican Funding's and MidAmerican Energy's provisions for income taxes have been computed on a stand-alone basis, and substantially all of their respective currently payable or receivable income taxes are remitted to or received from BHE.

Deferred income tax assets and liabilities are based on differences between the financial statement and income tax basis of assets and liabilities using estimated income tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in deferred income tax assets and liabilities that are associated with components of OCI are charged or credited directly to OCI. Changes in deferred income tax assets and liabilities that are associated with income tax benefits and expense for certain property-related basis differences and other various differences that MidAmerican Energy is required to pass on to its customers in Iowa are charged or credited directly to a regulatory asset or liability. As of December 31, 2014 and 2013, these amounts were recognized as a net regulatory asset totaling \$730 million and \$649 million, respectively, and will be included in regulated rates when the temporary differences reverse. Other changes in deferred income tax assets and liabilities are included as a component of income tax expense. Changes in deferred income tax assets and liabilities attributable to changes in enacted income tax rates are charged or credited to income tax expense or a regulatory asset or liability in the period of enactment. Investment tax credits are generally deferred and amortized over the estimated useful lives of the related properties or as prescribed by various regulatory jurisdictions.

In determining MidAmerican Funding's and MidAmerican Energy's income taxes, management is required to interpret complex income tax laws and regulations, which includes consideration of regulatory implications imposed by MidAmerican Energy's various regulatory jurisdictions. MidAmerican Funding's and MidAmerican Energy's income tax returns are subject to continuous examinations by federal, state and local tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. MidAmerican Funding and MidAmerican Energy recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Consolidated Financial Statements from such a position are measured based on the largest benefit that is more-likely-than-not to be realized upon ultimate settlement. Although the ultimate resolution of their federal, state and local income tax examinations is uncertain, each company believes it has made adequate provisions for its income tax positions. The aggregate amount of any additional income tax liabilities that may result from these examinations, if any, is not expected to have a material impact on its consolidated financial results. MidAmerican Funding's and MidAmerican Energy's unrecognized tax benefits are primarily included in taxes accrued and other long-term liabilities on their respective Consolidated Balance Sheets. Estimated interest and penalties, if any, related to uncertain tax positions are included as a component of income tax expense on the Consolidated Statements of Operations.

#### *New Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, which creates FASB Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" and supersedes ASC Topic 605, "Revenue Recognition." The guidance replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires the entity to disclose further quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016. Early application is not permitted. This guidance may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. MidAmerican Energy is currently evaluating the impact of adopting this guidance on its Financial Statements and disclosures included within Notes to Financial Statements.

In February 2013, the FASB issued ASU No. 2013-04, which amends FASB ASC Topic 405, "Liabilities." The amendments in this guidance require an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the amount the reporting entity agreed to pay plus any additional amounts the reporting entity expects to pay on behalf of its co-obligor. Additionally, the guidance requires the entity to disclose the nature and amount of the obligation, as well as other information about those obligations. MidAmerican Energy adopted this guidance on January 1, 2014. The adoption of this guidance did not have a material impact on MidAmerican Energy's disclosures included within Notes to Financial Statements.

### (3) Jointly Owned Utility Facilities

Under joint facility ownership agreements with other utilities, MidAmerican Energy, as a tenant in common, has undivided interests in jointly owned generation and transmission facilities. MidAmerican Energy accounts for its proportionate share of each facility, and each joint owner has provided financing for its share of each facility. Operating costs of each facility are assigned to joint owners based on their percentage of ownership or energy production, depending on the nature of the cost. Operating costs and expenses on the Statements of Operations include MidAmerican Energy's share of the expenses of these facilities.

The amounts shown in the table below represent MidAmerican Energy's share in each jointly owned facility as of December 31, 2014 (dollars in millions):

	Company Share	Plant in Service	Accumulated Depreciation and Amortization	Construction Work in Progress
Louisa Unit No. 1	88.0%	\$ 747	\$ 392	\$ 4
Quad Cities Unit Nos. 1 & 2 <sup>(1)</sup>	25.0	656	316	27
Walter Scott, Jr. Unit No. 3	79.1	561	287	7
Walter Scott, Jr. Unit No. 4 <sup>(2)</sup>	59.7	446	82	3
George Neal Unit No. 4	40.6	303	142	—
Ottumwa Unit No. 1	52.0	530	171	2
George Neal Unit No. 3	72.0	390	141	3
Transmission facilities <sup>(3)</sup>	Various	243	81	17
Total		<u>\$ 3,876</u>	<u>\$ 1,612</u>	<u>\$ 63</u>

(1) Includes amounts related to nuclear fuel.

(2) Plant in service and accumulated depreciation and amortization amounts are net of credits applied under Iowa revenue sharing arrangements totaling \$320 million and \$60 million, respectively.

(3) Includes 345 and 161 kilovolt transmission lines and substations.

### (4) Regulatory Matters

Regulatory assets represent costs that are expected to be recovered in future regulated rates. MidAmerican Energy's regulatory assets reflected on the Balance Sheets consist of the following as of December 31 (in millions):

	Average Remaining Life	2014	2013
Deferred income taxes, net <sup>(1)</sup>	24 years	\$ 730	\$ 649
Asset retirement obligations <sup>(2)</sup>	12 years	62	34
Employee benefit plans <sup>(3)</sup>	10 years	42	26
Unrealized loss on regulated derivative contracts	1 year	38	10
Other	Various	36	29
Total		<u>\$ 908</u>	<u>\$ 748</u>

(1) Amounts primarily represent income tax benefits related to state accelerated tax depreciation and certain property-related basis differences that were previously flowed through to customers and will be included in regulated rates when the temporary differences reverse.

(2) Amount predominantly relates to asset retirement obligations for fossil-fueled and wind-powered generating facilities. Refer to Note 12 for a discussion of asset retirement obligations.

(3) Represents amounts not yet recognized as a component of net periodic benefit cost that are expected to be included in regulated rates when recognized.

MidAmerican Energy had regulatory assets not earning a return on investment of \$904 million and \$743 million as of December 31, 2014 and 2013, respectively.

Regulatory liabilities represent income to be recognized or amounts to be returned to customers in future periods. MidAmerican Energy's regulatory liabilities reflected on the Balance Sheets consist of the following as of December 31 (in millions):

	<b>Average Remaining Life</b>	<b>2014</b>	<b>2013</b>
Cost of removal accrual <sup>(1)</sup>	24 years	\$ 642	\$ 649
Asset retirement obligations <sup>(2)</sup>	23 years	159	140
Employee benefit plans <sup>(3)</sup>	10 years	5	55
Other	Various	31	31
<b>Total</b>		<b>\$ 837</b>	<b>\$ 875</b>

- (1) Amounts represent estimated costs, as accrued through depreciation rates and exclusive of ARO liabilities, of removing utility plant in accordance with accepted regulatory practices. Amounts are deducted from rate base or otherwise accrue a carrying cost.
- (2) Amount predominantly represents the excess of nuclear decommission trust assets over the related asset retirement obligation. Refer to Note 12 for a discussion of asset retirement obligations.
- (3) Represents amounts not yet recognized as a component of net periodic benefit cost that are to be returned to customers in future periods when recognized.

## **(5) Investments and Nonregulated Property, Net**

Investments and nonregulated property, net consists of the following amounts as of December 31 (in millions):

	<b>2014</b>	<b>2013</b>
Nuclear decommissioning trust	\$ 424	\$ 394
Rabbi trusts	175	172
Auction rate securities	26	23
Nonregulated property, net of accumulated depreciation of \$5 and \$5, respectively	9	9
<b>Total</b>	<b>\$ 634</b>	<b>\$ 598</b>

MidAmerican Energy has established a trust for the investment of funds for decommissioning the Quad Cities Station. These investments in debt and equity securities are classified as available-for-sale and are reported at fair value. Funds are invested in the trust in accordance with applicable federal and state investment guidelines and are restricted for use as reimbursement for costs of decommissioning the Quad Cities Station, which is currently licensed for operation until December 2032. As of December 31, 2014 and 2013, the fair value of the trust's funds was invested as follows: 56% and 54%, respectively, in domestic common equity securities, 32% and 34%, respectively, in United States government securities, 9% and 9%, respectively, in domestic corporate debt securities and 3% and 3%, respectively, in other securities.

Rabbi trusts primarily hold corporate-owned life insurance on certain current and former key executives and directors. The Rabbi trusts were established to hold investments used to fund the obligations of various nonqualified executive and director compensation plans and to pay the costs of the trusts. The amount represents the cash surrender value of all of the policies included in the Rabbi trusts, net of amounts borrowed against the cash surrender value. Changes in the cash surrender value of the policies are reflected in non-operating income - other, net on the Statements of Operation.

MidAmerican Energy has investments in interest bearing auction rate securities with a par value of \$35 million as of December 31, 2014 and 2013, and remaining maturities of 3 to 21 years. MidAmerican Energy considers the securities to be temporarily impaired, except for an other-than-temporary impairment of \$3 million, after-tax, recorded in 2008, and has recorded unrealized losses on the securities of \$3 million and \$4 million, after tax, in AOCI as of December 31, 2014 and 2013, respectively. MidAmerican Energy does not intend to sell or expect to be required to sell the securities until the remaining principal investment is collected.

Nonregulated property includes computer software, land and other assets not recoverable for regulated utility purposes. Depreciable property consists primarily of computer software, which is amortized on a straight-line basis over five years.

## (6) Components of Accumulated Other Comprehensive Loss, Net

The following table shows the change in accumulated other comprehensive loss by each component of other comprehensive income, net of applicable income taxes, for the years ended December 31, 2014 and 2013 (in millions):

	<b>Unrealized Losses on Available-For-Sale Securities</b>	<b>Unrealized Losses on Cash Flow Hedges</b>	<b>Accumulated Other Comprehensive Loss, Net</b>
<b>Balance, December 31, 2012</b>	\$ (5)	\$ (19)	\$ (24)
Other comprehensive income	1	12	13
<b>Balance, December 31, 2013</b>	\$ (4)	\$ (7)	\$ (11)
Other comprehensive income (loss)	1	(13)	(12)
<b>Balance, December 31, 2014</b>	<u>\$ (3)</u>	<u>\$ (20)</u>	<u>\$ (23)</u>

For information regarding cash flow hedge reclassifications from AOCI to net income in their entirety for the years ended December 31, 2014, 2013 and 2012, refer to Note 13.

## (7) Preferred Securities

In April 2013, MidAmerican Energy redeemed and canceled all outstanding shares of each series of its preferred securities at the stated redemption prices, which in aggregate totaled \$28 million including accrued dividends.

## (8) Long-Term Debt

The annual repayments of MidAmerican Energy's long-term debt for the years beginning January 1, 2015, and thereafter, excluding unamortized discounts, are as follows (in millions):

2015	\$ 426
2016	34
2017	254
2018	350
2019	500
2020 and thereafter	2,507

Refer to MidAmerican Energy's Statements of Capitalization for detail of long-term debt.

In conjunction with the construction of wind-powered generating facilities in 2012, MidAmerican Energy has accrued in gross utility plant in service amounts for turbine purchases it is not contractually obligated to pay until December 2015. The amount ultimately payable was discounted and recognized upon delivery of the equipment as long-term debt. The discount is being amortized as interest expense over the period until payment is due using the effective interest method. The amount ultimately payable is reflected as a turbine purchase obligation with the applicable discount rate on the Statements of Capitalization.

MidAmerican Energy issued \$850 million of first mortgage bonds in April 2014 pursuant to its indenture dated September 9, 2013, as supplemented and amended. The net proceeds were used for the optional redemption of \$350 million of MidAmerican Energy's 4.65% Senior Notes due October 2014, and for general corporate purposes.

Pursuant to MidAmerican Energy's mortgage dated September 9, 2013, MidAmerican Energy's first mortgage bonds, currently and from time to time outstanding, are secured by a first mortgage lien on substantially all of its electric generating, transmission and distribution property within the State of Iowa, subject to certain exceptions and permitted encumbrances. As of December 31, 2014, MidAmerican Energy's eligible property subject to the lien of the mortgage totaled approximately \$12 billion based on original cost. Additionally, MidAmerican Energy's senior notes outstanding are equally and ratably secured with the first mortgage bonds as required by the indentures under which the senior notes were issued.

MidAmerican Energy's variable rate tax-exempt obligations, including the tax-exempt bonds discussed below, bear interest at rates that are periodically established through remarketing of the bonds in the short-term tax-exempt market. MidAmerican Energy, at its option, may change the mode of interest calculation for these bonds by selecting from among several floating or fixed rate alternatives. The interest rates shown on the Statements of Capitalization are the weighted average interest rates as of December 31, 2014 and 2013. MidAmerican Energy maintains revolving credit facility agreements to provide liquidity for holders of these issues.

As of December 31, 2014, MidAmerican Energy was in compliance with all of its applicable long-term debt covenants.

In March 1999, MidAmerican Energy committed to the IUB to use commercially reasonable efforts to maintain an investment grade rating on its long-term debt and to maintain its common equity level above 42% of total capitalization unless circumstances beyond its control result in the common equity level decreasing to below 39% of total capitalization. MidAmerican Energy must seek the approval from the IUB of a reasonable utility capital structure if MidAmerican Energy's common equity level decreases below 42% of total capitalization, unless the decrease is beyond the control of MidAmerican Energy. MidAmerican Energy is also required to seek the approval of the IUB if MidAmerican Energy's equity level decreases to below 39%, even if the decrease is due to circumstances beyond the control of MidAmerican Energy. As of December 31, 2014, MidAmerican Energy's common equity ratio was 51% computed on a basis consistent with its commitment. As a result of its regulatory commitment to maintain its common equity level above certain thresholds, MidAmerican Energy could dividend \$1.3 billion as of December 31, 2014, without falling below 42%.

## (9) Short-Term Debt and Credit Facilities

Interim financing of working capital needs and the construction program is obtained from unaffiliated parties through the sale of commercial paper or short-term borrowing from banks. MidAmerican Energy has a \$600 million unsecured credit facility expiring in March 2018. The credit facility, which supports MidAmerican Energy's commercial paper program and its variable-rate tax-exempt bond obligations and provides for the issuance of letters of credit, has a variable interest rate based on the London Interbank Offered Rate ("LIBOR") or a base rate, at MidAmerican Energy's option, plus a spread that varies based on MidAmerican Energy's credit ratings for senior unsecured long-term debt securities. In addition, MidAmerican Energy has a \$5 million unsecured credit facility, which expires in June 2015 and has a variable interest rate based on LIBOR plus a spread. As of December 31, 2014, the weighted average interest rate on commercial paper borrowings outstanding was 0.35%. The \$600 million credit facility requires that MidAmerican Energy's ratio of consolidated debt, including current maturities, to total capitalization not exceed 0.65 to 1.0 as of the last day of any quarter. As of December 31, 2014, MidAmerican Energy was in compliance with the covenants of its credit facilities. MidAmerican Energy has authority from the FERC to issue commercial paper and bank notes aggregating \$605 million through June 30, 2016.

The following table summarizes MidAmerican Energy's availability under its two unsecured revolving credit facilities as of December 31 (in millions):

	<u>2014</u>	<u>2013</u>
Credit facilities	\$ 605	\$ 605
Less:		
Short-term debt outstanding	(50)	—
Variable-rate tax-exempt bond support	(195)	(195)
Net credit facilities	<u>\$ 360</u>	<u>\$ 410</u>

## (10) Income Taxes

MidAmerican Energy's income tax benefit consists of the following for the years ended December 31 (in millions):

	2014	2013	2012
<b>Current:</b>			
Federal	\$ (401)	\$ (196)	\$ (256)
State	(3)	(10)	(21)
	<u>(404)</u>	<u>(206)</u>	<u>(277)</u>
<b>Deferred:</b>			
Federal	299	101	200
State	2	3	(20)
	<u>301</u>	<u>104</u>	<u>180</u>
<b>Investment tax credits</b>	(1)	(1)	(2)
Total	<u>\$ (104)</u>	<u>\$ (103)</u>	<u>\$ (99)</u>

A reconciliation of the federal statutory income tax rate to MidAmerican Energy's effective income tax rate applicable to income before income tax benefit is as follows for the years ended December 31:

	2014	2013	2012
Federal statutory income tax rate	35 %	35 %	35 %
Income tax credits	(59)	(70)	(56)
State income tax, net of federal income tax benefit	—	(2)	(10)
Income tax method changes	—	—	(6)
Effects of ratemaking	(8)	(3)	—
Other, net	(1)	(2)	(2)
Effective income tax rate	<u>(33)%</u>	<u>(42)%</u>	<u>(39)%</u>

Income tax credits relate primarily to production tax credits earned by MidAmerican Energy's wind-powered generating facilities. Federal renewable electricity production tax credits are earned as energy from qualifying wind-powered generating facilities is produced and sold and are based on a per-kilowatt hour rate pursuant to the applicable federal income tax law. Wind-powered generating facilities are eligible for the credits for 10 years from the date the qualifying generating facilities are placed in service.

MidAmerican Energy's income tax benefit for the year ended December 31, 2012, reflects \$16 million of federal income tax benefits recognized in connection with an income tax method change for income tax years prior to 2012 related to repair costs for its regulated utility electric transmission and distribution assets based on guidance published by the Internal Revenue Service.

The income tax method change results in current deductibility for applicable repair costs, which are capitalized for book purposes. MidAmerican Energy retroactively applied the method changes and deducted amounts related to prior years' costs on the tax return that includes the year of change. State utility rate regulation in Iowa requires that the tax effect of certain temporary differences be flowed through immediately to customers. Therefore, certain deferred amounts that would otherwise have been recognized in income tax expense have been included as changes in regulatory assets in recognition of MidAmerican Energy's ability to recover increased tax expense when such temporary differences reverse. This treatment of such temporary differences impacts income tax expense and effective income tax rates from year to year.



MidAmerican Energy's net deferred income tax liability consists of the following as of December 31 (in millions):

	<u>2014</u>	<u>2013</u>
<b>Deferred income tax assets:</b>		
Regulatory liabilities	\$ 332	\$ 351
Employee benefits	68	61
Derivative contracts	30	9
Asset retirement obligations	185	172
Other	58	60
Total deferred income tax assets	<u>673</u>	<u>653</u>
<b>Deferred income tax liabilities:</b>		
Depreciable property	(2,945)	(2,599)
Regulatory assets	(366)	(304)
Other	(25)	(40)
Total deferred income tax liabilities	<u>(3,336)</u>	<u>(2,943)</u>
Net deferred income tax liability	<u>\$ (2,663)</u>	<u>\$ (2,290)</u>
<b>Reflected as:</b>		
Current assets - other	\$ —	\$ 4
Deferred income taxes	(2,663)	(2,294)
	<u>\$ (2,663)</u>	<u>\$ (2,290)</u>

As of December 31, 2014, MidAmerican Energy has available \$20 million of state carryforwards, principally related to \$429 million of net operating losses, that expire at various intervals between 2015 and 2033.

The United States Internal Revenue Service has effectively settled its examination of BHE's income tax returns through December 2009, including components related to MidAmerican Energy. In addition, state jurisdictions have closed their examinations of MidAmerican Energy's income tax returns through at least February 9, 2006, including Iowa and Illinois, which are closed through December 31, 2012, and December 31, 2008, respectively.

A reconciliation of the beginning and ending balances of MidAmerican Energy's net unrecognized tax benefits is as follows for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>
<b>Beginning balance</b>	\$ 29	\$ 36
Additions based on tax positions related to the current year	6	10
Additions for tax positions of prior years	38	3
Reductions based on tax positions related to the current year	(4)	(10)
Reductions for tax positions of prior years	(40)	(8)
Statute of limitations	(3)	(2)
<b>Ending balance</b>	<u>\$ 26</u>	<u>\$ 29</u>

As of December 31, 2014 and 2013, substantially all of MidAmerican Energy's unrecognized tax benefits of \$26 million and \$29 million, respectively, if recognized, would have an impact on the effective tax rate. The unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility.

## (11) Employee Benefit Plans

MidAmerican Energy sponsors a noncontributory defined benefit pension plan covering a majority of all employees of BHE and its domestic energy subsidiaries other than PacifiCorp and NV Energy, Inc. Benefit obligations under the plan are based on a cash balance arrangement for salaried employees and most union employees and final average pay formulas for other union employees. MidAmerican Energy also maintains noncontributory, nonqualified defined benefit supplemental executive retirement plans ("SERP") for certain active and retired participants.

MidAmerican Energy also sponsors certain postretirement healthcare and life insurance benefits covering substantially all retired employees of BHE and its domestic energy subsidiaries other than PacifiCorp and NV Energy, Inc. Under the plans, a majority of all employees of the participating companies may become eligible for these benefits if they reach retirement age. New employees are not eligible for benefits under the plans. MidAmerican Energy has been allowed to recover accrued pension and other postretirement benefit costs in its electric and gas service rates.

### *Net Periodic Benefit Cost*

For purposes of calculating the expected return on pension plan assets, a market-related value is used. The market-related value of plan assets is calculated by spreading the difference between expected and actual investment returns on equity investments over a five-year period beginning after the first year in which they occur.

MidAmerican Energy bills to and is reimbursed currently for affiliates' share of the net periodic benefit costs from all plans in which such affiliates participate. In 2014, 2013 and 2012, MidAmerican Energy's share of the pension net periodic benefit cost was \$1 million, \$11 million and \$8 million, respectively. MidAmerican Energy's share of the other postretirement net periodic benefit cost (benefit) in 2014, 2013 and 2012 totaled \$- million, \$(1) million and \$(2) million, respectively.

Net periodic benefit cost for the plans of MidAmerican Energy and the aforementioned affiliates included the following components for the years ended December 31 (in millions):

	Pension			Other Postretirement		
	2014	2013	2012	2014	2013	2012
Service cost	\$ 14	\$ 18	\$ 18	\$ 6	\$ 5	\$ 4
Interest cost	35	33	37	10	8	8
Expected return on plan assets	(45)	(45)	(45)	(15)	(13)	(13)
Net amortization	1	11	4	(3)	(3)	(3)
Net periodic benefit cost (benefit)	<u>\$ 5</u>	<u>\$ 17</u>	<u>\$ 14</u>	<u>\$ (2)</u>	<u>\$ (3)</u>	<u>\$ (4)</u>

### *Funded Status*

The following table is a reconciliation of the fair value of plan assets for the years ended December 31 (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Plan assets at fair value, beginning of year	\$ 722	\$ 643	\$ 256	\$ 226
Employer contributions	7	7	1	1
Participant contributions	—	—	1	1
Actual return on plan assets	52	142	13	40
Benefits paid	(51)	(70)	(12)	(12)
Plan assets at fair value, end of year	<u>\$ 730</u>	<u>\$ 722</u>	<u>\$ 259</u>	<u>\$ 256</u>

The following table is a reconciliation of the benefit obligations for the years ended December 31 (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
<b>Benefit obligation, beginning of year</b>	\$ 768	\$ 846	\$ 235	\$ 213
Service cost	14	18	6	5
Interest cost	35	33	10	8
Participant contributions	—	—	1	1
Actuarial loss (gain)	74	(59)	9	20
Benefits paid	(51)	(70)	(12)	(12)
<b>Benefit obligation, end of year</b>	<u>\$ 840</u>	<u>\$ 768</u>	<u>\$ 249</u>	<u>\$ 235</u>
<b>Accumulated benefit obligation, end of year</b>	<u>\$ 825</u>	<u>\$ 751</u>		

The funded status of the plans and the amounts recognized on the Balance Sheets as of December 31 are as follows (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Plan assets at fair value, end of year	\$ 730	\$ 722	\$ 259	\$ 256
Less - Benefit obligation, end of year	840	768	249	235
<b>Funded status</b>	<u>\$ (110)</u>	<u>\$ (46)</u>	<u>\$ 10</u>	<u>\$ 21</u>
<b>Amounts recognized on the Balance Sheets:</b>				
Other assets	\$ 12	\$ 66	\$ 10	\$ 21
Other current liabilities	(8)	(8)	—	—
Other liabilities	(114)	(104)	—	—
<b>Amounts recognized</b>	<u>\$ (110)</u>	<u>\$ (46)</u>	<u>\$ 10</u>	<u>\$ 21</u>

MidAmerican Energy sponsors pension and other postretirement benefit plans on behalf of certain of its affiliates in addition to itself, and therefore, the portion of the funded status of the respective plans that has not yet been recognized in net periodic benefit cost is attributable to multiple entities. Additionally, substantially all of MidAmerican Energy's portion of such amounts is either refundable to or recoverable from its customers and is reflected as regulatory liabilities and regulatory assets.

The SERP has no plan assets; however, MidAmerican Energy and BHE have Rabbi trusts that hold corporate-owned life insurance and other investments to provide funding for the future cash requirements of the SERP. The cash surrender value of all of the policies included in the Rabbi trusts, net of amounts borrowed against the cash surrender value, plus the fair market value of other Rabbi trust investments, was \$156 million and \$149 million as of December 31, 2014 and 2013, respectively, of which \$103 million and \$98 million was held by MidAmerican Energy as of December 31, 2014 and 2013, respectively, with the remainder held by BHE. These assets are not included in the plan assets in the above table, but are reflected in investments and nonregulated property, net on the Balance Sheets.

#### *Unrecognized Amounts*

The portion of the funded status of the plans not yet recognized in net periodic benefit cost as of December 31 is as follows (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Net (gain) loss	\$ 21	\$ (44)	\$ 49	\$ 41
Prior service cost (credit)	3	3	(42)	(47)
<b>Total</b>	<u>\$ 24</u>	<u>\$ (41)</u>	<u>\$ 7</u>	<u>\$ (6)</u>

A reconciliation of the amounts not yet recognized as components of net periodic benefit cost for the years ended December 31, 2014 and 2013 is as follows (in millions):

	<b>Regulatory Asset</b>	<b>Regulatory Liability</b>	<b>Receivables (Payables) with Affiliates</b>	<b>Total</b>
<u>Pension</u>				
<b>Balance, December 31, 2012</b>	\$ 110	\$ —	\$ 15	\$ 125
Net gain arising during the year	(91)	(49)	(15)	(155)
Net amortization	(3)	(6)	(2)	(11)
Total	(94)	(55)	(17)	(166)
<b>Balance, December 31, 2013</b>	16	(55)	(2)	(41)
Net loss arising during the year	6	51	9	66
Net amortization	—	(1)	—	(1)
Total	6	50	9	65
<b>Balance, December 31, 2014</b>	<u>\$ 22</u>	<u>\$ (5)</u>	<u>\$ 7</u>	<u>\$ 24</u>

	<b>Regulatory Asset</b>	<b>Regulatory Liability</b>	<b>Receivables (Payables) with Affiliates</b>	<b>Total</b>
<u>Other Postretirement</u>				
<b>Balance, December 31, 2012</b>	\$ 11	\$ —	\$ (13)	\$ (2)
Net gain arising during the year	(3)	—	(4)	(7)
Net amortization	2	—	1	3
Total	(1)	—	(3)	(4)
<b>Balance, December 31, 2013</b>	10	—	(16)	(6)
Net loss arising during the year	8	—	2	10
Net amortization	2	—	1	3
Total	10	—	3	13
<b>Balance, December 31, 2014</b>	<u>\$ 20</u>	<u>\$ —</u>	<u>\$ (13)</u>	<u>\$ 7</u>

The net loss and prior service cost (credit) that will be amortized in 2015 into net periodic benefit cost are estimated to be as follows (in millions):

	<b>Net Loss</b>	<b>Prior Service Cost (Credit)</b>	<b>Total</b>
Pension	\$ 1	\$ 1	\$ 2
Other postretirement	2	(5)	(3)
Total	<u>\$ 3</u>	<u>\$ (4)</u>	<u>\$ (1)</u>

## Plan Assumptions

Assumptions used to determine benefit obligations and net periodic benefit cost were as follows:

	Pension			Other Postretirement		
	2014	2013	2012	2014	2013	2012
Benefit obligations as of December 31:						
Discount rate	4.00%	4.75%	4.00%	3.75%	4.50%	3.75%
Rate of compensation increase	2.75%	3.00%	3.00%	N/A	N/A	N/A
Net periodic benefit cost for the years ended December 31:						
Discount rate	4.75%	4.00%	4.75%	4.50%	3.75%	4.75%
Expected return on plan assets <sup>(1)</sup>	7.50%	7.50%	7.50%	7.25%	7.25%	7.50%
Rate of compensation increase	3.00%	3.00%	3.50%	N/A	N/A	N/A

(1) Amounts reflected are pre-tax values. Assumed after-tax returns for a taxable, non-union other postretirement plan were 5.37% for 2014, and 5.56% for 2013, and 5.75% for 2012.

In establishing its assumption as to the expected return on plan assets, MidAmerican Energy utilizes the expected asset allocation and return assumptions for each asset class based on historical performance and forward-looking views of the financial markets.

	2014	2013
Assumed healthcare cost trend rates as of December 31:		
Healthcare cost trend rate assumed for next year	8.00%	8.00%
Rate that the cost trend rate gradually declines to	5.00%	5.00%
Year that the rate reaches the rate it is assumed to remain at	2025	2019

A one percentage-point change in assumed healthcare cost trend rates would have the following effects (in millions):

	One Percentage-Point	
	Increase	Decrease
Increase (decrease) in:		
Total service and interest cost for the year ended December 31, 2014	\$ 1	\$ —
Other postretirement benefit obligation as of December 31, 2014	5	(4)

## Contributions and Benefit Payments

Employer contributions to the pension and other postretirement benefit plans are expected to be \$8 million and \$1 million, respectively, during 2015. Funding to MidAmerican Energy's pension benefit plan trust is based upon the actuarially determined costs of the plan and the requirements of the Internal Revenue Code, the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006, as amended. MidAmerican Energy considers contributing additional amounts from time to time in order to achieve certain funding levels specified under the Pension Protection Act of 2006, as amended. MidAmerican Energy's funding policy for its other postretirement benefit plan is to generally contribute amounts consistent with its rate regulatory arrangements.

Net periodic benefit costs assigned to MidAmerican Energy affiliates are reimbursed currently in accordance with its intercompany administrative services agreement. The expected benefit payments to participants in MidAmerican Energy's pension and other postretirement benefit plans for 2015 through 2019 and for the five years thereafter are summarized below (in millions):

	<b>Projected Benefit Payments</b>	
	<b>Pension</b>	<b>Other Postretirement</b>
2015	\$ 54	\$ 16
2016	58	17
2017	59	19
2018	59	20
2019	60	21
2020-2024	298	109

#### *Plan Assets*

##### *Investment Policy and Asset Allocations*

MidAmerican Energy's investment policy for its pension and other postretirement benefit plans is to balance risk and return through a diversified portfolio of debt securities, equity securities and other alternative investments. Maturities for debt securities are managed to targets consistent with prudent risk tolerances. The plans retain outside investment advisors to manage plan investments within the parameters outlined by the MidAmerican Energy Pension and Employee Benefits Plans Administrative Committee. The investment portfolio is managed in line with the investment policy with sufficient liquidity to meet near-term benefit payments. The return on assets assumption for each plan is based on a weighted-average of the expected historical performance for the types of assets in which the plans invest.

The target allocations (percentage of plan assets) for MidAmerican Energy's pension and other postretirement benefit plan assets are as follows as of December 31, 2014:

	<b>Pension</b>	<b>Other Postretirement</b>
	<b>%</b>	<b>%</b>
Debt securities <sup>(1)</sup>	20-40	25-45
Equity securities <sup>(1)</sup>	60-80	50-80
Real estate funds	2-8	—
Other	0-5	0-5

- (1) For purposes of target allocation percentages and consistent with the plans' investment policy, investment funds are allocated based on the underlying investments in debt and equity securities.

## Fair Value Measurements

The following table presents the fair value of plan assets, by major category, for MidAmerican Energy's defined benefit pension plan (in millions):

	Input Levels for Fair Value Measurements <sup>(1)</sup>			
	Level 1	Level 2	Level 3	Total
<b><u>As of December 31, 2014</u></b>				
Cash equivalents	\$ —	\$ 24	\$ —	\$ 24
Debt securities:				
United States government obligations	8	—	—	8
Corporate obligations	—	29	—	29
Municipal obligations	—	4	—	4
Agency, asset and mortgage-backed obligations	—	33	—	33
Equity securities:				
United States companies	149	—	—	149
International equity securities	40	—	—	40
Investment funds <sup>(2)</sup>	84	319	—	403
Real estate funds	—	—	40	40
Total	<u>\$ 281</u>	<u>\$ 409</u>	<u>\$ 40</u>	<u>\$ 730</u>
<b><u>As of December 31, 2013</u></b>				
Cash equivalents	\$ —	\$ 10	\$ —	\$ 10
Debt securities:				
United States government obligations	10	—	—	10
Corporate obligations	—	30	—	30
Municipal obligations	—	5	—	5
Agency, asset and mortgage-backed obligations	—	31	—	31
Equity securities:				
United States companies	163	—	—	163
International equity securities	52	—	—	52
Investment funds <sup>(2)</sup>	105	285	—	390
Real estate funds	—	—	31	31
Total	<u>\$ 330</u>	<u>\$ 361</u>	<u>\$ 31</u>	<u>\$ 722</u>

(1) Refer to Note 14 for additional discussion regarding the three levels of the fair value hierarchy.

(2) Investment funds are comprised of mutual funds and collective trust funds. These funds consist of equity and debt securities of approximately 68% and 32%, respectively, for 2014 and 78% and 22%, respectively, for 2013. Additionally, these funds are invested in United States and international securities of approximately 74% and 26%, respectively, for 2014 and 80% and 20%, respectively, for 2013.

The following table presents the fair value of plan assets, by major category, for MidAmerican Energy's defined benefit other postretirement plans (in millions):

	Input Levels for Fair Value Measurements <sup>(1)</sup>			
	Level 1	Level 2	Level 3	Total
<b><u>As of December 31, 2014</u></b>				
Cash equivalents	\$ 4	\$ —	\$ —	\$ 4
Debt securities:				
United States government obligations	5	—	—	5
Corporate obligations	—	11	—	11
Municipal obligations	—	40	—	40
Agency, asset and mortgage-backed obligations	—	15	—	15
Equity securities:				
United States companies	128	—	—	128
Investment funds <sup>(2)</sup>	56	—	—	56
Total	<u>\$ 193</u>	<u>\$ 66</u>	<u>\$ —</u>	<u>\$ 259</u>
<b><u>As of December 31, 2013</u></b>				
Cash equivalents	\$ 1	\$ —	\$ —	\$ 1
Debt securities:				
United States government obligations	7	—	—	7
Corporate obligations	—	9	—	9
Municipal obligations	—	37	—	37
Agency, asset and mortgage-backed obligations	—	13	—	13
Equity securities:				
United States companies	125	—	—	125
Investment funds <sup>(2)</sup>	64	—	—	64
Total	<u>\$ 197</u>	<u>\$ 59</u>	<u>\$ —</u>	<u>\$ 256</u>

(1) Refer to Note 14 for additional discussion regarding the three levels of the fair value hierarchy.

(2) Investment funds are comprised of mutual funds and collective trust funds. These funds consist of equity and debt securities of approximately 69% and 31%, respectively, for 2014 and 86% and 14%, respectively, for 2013. Additionally, these funds are invested in United States and international securities of approximately 31% and 69%, respectively, for 2014 and 43% and 57%, respectively, for 2013.

When available, a readily observable quoted market price or net asset value of an identical security in an active market is used to record the fair value. In the absence of a quoted market price or net asset value of an identical security, the fair value is determined using pricing models or net asset values based on observable market inputs and quoted market prices of securities with similar characteristics. When observable market data is not available, the fair value is determined using unobservable inputs, such as estimated future cash flows, purchase multiples paid in other comparable third-party transactions or other information. The real estate funds determine fair value of their underlying assets using independent appraisals given there is no current liquid market for the underlying assets. The following table reconciles the beginning and ending balances of MidAmerican Energy's pension plan assets measured at fair value using significant Level 3 inputs for the years ended December 31, (in millions):

	Real Estate Funds		
	2014	2013	2012
<b>Beginning balance</b>	\$ 31	\$ 26	\$ 24
Actual return on plan assets still held at period end	4	5	2
Purchases and sales	5	—	—
<b>Ending balance</b>	<u>\$ 40</u>	<u>\$ 31</u>	<u>\$ 26</u>



MidAmerican Energy sponsors a defined contribution plan ("401(k) plan") covering substantially all employees. MidAmerican Energy's contributions are based primarily on each participant's level of contribution and cannot exceed the maximum allowable for tax purposes. Certain participants now receive enhanced benefits in the 401(k) plan and no longer accrue benefits in the noncontributory defined benefit pension plans. MidAmerican Energy's contributions to the plan were \$19 million, \$17 million, and \$16 million for the years ended December 31, 2014, 2013 and 2012, respectively.

## (12) Asset Retirement Obligations

MidAmerican Energy estimates its ARO liabilities based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at a credit-adjusted, risk-free rate. Changes in estimates could occur for a number of reasons, including changes in laws and regulations, plan revisions, inflation and changes in the amount and timing of the expected work.

MidAmerican Energy does not recognize liabilities for AROs for which the fair value cannot be reasonably estimated. Due to the indeterminate removal date, the fair value of the associated liabilities on certain generation, transmission, distribution and other assets cannot currently be estimated, and no amounts are recognized on the Financial Statements other than those included in the cost of removal regulatory liability established via approved depreciation rates in accordance with accepted regulatory practices. These accruals totaled \$642 million and \$649 million as of December 31, 2014 and 2013, respectively.

The following table presents MidAmerican Energy's ARO liabilities by asset type as of December 31, (in millions):

	2014	2013
Quad Cities Station	\$ 265	\$ 254
Fossil-fueled generating facilities	132	127
Wind-powered generating facilities	60	45
Other	3	4
Total asset retirement obligations	<u>\$ 460</u>	<u>\$ 430</u>
Quad Cities Station nuclear decommissioning trust funds <sup>(1)</sup>	<u>\$ 424</u>	<u>\$ 394</u>

(1) Refer to Note 5 for a discussion of the Quad Cities Station nuclear decommissioning trust funds.

The following table reconciles the beginning and ending balances of MidAmerican Energy's ARO liabilities for the years ended December 31, (in millions):

	2014	2013
<b>Beginning balance</b>	\$ 430	\$ 318
Change in estimated costs	(2)	88
Additions	11	5
Accretion	21	19
<b>Ending balance</b>	<u>\$ 460</u>	<u>\$ 430</u>
<b>Reflected as:</b>		
Other current liabilities	\$ 28	\$ —
Asset retirement obligations	432	430
	<u>\$ 460</u>	<u>\$ 430</u>

The 2013 change in estimated costs is primarily due to an increase of \$98 million in ARO liabilities as a result of changes in the amount and timing of cash flows for ash pond closures at certain MidAmerican Energy fossil-fueled generating facilities.

### **(13) Risk Management and Hedging Activities**

MidAmerican Energy is exposed to the impact of market fluctuations in commodity prices and interest rates. MidAmerican Energy is principally exposed to electricity, natural gas, coal and fuel oil commodity price risk as it has an obligation to serve retail customer load in its regulated service territory. MidAmerican Energy also provides nonregulated retail electricity and natural gas services in competitive markets. MidAmerican Energy's load and generating facilities represent substantial underlying commodity positions. Exposures to commodity prices consist mainly of variations in the price of fuel required to generate electricity, wholesale electricity that is purchased and sold, and natural gas supply for retail customers. Commodity prices are subject to wide price swings as supply and demand are impacted by, among many other unpredictable items, weather; market liquidity; generating facility availability; customer usage; storage; and transmission and transportation constraints. Interest rate risk exists on variable-rate debt and future debt issuances. MidAmerican Energy does not engage in a material amount of proprietary trading activities.

MidAmerican Energy has established a risk management process that is designed to identify, assess, monitor, report, manage and mitigate each of the various types of risk involved in its business. To mitigate a portion of its commodity price risk, MidAmerican Energy uses commodity derivative contracts, which may include forwards, futures, options, swaps and other agreements, to effectively secure future supply or sell future production generally at fixed prices. MidAmerican Energy manages its interest rate risk by limiting its exposure to variable interest rates primarily through the issuance of fixed-rate long-term debt and by monitoring market changes in interest rates. Additionally, MidAmerican Energy may from time to time enter into interest rate derivative contracts, such as interest rate swaps or locks, to mitigate its exposure to interest rate risk. MidAmerican Energy does not hedge all of its commodity price and interest rate risks, thereby exposing the unhedged portion to changes in market prices.

There have been no significant changes in MidAmerican Energy's accounting policies related to derivatives. Refer to Notes 2 and 14 for additional information on derivative contracts.

The following table, which reflects master netting arrangements and excludes contracts that have been designated as normal under the normal purchases or normal sales exception afforded by GAAP, summarizes the fair value of MidAmerican Energy's derivative contracts, on a gross basis, and reconciles those amounts to the amounts presented on a net basis on the Balance Sheets (in millions):

	<b>Current Assets - Other</b>	<b>Other Assets - Other</b>	<b>Current Liabilities - Other</b>	<b>Other Liabilities - Other</b>	<b>Total</b>
<b>As of December 31, 2014</b>					
<b>Not designated as hedging contracts<sup>(1)</sup>:</b>					
Commodity assets	\$ 14	\$ 3	\$ 19	\$ 1	\$ 37
Commodity liabilities	—	—	(69)	(4)	(73)
Total	14	3	(50)	(3)	(36)
<b>Designated as hedging contracts:</b>					
Commodity assets	—	—	4	2	6
Commodity liabilities	—	—	(27)	(17)	(44)
Total	—	—	(23)	(15)	(38)
Total derivatives	14	3	(73)	(18)	(74)
Cash collateral receivable	—	—	42	5	47
Total derivatives - net basis	\$ 14	\$ 3	\$ (31)	\$ (13)	\$ (27)
<b>As of December 31, 2013</b>					
<b>Not designated as hedging contracts<sup>(1)</sup>:</b>					
Commodity assets	\$ 3	\$ 3	\$ 16	\$ 1	\$ 23
Commodity liabilities	(1)	(1)	(32)	(6)	(40)
Total	2	2	(16)	(5)	(17)
<b>Designated as hedging contracts:</b>					
Commodity assets	1	—	1	—	2
Commodity liabilities	(1)	—	(5)	(6)	(12)
Total	—	—	(4)	(6)	(10)
Total derivatives	2	2	(20)	(11)	(27)
Cash collateral receivable	(2)	—	1	1	—
Total derivatives - net basis	\$ —	\$ 2	\$ (19)	\$ (10)	\$ (27)

- (1) MidAmerican Energy's commodity derivatives not designated as hedging contracts are generally included in regulated rates. Accordingly, as of December 31, 2014 and 2013, a net regulatory asset of \$38 million and \$10 million, respectively, was recorded related to the net derivative liability of \$36 million and \$17 million, respectively.

*Not Designated as Hedging Contracts*

The following table reconciles the beginning and ending balances of MidAmerican Energy's net regulatory assets and summarizes the pre-tax gains and losses on commodity derivative contracts recognized in net regulatory assets, as well as amounts reclassified to earnings for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Beginning balance</b>	\$ 10	\$ 45	\$ 73
Changes in fair value recognized in net regulatory assets	61	5	14
Net (losses) gains reclassified to operating revenue	(28)	(1)	21
Net (losses) gains reclassified to cost of fuel, energy and capacity	(1)	(1)	2
Net losses reclassified to cost of gas sold	(4)	(38)	(65)
<b>Ending balance</b>	<u>\$ 38</u>	<u>\$ 10</u>	<u>\$ 45</u>

The following table summarizes the pre-tax unrealized gains (losses) included on the Statements of Operations associated with MidAmerican Energy's derivative contracts not designated as hedging contracts and not recorded as a net regulatory asset or liability for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Nonregulated operating revenue	\$ 6	\$ —	\$ 8
Nonregulated cost of sales	9	(2)	(4)
<b>Total</b>	<u>\$ 15</u>	<u>\$ (2)</u>	<u>\$ 4</u>

*Designated as Hedging Contracts*

MidAmerican Energy uses derivative contracts accounted for as cash flow hedges to hedge electricity and natural gas commodity prices for delivery to nonregulated customers.

The following table reconciles the beginning and ending balances of MidAmerican Energy's accumulated other comprehensive loss (pre-tax) and summarizes pre-tax gains and losses on derivative contracts designated and qualifying as cash flow hedges recognized in OCI, as well as amounts reclassified to earnings, for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Beginning balance</b>	\$ 11	\$ 32	\$ 43
Changes in fair value recognized in OCI	(3)	(11)	27
Net losses reclassified to nonregulated cost of sales	26	(10)	(38)
<b>Ending balance</b>	<u>\$ 34</u>	<u>\$ 11</u>	<u>\$ 32</u>

Realized gains and losses on hedges and hedge ineffectiveness are recognized in income as nonregulated operating revenue or nonregulated cost of sales depending upon the nature of the item being hedged. For the years ended December 31, 2014, 2013 and 2012, hedge ineffectiveness was a pre-tax loss of \$2 million, \$- million and \$- million, respectively. As of December 31, 2014, MidAmerican Energy had cash flow hedges with expiration dates extending through December 2018, and \$23 million of pre-tax net unrealized losses are forecasted to be reclassified from AOCI into earnings over the next twelve months as contracts settle.

### *Derivative Contract Volumes*

The following table summarizes the net notional amounts of outstanding derivative contracts with fixed price terms that comprise the mark-to-market values as of December 31 (in millions):

	<b>Unit of Measure</b>	<b>2014</b>	<b>2013</b>
Electricity purchases	Megawatt hours	14	5
Natural gas purchases	Decatherms	19	21

### *Credit Risk*

MidAmerican Energy is exposed to counterparty credit risk associated with wholesale energy supply and marketing activities with other utilities, energy marketing companies, financial institutions and other market participants. Additionally, MidAmerican Energy participates in the regional transmission organization ("RTO") markets and has indirect credit exposure related to other participants, although RTO credit policies are designed to limit exposure to credit losses from individual participants. Credit risk may be concentrated to the extent MidAmerican Energy's counterparties have similar economic, industry or other characteristics and due to direct or indirect relationships among the counterparties. Before entering into a transaction, MidAmerican Energy analyzes the financial condition of each significant wholesale counterparty, establishes limits on the amount of unsecured credit to be extended to each counterparty, and evaluates the appropriateness of unsecured credit limits on an ongoing basis. To further mitigate wholesale counterparty credit risk, MidAmerican Energy enters into netting and collateral arrangements that may include margining and cross-product netting agreements and obtains third-party guarantees, letters of credit and cash deposits. If required, MidAmerican Energy exercises rights under these arrangements, including calling on the counterparty's credit support arrangement.

### *Collateral and Contingent Features*

In accordance with industry practice, certain wholesale derivative contracts contain credit support provisions that in part base MidAmerican Energy's collateral requirements on its credit ratings for senior unsecured debt as reported by one or more of the three recognized credit rating agencies. These derivative contracts may either specifically provide bilateral rights to demand cash or other security if credit exposures on a net basis exceed specified rating-dependent threshold levels ("credit-risk-related contingent features") or provide the right for counterparties to demand "adequate assurance," or in some cases terminate the contract, in the event of a material adverse change in MidAmerican Energy's creditworthiness. These rights can vary by contract and by counterparty. As of December 31, 2014, MidAmerican Energy's credit ratings from the three recognized credit rating agencies were investment grade.

The aggregate fair value of MidAmerican Energy's derivative contracts in liability positions with specific credit-risk-related contingent features totaled \$52 million and \$35 million as of December 31, 2014 and 2013, respectively, for which MidAmerican Energy had posted collateral of \$- million at each date. If all credit-risk-related contingent features for derivative contracts in liability positions had been triggered as of December 31, 2014 and 2013, MidAmerican Energy would have been required to post \$36 million and \$24 million, respectively, of additional collateral. MidAmerican Energy's collateral requirements could fluctuate considerably due to market price volatility, changes in credit ratings, changes in legislation or regulation, or other factors.

#### **(14) Fair Value Measurements**

The carrying value of MidAmerican Energy's cash, certain cash equivalents, receivables, payables, accrued liabilities and short-term borrowings approximates fair value because of the short-term maturity of these instruments. MidAmerican Energy has various financial assets and liabilities that are measured at fair value on the Financial Statements using inputs from the three levels of the fair value hierarchy. A financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

- Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that MidAmerican Energy has the ability to access at the measurement date.
- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3 - Unobservable inputs reflect MidAmerican Energy's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. MidAmerican Energy develops these inputs based on the best information available, including its own data.

The following table presents MidAmerican Energy's assets and liabilities recognized on the Balance Sheets and measured at fair value on a recurring basis (in millions):

	Input Levels for Fair Value Measurements					
	Level 1	Level 2	Level 3	Other <sup>(1)</sup>	Total	
<b>As of December 31, 2014:</b>						
<b>Assets:</b>						
Commodity derivatives	\$ 1	\$ 18	\$ 24	\$ (26)	\$ 17	
Money market mutual funds <sup>(2)</sup>	1	—	—	—	1	
Debt securities:						
United States government obligations	136	—	—	—	136	
International government obligations	—	1	—	—	1	
Corporate obligations	—	39	—	—	39	
Municipal obligations	—	2	—	—	2	
Agency, asset and mortgage-backed obligations	—	2	—	—	2	
Auction rate securities	—	—	26	—	26	
Equity securities:						
United States companies	238	—	—	—	238	
International companies	5	—	—	—	5	
	<u>\$ 381</u>	<u>\$ 62</u>	<u>\$ 50</u>	<u>\$ (26)</u>	<u>\$ 467</u>	
<b>Liabilities - commodity derivatives</b>	<u>\$ (18)</u>	<u>\$ (87)</u>	<u>\$ (12)</u>	<u>\$ 73</u>	<u>\$ (44)</u>	
<b>As of December 31, 2013:</b>						
<b>Assets:</b>						
Commodity derivatives	\$ 3	\$ 16	\$ 6	\$ (23)	\$ 2	
Money market mutual funds <sup>(2)</sup>	95	—	—	—	95	
Debt securities:						
United States government obligations	134	—	—	—	134	
International government obligations	—	1	—	—	1	
Corporate obligations	—	36	—	—	36	
Municipal obligations	—	2	—	—	2	
Agency, asset and mortgage-backed obligations	—	2	—	—	2	
Auction rate securities	—	—	23	—	23	
Equity securities:						
United States companies	214	—	—	—	214	
International companies	4	—	—	—	4	
	<u>\$ 450</u>	<u>\$ 57</u>	<u>\$ 29</u>	<u>\$ (23)</u>	<u>\$ 513</u>	
<b>Liabilities - commodity derivatives</b>	<u>\$ (1)</u>	<u>\$ (42)</u>	<u>\$ (9)</u>	<u>\$ 23</u>	<u>\$ (29)</u>	

(1) Represents netting under master netting arrangements and a net cash collateral receivable of \$47 million and \$- million as of December 31, 2014 and 2013, respectively.

(2) Amounts are included in cash and cash equivalents and investments and nonregulated property, net on the Balance Sheets. The fair value of these money market mutual funds approximates cost.

Derivative contracts are recorded on the Balance Sheets as either assets or liabilities and are stated at estimated fair value unless they are designated as normal purchases or normal sales and qualify for the exception afforded by GAAP. When available, the fair value of derivative contracts is estimated using unadjusted quoted prices for identical contracts in the market in which MidAmerican Energy transacts. When quoted prices for identical contracts are not available, MidAmerican Energy uses forward price curves. Forward price curves represent MidAmerican Energy's estimates of the prices at which a buyer or seller could contract today for delivery or settlement at future dates. MidAmerican Energy bases its forward price curves upon market price quotations, when available, or internally developed and commercial models, with internal and external fundamental data inputs. Market price quotations are obtained from independent energy brokers, exchanges, direct communication with market participants and actual transactions executed by MidAmerican Energy. Market price quotations are generally readily obtainable for the applicable term of MidAmerican Energy's outstanding derivative contracts; therefore, MidAmerican Energy's forward price curves reflect observable market quotes. Market price quotations for certain electricity and natural gas trading hubs are not as readily obtainable due to the length of the contract. Given that limited market data exists for these contracts, as well as for those contracts that are not actively traded, MidAmerican Energy uses forward price curves derived from internal models based on perceived pricing relationships to major trading hubs that are based on unobservable inputs. The estimated fair value of these derivative contracts is a function of underlying forward commodity prices, interest rates, related volatility, counterparty creditworthiness and duration of contracts. Refer to Note 13 for further discussion regarding MidAmerican Energy's risk management and hedging activities.

MidAmerican Energy's investments in money market mutual funds and debt and equity securities are stated at fair value and are accounted for as available-for-sale securities. When available, a readily observable quoted market price or net asset value of an identical security in an active market is used to record the fair value. In the absence of a quoted market price or net asset value of an identical security, the fair value is determined using pricing models or net asset values based on observable market inputs and quoted market prices of securities with similar characteristics. The fair value of MidAmerican Energy's investments in auction rate securities, where there is no current liquid market, is determined using pricing models based on available observable market data and MidAmerican Energy's judgment about the assumptions, including liquidity and nonperformance risks, which market participants would use when pricing the asset.

The following table reconciles the beginning and ending balances of MidAmerican Energy's assets measured at fair value on a recurring basis using significant Level 3 inputs for the years ended December 31 (in millions):

	<b>Commodity Derivatives</b>			<b>Auction Rate Securities</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Beginning balance</b>	\$ (3)	\$ —	\$ 22	\$ 23	\$ 21	\$ 16
Changes included in earnings <sup>(1)</sup>	12	3	5	—	—	—
Changes in fair value recognized in OCI	—	(2)	—	3	2	5
Changes in fair value recognized in net regulatory assets	6	—	(3)	—	—	—
Purchases	1	—	—	—	—	—
Settlements	(4)	(4)	(24)	—	—	—
<b>Ending balance</b>	<b>\$ 12</b>	<b>\$ (3)</b>	<b>\$ —</b>	<b>\$ 26</b>	<b>\$ 23</b>	<b>\$ 21</b>

- (1) Changes included in earnings are reported as nonregulated operating revenue on the Statements of Operations. Net unrealized (losses) gains included in earnings for the years ended December 31, 2014, 2013 and 2012, related to commodity derivatives held at December 31, 2014, 2013 and 2012, totaled \$16 million, \$(5) million and \$- million, respectively.



MidAmerican Energy's long-term debt is carried at cost on the Financial Statements. The fair value of MidAmerican Energy's long-term debt is a Level 2 fair value measurement and has been estimated based upon quoted market prices, where available, or at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risks. The carrying value of MidAmerican Energy's variable-rate long-term debt approximates fair value because of the frequent repricing of these instruments at market rates. The following table presents the carrying value and estimated fair value of MidAmerican Energy's long-term debt as of December 31, (in millions):

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 4,056	\$ 4,581	\$ 3,552	\$ 3,849

# (15) Commitments and Contingencies

## *Commitments*

MidAmerican Energy had the following firm commitments that are not reflected on the Balance Sheet. Minimum payments as of December 31, 2014, are as follows (in millions):

	2015	2016	2017	2018	2019	2020 and Thereafter	Total
<b><u>Contract type:</u></b>							
Coal and natural gas for generation	\$ 190	\$ 118	\$ 92	\$ 41	\$ —	\$ —	\$ 441
Electric capacity and transmission	30	31	30	11	11	66	179
Natural gas contracts for gas operations	148	69	58	22	3	6	306
Construction commitments	767	56	6	—	—	—	829
Operating leases, easements and maintenance and services contracts	47	48	59	71	70	746	1,041
	<u>\$ 1,182</u>	<u>\$ 322</u>	<u>\$ 245</u>	<u>\$ 145</u>	<u>\$ 84</u>	<u>\$ 818</u>	<u>\$ 2,796</u>

## *Coal, Natural Gas, Electric Capacity and Transmission Commitments*

MidAmerican Energy has coal supply and related transportation and lime contracts for its coal-fueled generating facilities. MidAmerican Energy expects to supplement the coal contracts with additional contracts and spot market purchases to fulfill its future coal supply needs. Additionally, MidAmerican Energy has a natural gas transportation contract for a natural gas-fueled generating facility. The contracts have minimum payment commitments ranging through 2018.

MidAmerican Energy has various natural gas supply and transportation contracts for its regulated and nonregulated gas operations that have minimum payment commitments ranging through 2025.

MidAmerican Energy has contracts to purchase electric capacity to meet its electric system energy requirements that have minimum payment commitments ranging through 2028. MidAmerican Energy also has contracts for the right to transmit electricity over other entities' transmission lines with minimum payment commitments ranging through 2019.

## *Construction Commitments*

MidAmerican Energy's firm construction commitments reflected in the table above consist primarily of contracts for the construction of wind-powered generating facilities in 2015 and the construction in 2015 through 2017 of four Multi-Value Projects approved by the Midcontinent Independent System Operator, Inc. for high voltage transmission lines in Iowa and Illinois.

### *Operating Leases, Easements and Maintenance and Services Contracts*

MidAmerican Energy has non-cancelable operating leases with minimum payment commitments ranging through 2020 primarily for office and other building space, rail cars and computer equipment. These leases generally require the Company to pay for insurance, taxes and maintenance applicable to the leased property. Certain leases contain renewal options for varying periods and escalation clauses for adjusting rent to reflect changes in price indices. MidAmerican Energy also has non-cancelable easements with minimum payment commitments ranging through 2061 for land in Iowa on which its wind-powered generating facilities are located. Additionally, MidAmerican Energy has non-cancelable maintenance and services contracts related to various generating facilities with minimum payment commitments ranging through 2027. Payments on non-cancelable operating leases, easements and maintenance and services contracts totaled \$38 million, \$34 million and \$32 million for 2014, 2013 and 2012, respectively.

### *Environmental Laws and Regulations*

MidAmerican Energy is subject to federal, state and local laws and regulations regarding air and water quality, emissions performance standards, climate change, coal combustion byproduct disposal, hazardous and solid waste disposal, protected species and other environmental matters that have the potential to impact its current and future operations. MidAmerican Energy believes it is in material compliance with all applicable laws and regulations.

### *Legal Matters*

MidAmerican Energy is party to a variety of legal actions arising out of the normal course of business. Plaintiffs occasionally seek punitive or exemplary damages. MidAmerican Energy does not believe that such normal and routine litigation will have a material impact on its financial results.

## **(16) Non-Operating Income - Other, Net**

Non-operating income - other, net; as shown on the Statements of Operations, includes the following other income (expense) items for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Corporate-owned life insurance income	\$ 8	\$ 15	\$ 9
Gains on sales of assets and other investments	—	1	2
Other, net	1	(1)	(2)
Total	<u>\$ 9</u>	<u>\$ 15</u>	<u>\$ 9</u>

## **(17) Supplemental Cash Flow Disclosures**

The summary of supplemental cash flow disclosures as of and for the years ending December 31 is as follows (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Supplemental cash flow information:</b>			
Interest paid, net of amounts capitalized	<u>\$ 144</u>	<u>\$ 109</u>	<u>\$ 123</u>
Income taxes received, net	<u>\$ 149</u>	<u>\$ 36</u>	<u>\$ 692</u>
<b>Supplemental disclosure of non-cash investing transactions:</b>			
Accounts payable related to utility plant additions	<u>\$ 128</u>	<u>\$ 117</u>	<u>\$ 122</u>
Deferred payments on equipment purchased for wind-powered generation <sup>(1)</sup>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 406</u>

- (1) In conjunction with the construction of wind-powered generating facilities, MidAmerican Energy accrued in gross utility plant in service amounts it was not contractually obligated to pay until a stated future date. Refer to Note 8 for additional information.

## **(18) Related Party Transactions**

The companies identified as affiliates of MidAmerican Energy are Berkshire Hathaway and its subsidiaries, including BHE and its subsidiaries. The basis for the following transactions is provided for in service agreements between MidAmerican Energy and the affiliates.

MidAmerican Energy is reimbursed for charges incurred on behalf of its affiliates. The majority of these reimbursed expenses are for general costs, such as insurance and building rent, and for employee wages, benefits and costs related to corporate functions such as information technology, human resources, treasury, legal and accounting. The amount of such reimbursements was \$58 million, \$38 million and \$51 million for 2014, 2013 and 2012, respectively.

MidAmerican Energy reimbursed BHE in the amount of \$8 million, \$10 million and \$7 million in 2014, 2013 and 2012, respectively, for its share of corporate expenses.

MidAmerican Energy purchases natural gas transportation and storage capacity services from Northern Natural Gas Company, a wholly owned subsidiary of BHE, and coal transportation services from BNSF Railway Company, a wholly-owned subsidiary of Berkshire Hathaway, in the normal course of business at either tariffed or market prices. These purchases totaled \$144 million, \$155 million and \$59 million in 2014, 2013 and 2012, respectively.

MidAmerican Energy had accounts receivable from affiliates of \$12 million and \$8 million as of December 31, 2014 and 2013, respectively, that are included in receivables on the Balance Sheets. MidAmerican Energy also had accounts payable to affiliates of \$12 million and \$14 million as of December 31, 2014 and 2013, respectively, that are included in accounts payable on the Balance Sheets.

MidAmerican Energy is party to a tax-sharing agreement and is part of the Berkshire Hathaway United States federal income tax return. As of December 31, 2014 and 2013, MidAmerican Energy had current federal and state income taxes receivable from BHE of \$299 million and \$50 million, respectively. MidAmerican Energy received net cash receipts for federal and state income taxes from BHE totaling \$149 million, \$36 million and \$692 million for the years ended December 31, 2014, 2013 and 2012, respectively.

MidAmerican Energy recognizes the full amount of the funded status for its pension and postretirement plans, and amounts attributable to MidAmerican Energy's affiliates that have not previously been recognized through income are recognized as an intercompany balance with such affiliates. MidAmerican Energy adjusts these balances when changes to the funded status of the respective plans are recognized and does not intend to settle the balances currently. Amounts receivable from affiliates attributable to the funded status of employee benefit plans totaled \$13 million and \$5 million as of December 31, 2014 and 2013, respectively, and similar amounts payable to affiliates totaled \$30 million and \$31 million as of December 31, 2014 and 2013, respectively. See Note 11 for further information pertaining to pension and postretirement accounting.

## **(19) Segment Information**

MidAmerican Energy has identified three reportable operating segments: regulated electric, regulated gas and nonregulated energy. The regulated electric segment derives most of its revenue from regulated retail sales of electricity to residential, commercial, and industrial customers and from wholesale sales. The regulated gas segment derives most of its revenue from regulated retail sales of natural gas to residential, commercial, and industrial customers and also obtains revenue by transporting gas owned by others through its distribution system. Pricing for regulated electric and regulated gas sales are established separately by regulatory agencies; therefore, management also reviews each segment separately to make decisions regarding allocation of resources and in evaluating performance. The nonregulated energy segment derives most of its revenue from nonregulated retail electric and gas activities. Common operating costs, interest income, interest expense and income tax expense are allocated to each segment based on certain factors, which primarily relate to the nature of the cost. Refer to Note 10 for a discussion of income tax method changes and related items affecting income tax (benefit) expense for the regulated electric and gas operating segments.

The following tables provide information on a reportable segment basis (in millions):

	Years Ended December 31,		
	2014	2013	2012
<b>Operating revenue:</b>			
Regulated electric	\$ 1,817	\$ 1,762	\$ 1,694
Regulated gas	996	824	659
Nonregulated energy	927	817	889
Total operating revenue	<u>\$ 3,740</u>	<u>\$ 3,403</u>	<u>\$ 3,242</u>
<b>Depreciation and amortization:</b>			
Regulated electric	\$ 312	\$ 366	\$ 356
Regulated gas	39	37	36
Total depreciation and amortization	<u>\$ 351</u>	<u>\$ 403</u>	<u>\$ 392</u>
<b>Operating income:</b>			
Regulated electric	\$ 319	\$ 255	\$ 270
Regulated gas	75	74	47
Nonregulated energy	28	27	53
Total operating income	<u>\$ 422</u>	<u>\$ 356</u>	<u>\$ 370</u>
<b>Fixed charges:</b>			
Regulated electric	\$ 141	\$ 129	\$ 123
Regulated gas	17	15	15
Total fixed charges	<u>\$ 158</u>	<u>\$ 144</u>	<u>\$ 138</u>
<b>Income tax (benefit) expense:</b>			
Regulated electric	\$ (138)	\$ (136)	\$ (129)
Regulated gas	22	23	7
Nonregulated energy	12	10	23
Total income tax (benefit) expense	<u>\$ (104)</u>	<u>\$ (103)</u>	<u>\$ (99)</u>
<b>Earnings on common stock:</b>			
Regulated electric	\$ 361	\$ 292	\$ 297
Regulated gas	40	41	28
Nonregulated energy	16	16	29
Total earnings on common stock	<u>\$ 417</u>	<u>\$ 349</u>	<u>\$ 354</u>

	Years Ended December 31,		
	2014	2013	2012
<b>Utility construction expenditures:</b>			
Regulated electric	\$ 1,429	\$ 945	\$ 588
Regulated gas	97	81	57
Total utility construction expenditures	<u>\$ 1,526</u>	<u>\$ 1,026</u>	<u>\$ 645</u>

	As of December 31,		
	2014	2013	2012
<b>Total assets:</b>			
Regulated electric	\$ 11,859	\$ 10,532	\$ 9,898
Regulated gas	1,231	1,206	1,202
Nonregulated energy	167	131	132
Total assets	<u>\$ 13,257</u>	<u>\$ 11,869</u>	<u>\$ 11,232</u>

**(20) Unaudited Quarterly Operating Results**

	2014			
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
	(In millions)			
Operating revenue	\$ 1,225	\$ 769	\$ 862	\$ 884
Operating income	153	51	160	58
Net income	157	32	170	58
Earnings on common stock	157	32	170	58

	2013			
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
	(In millions)			
Operating revenue	\$ 920	\$ 757	\$ 826	\$ 900
Operating income	106	43	130	77
Net income	103	24	145	78
Earnings on common stock	103	23	145	78

Quarterly data reflect seasonal variations common to a Midwest utility.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Managers and Member of  
MidAmerican Funding, LLC  
Des Moines, Iowa

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of MidAmerican Funding, LLC and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the Company's financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MidAmerican Funding, LLC and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Des Moines, Iowa  
February 27, 2015

**MIDAMERICAN FUNDING, LLC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in millions)

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Utility plant, net:		
Electric	\$ 13,426	\$ 11,936
Gas	1,432	1,365
Gross utility plant in service	14,858	13,301
Accumulated depreciation and amortization	(4,954)	(4,710)
Utility plant in service, net	9,904	8,591
Construction work in progress	606	737
Total utility plant, net	10,510	9,328
Current assets:		
Cash and cash equivalents	30	194
Receivables, net	437	459
Income taxes receivable	303	46
Inventories	185	229
Other	87	65
Total current assets	1,042	993
Other assets:		
Goodwill	1,270	1,270
Regulatory assets	908	748
Investments and nonregulated property, net	651	625
Other	163	203
Total other assets	2,992	2,846
<b>Total assets</b>	<b>\$ 14,544</b>	<b>\$ 13,167</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization:		
MidAmerican Funding member's equity	\$ 5,073	\$ 4,677
Long-term debt, excluding current portion	3,955	3,527
Total capitalization	9,028	8,204
Current liabilities:		
Short-term debt	50	—
Current portion of long-term debt	426	350
Note payable to affiliate	136	135
Accounts payable	392	369
Taxes accrued	128	118
Interest accrued	48	44
Other	131	97
Total current liabilities	1,311	1,113
Other liabilities:		
Deferred income taxes	2,657	2,290
Asset retirement obligations	432	430
Regulatory liabilities	837	875
Other	279	255
Total other liabilities	4,205	3,850
<b>Total capitalization and liabilities</b>	<b>\$ 14,544</b>	<b>\$ 13,167</b>

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

**MIDAMERICAN FUNDING, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Amounts in millions)

	Years Ended December 31,		
	2014	2013	2012
<b>Operating revenue:</b>			
Regulated electric	\$ 1,817	\$ 1,762	\$ 1,694
Regulated gas	996	824	659
Nonregulated	949	827	894
Total operating revenue	3,762	3,413	3,247
<b>Operating costs and expenses:</b>			
Regulated:			
Cost of fuel, energy and capacity	532	517	458
Cost of gas sold	720	558	424
Other operating expenses	477	435	427
Maintenance	222	224	220
Depreciation and amortization	351	403	392
Property and other taxes	123	119	115
Total regulated operating costs and expenses	2,425	2,256	2,036
Nonregulated:			
Cost of sales	881	764	807
Other	33	36	35
Total nonregulated operating costs and expenses	914	800	842
Total operating costs and expenses	3,339	3,056	2,878
<b>Operating income</b>	423	357	369
<b>Non-operating income:</b>			
Interest income	1	1	1
Allowance for equity funds	39	19	14
Other, net	17	21	13
Total non-operating income	57	41	28
<b>Fixed charges:</b>			
Interest on long-term debt	196	173	164
Other interest expense	1	1	3
Allowance for borrowed funds	(16)	(7)	(5)
Total fixed charges	181	167	162
<b>Income before income tax benefit</b>	299	231	235
Income tax benefit	(110)	(110)	(108)
<b>Net income</b>	409	341	343
Net income attributable to noncontrolling interests	—	1	1
<b>Net income attributable to MidAmerican Funding</b>	\$ 409	\$ 340	\$ 342

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



**MIDAMERICAN FUNDING, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 409	\$ 341	\$ 343
Other comprehensive (loss) income, net of tax:			
Unrealized gains on available-for-sale securities, net of tax of \$1, \$1 and \$2	1	1	3
Unrealized (losses) gains on cash flow hedges, net of tax of \$(10), \$9 and \$4	(13)	12	7
Total other comprehensive (loss) income, net of tax	(12)	13	10
Comprehensive income	397	354	353
Comprehensive income attributable to noncontrolling interests	—	1	1
Comprehensive income attributable to MidAmerican Funding	\$ 397	\$ 353	\$ 352

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

**MIDAMERICAN FUNDING, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Amounts in millions)

	<b>MidAmerican Funding Member's Equity</b>				
			<b>Accumulated Other Comprehensive Income (Loss), Net</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>
	<b>Paid-in Capital</b>	<b>Retained Earnings</b>			
<b>Balance, December 31, 2011</b>	\$ 1,679	\$ 2,327	\$ (34)	\$ 28	\$ 4,000
Net income	—	342	—	1	343
Other comprehensive income	—	—	10	—	10
Disposition of subsidiary	—	—	—	(1)	(1)
Distributions to noncontrolling interests	—	—	—	(1)	(1)
<b>Balance, December 31, 2012</b>	1,679	2,669	(24)	27	4,351
Net income	—	340	—	1	341
Other comprehensive income	—	—	13	—	13
Redemption of preferred securities of subsidiary	—	—	—	(28)	(28)
<b>Balance, December 31, 2013</b>	1,679	3,009	(11)	—	4,677
Net income	—	409	—	—	409
Other comprehensive loss	—	—	(12)	—	(12)
Other equity transactions	—	(1)	—	—	(1)
<b>Balance, December 31, 2014</b>	<u>\$ 1,679</u>	<u>\$ 3,417</u>	<u>\$ (23)</u>	<u>\$ —</u>	<u>\$ 5,073</u>

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

**MIDAMERICAN FUNDING, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in millions)

	Years Ended December 31,		
	2014	2013	2012
<b>Cash flows from operating activities:</b>			
Net income	\$ 409	\$ 341	\$ 343
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	351	403	392
Deferred income taxes and amortization of investment tax credits	298	102	175
Changes in other assets and liabilities	47	57	49
Other, net	(49)	(29)	(22)
Changes in other operating assets and liabilities:			
Receivables, net	(2)	(60)	(13)
Inventories	44	13	(40)
Derivative collateral, net	(53)	5	4
Contributions to pension and other postretirement benefit plans, net	(2)	8	(53)
Accounts payable	30	23	12
Taxes accrued, net	(253)	(164)	419
Other current assets and liabilities	—	22	(6)
Net cash flows from operating activities	820	721	1,260
<b>Cash flows from investing activities:</b>			
Utility construction expenditures	(1,526)	(1,026)	(645)
Purchases of available-for-sale securities	(88)	(114)	(64)
Proceeds from sales of available-for-sale securities	80	102	45
Proceeds from sales of other investments	10	16	8
Other, net	5	10	18
Net cash flows from investing activities	(1,519)	(1,012)	(638)
<b>Cash flows from financing activities:</b>			
Proceeds from long-term debt	847	947	—
Repayments of long-term debt	(356)	(670)	(283)
Redemption of preferred securities of subsidiary	—	(28)	—
Net change in note payable to affiliate	1	(111)	15
Net proceeds from short-term debt	50	—	—
Other, net	(7)	(7)	(1)
Net cash flows from financing activities	535	131	(269)
<b>Net change in cash and cash equivalents</b>	<b>(164)</b>	<b>(160)</b>	<b>353</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>194</b>	<b>354</b>	<b>1</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 30</b>	<b>\$ 194</b>	<b>\$ 354</b>

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

**MIDAMERICAN FUNDING, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CAPITALIZATION**  
(Amounts in millions, except share amounts)

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>MidAmerican Funding member's equity:</b>		
Paid-in capital	\$ 1,679	\$ 1,679
Retained earnings	3,417	3,009
Accumulated other comprehensive loss, net:		
Unrealized losses on available-for-sale securities, net of tax of \$(2) and \$(3)	(3)	(4)
Unrealized losses on cash flow hedges, net of tax of \$(14) and \$(4)	(20)	(7)
MidAmerican Funding member's equity	<u>5,073</u>	<u>4,677</u>
<b>Long-term debt, excluding current portion:</b>		
MidAmerican Energy:		
First mortgage bonds:		
2.40%, due 2019	500	350
3.70%, due 2023	250	250
3.50%, due 2024	300	—
4.80%, due 2043	350	350
4.40%, due 2044	400	—
Notes:		
5.95% Series, due 2017	250	250
5.3% Series, due 2018	350	350
6.75% Series, due 2031	400	400
5.75% Series, due 2035	300	300
5.8% Series, due 2036	350	350
Turbine purchase obligation, 1.43%, due 2015	—	426
Variable-rate tax-exempt bond obligation series (2014- 0.07%, 2013- 0.08%):		
Due 2016	34	34
Due 2017	4	4
Due 2023, issued in 1993	7	7
Due 2023, issued in 2008	57	57
Due 2024	35	35
Due 2025	13	13
Due 2038	45	45
Unamortized debt discount	(15)	(19)
Total MidAmerican Energy	<u>3,630</u>	<u>3,202</u>
MidAmerican Funding parent 6.927% senior secured bonds, due 2029	325	325
Long-term debt, excluding current portion	<u>3,955</u>	<u>3,527</u>
<b>Total capitalization</b>	<u><u>\$ 9,028</u></u>	<u><u>\$ 8,204</u></u>

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

**MIDAMERICAN FUNDING, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Company Organization**

MidAmerican Funding, LLC ("MidAmerican Funding") is an Iowa limited liability company with Berkshire Hathaway Energy Company ("BHE") as its sole member. BHE is a consolidated subsidiary of Berkshire Hathaway Inc. ("Berkshire Hathaway"). MidAmerican Funding's direct wholly owned subsidiary is MHC Inc. ("MHC"), which constitutes substantially all of MidAmerican Funding's assets, liabilities and business activities except those related to MidAmerican Funding's long-term debt securities. MHC conducts no business other than the ownership of its subsidiaries and related corporate services. MHC's principal subsidiary is MidAmerican Energy Company ("MidAmerican Energy"), a public utility with electric and natural gas operations. Direct, wholly owned nonregulated subsidiaries of MHC are Midwest Capital Group, Inc. ("Midwest Capital Group") and MEC Construction Services Co.

**(2) Summary of Significant Accounting Policies**

In addition to the following significant accounting policies, refer to Note 2 of MidAmerican Energy's Notes to Financial Statements for significant accounting policies of MidAmerican Funding.

*Basis of Consolidation and Presentation*

The Consolidated Financial Statements include the accounts of MidAmerican Funding and its subsidiaries in which it held a controlling financial interest as of the financial statement date. Intercompany accounts and transactions have been eliminated, other than those between rate-regulated operations.

*Goodwill*

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired when MidAmerican Funding purchased MHC. MidAmerican Funding evaluates goodwill for impairment at least annually and completed its annual review as of October 31. When evaluating goodwill for impairment, MidAmerican Funding estimates the fair value of the reporting unit. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, then the identifiable assets, including identifiable intangible assets, and liabilities of the reporting unit are estimated at fair value as of the current testing date. The excess of the estimated fair value of the reporting unit over the current estimated fair value of net assets establishes the implied value of goodwill. The excess of the recorded goodwill over the implied goodwill value is charged to earnings as an impairment loss. Significant judgment is required in estimating the fair value of the reporting unit and performing goodwill impairment tests. MidAmerican Funding uses a variety of methods to estimate a reporting unit's fair value, principally discounted projected future net cash flows. Key assumptions used include, but are not limited to, the use of estimated future cash flows; multiples of earnings; and an appropriate discount rate. In estimating future cash flows, MidAmerican Funding incorporates current market information, as well as historical factors. As such, the determination of fair value incorporates significant unobservable inputs. During 2014, 2013 and 2012, MidAmerican Funding did not record any goodwill impairments.

**(3) Jointly Owned Utility Facilities**

Refer to Note 3 of MidAmerican Energy's Notes to Financial Statements.

**(4) Regulatory Matters**

Refer to Note 4 of MidAmerican Energy's Notes to Financial Statements.

## **(5) Investments and Nonregulated Property, Net**

Investments and nonregulated property, net consists of the following amounts as of December 31 (in millions):

	<u>2014</u>	<u>2013</u>
Nuclear decommissioning trust	\$ 424	\$ 394
Rabbi trusts	177	177
Auction rate securities	26	23
Nonregulated property, net of accumulated depreciation of \$11 and \$11, respectively	21	21
Other	3	10
Total	<u>\$ 651</u>	<u>\$ 625</u>

In addition to the following discussion, refer to Note 5 of MidAmerican Energy's Notes to Financial Statements for additional information regarding the investments included in the table above. In addition to assets of MidAmerican Energy, nonregulated property, net includes a corporate aircraft owned by MHC.

## **(6) Components of Accumulated Other Comprehensive Loss, Net**

Refer to Note 6 of MidAmerican Energy's Notes to Financial Statements.

## **(7) Noncontrolling Interests**

Refer to Note 7 of MidAmerican Energy's Notes to Financial Statements for a discussion of MidAmerican Energy's preferred securities, which were MidAmerican Funding's noncontrolling interest at the time of their redemption.

## **(8) Long-Term Debt**

Refer to MidAmerican Funding's Consolidated Statements of Capitalization for detail of long-term debt and to Note 8 of MidAmerican Energy's Notes to Financial Statements for a discussion of its long-term debt. In addition to MidAmerican Energy's annual repayments of long-term debt, MidAmerican Funding has \$325 million of long-term debt due in 2029.

MidAmerican Funding parent company long-term debt is secured by a pledge of the common stock of MHC. See Item 15(c) for the Consolidated Financial Statements of MHC Inc. and subsidiaries. The bonds are the direct senior secured obligations of MidAmerican Funding and effectively rank junior to all indebtedness and other liabilities of the direct and indirect subsidiaries of MidAmerican Funding, to the extent of the assets of these subsidiaries. MidAmerican Funding may redeem the bonds in whole or in part at any time at a redemption price equal to the sum of any accrued and unpaid interest to the date of redemption and the greater of (1) 100% of the principal amount of the bonds or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the bonds, discounted to the date of redemption on a semiannual basis at the treasury yield plus 25 basis points.

Subsidiaries of MidAmerican Funding must make payments on their own indebtedness before making distributions to MidAmerican Funding. Refer to Note 8 of MidAmerican Energy's Notes to Financial Statements for a discussion of utility regulatory restrictions affecting distributions from MidAmerican Energy. As a result of the utility regulatory restrictions agreed to by MidAmerican Energy in March 1999, MidAmerican Funding had restricted net assets of \$2.9 billion as of December 31, 2014.

As of December 31, 2014, MidAmerican Funding was in compliance with all of its applicable long-term debt covenants.

Each of MidAmerican Funding's direct or indirect subsidiaries is organized as a legal entity separate and apart from MidAmerican Funding and its other subsidiaries. It should not be assumed that any asset of any subsidiary of MidAmerican Funding will be available to satisfy the obligations of MidAmerican Funding or any of its other subsidiaries; provided, however, that unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing arrangements of such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to MidAmerican Funding, one of its subsidiaries or affiliates thereof.

## (9) Short-Term Debt and Credit Facilities

Refer to Note 9 of MidAmerican Energy's Notes to Financial Statements. In addition to MidAmerican Energy's credit facilities, MHC has a \$4 million unsecured credit facility, which expires in June 2015 and has a variable interest rate based on LIBOR plus a spread. As of December 31, 2014 and 2013, there were no borrowings outstanding under this credit facility. As of December 31, 2014, MHC was in compliance with the covenants of its credit facility.

## (10) Income Taxes

MidAmerican Funding's income tax benefit consists of the following for the years ended December 31 (in millions):

	2014	2013	2012
<b>Current:</b>			
Federal	\$ (404)	\$ (200)	\$ (260)
State	(4)	(12)	(23)
	<u>(408)</u>	<u>(212)</u>	<u>(283)</u>
<b>Deferred:</b>			
Federal	297	100	198
State	2	3	(21)
	<u>299</u>	<u>103</u>	<u>177</u>
<b>Investment tax credits</b>	(1)	(1)	(2)
Total	<u>\$ (110)</u>	<u>\$ (110)</u>	<u>\$ (108)</u>

A reconciliation of the federal statutory income tax rate MidAmerican Funding's the effective income tax rate applicable to income before income tax benefit is as follows for the years ended December 31:

	2014	2013	2012
Federal statutory income tax rate	35 %	35 %	35 %
Income tax credits	(61)	(75)	(60)
State income tax, net of federal income tax benefit	(1)	(3)	(12)
Income tax method changes	—	—	(6)
Effects of ratemaking	(9)	(3)	(1)
Other, net	(1)	(2)	(2)
Effective income tax rate	<u>(37)%</u>	<u>(48)%</u>	<u>(46)%</u>

Income tax credits relate primarily to production tax credits earned by MidAmerican Energy's wind-powered generating facilities. Federal renewable electricity production tax credits are earned as energy from qualifying wind-powered generating facilities is produced and sold and are based on a per-kilowatt hour rate pursuant to the applicable federal income tax law. Wind-powered generating facilities are eligible for the credits for 10 years from the date the qualifying generating facilities are placed in-service.

MidAmerican Energy's income tax benefit for the year ended December 31, 2012, reflects \$16 million of federal income tax benefits recognized in connection with an income tax method change for income tax years prior to 2012 related to repair costs for its regulated utility electric transmission and distribution assets based on guidance published by the Internal Revenue Service.

The income tax method change results in current deductibility for applicable repair costs, which are capitalized for book purposes. MidAmerican Energy retroactively applied the method changes and deducted amounts related to prior years' costs on the tax return that includes the year of change. State utility rate regulation in Iowa requires that the tax effect of certain temporary differences be flowed through immediately to customers. Therefore, certain deferred amounts that would otherwise have been recognized in income tax expense have been included as changes in regulatory assets in recognition of MidAmerican Energy's ability to recover increased tax expense when such temporary differences reverse. This treatment of such temporary differences impacts income tax expense and effective income tax rates from year to year.

MidAmerican Funding's net deferred income tax liability consists of the following as of December 31 (in millions):

	<b>2014</b>	<b>2013</b>
<b>Deferred income tax assets:</b>		
Regulatory liabilities	\$ 332	\$ 351
Employee benefits	68	61
Derivative contracts	30	9
Asset retirement obligations	185	172
Other	69	72
Total deferred income tax assets	<u>684</u>	<u>665</u>
<b>Deferred income tax liabilities:</b>		
Depreciable property	(2,950)	(2,604)
Regulatory assets	(366)	(304)
Other	(25)	(43)
Total deferred income tax liabilities	<u>(3,341)</u>	<u>(2,951)</u>
Net deferred income tax liability	<u>\$ (2,657)</u>	<u>\$ (2,286)</u>
<b>Reflected as:</b>		
Current assets - other	\$ —	\$ 4
Deferred income taxes	(2,657)	(2,290)
	<u>\$ (2,657)</u>	<u>\$ (2,286)</u>

As of December 31, 2014, MidAmerican Funding has available \$20 million of state carryforwards, principally related to \$429 million of net operating losses, that expire at various intervals between 2015 and 2033.

The United States Internal Revenue Service has effectively settled its examination of BHE's income tax returns through December 2009, including components related to MidAmerican Funding. In addition, state jurisdictions have closed their examinations of MidAmerican Funding's income tax returns through at least February 9, 2006, including Iowa and Illinois, which are closed through December 31, 2012, and December 31, 2008, respectively.



A reconciliation of the beginning and ending balances of MidAmerican Funding's net unrecognized tax benefits is as follows for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>
<b>Beginning balance</b>	\$ 29	\$ 37
Additions based on tax positions related to the current year	6	11
Additions for tax positions of prior years	38	3
Reductions based on tax positions related to the current year	(4)	(10)
Reductions for tax positions of prior years	(40)	(9)
Statute of limitations	(3)	(2)
Settlements	—	(1)
<b>Ending balance</b>	<u>\$ 26</u>	<u>\$ 29</u>

As of December 31, 2014 and 2013, substantially all of MidAmerican Funding's unrecognized tax benefits of \$26 million and \$29 million, respectively, if recognized, would have an impact on the effective tax rate. The unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility.

#### (11) Employee Benefit Plans

Refer to Note 11 of MidAmerican Energy's Notes to Financial Statements for additional information regarding MidAmerican Funding's pension, supplemental retirement and postretirement benefit plans.

Pension and postretirement costs allocated by MidAmerican Funding to its parent and other affiliates in each of the years ended December 31, were as follows (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Pension costs	\$ 4	\$ 6	\$ 5
Other postretirement costs	(2)	(2)	(2)

#### (12) Asset Retirement Obligations

Refer to Note 12 of MidAmerican Energy's Notes to Financial Statements.

#### (13) Risk Management and Hedging Activities

Refer to Note 13 of MidAmerican Energy's Notes to Financial Statements.

#### (14) Fair Value Measurements

Refer to Note 14 of MidAmerican Energy's Notes to Financial Statements.

MidAmerican Funding's long-term debt is carried at cost on the Consolidated Financial Statements. The fair value of MidAmerican Funding's long-term debt is a Level 2 fair value measurement and has been estimated based upon quoted market prices, where available, or at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risks. The carrying value of MidAmerican Funding's variable-rate long-term debt approximates fair value because of the frequent repricing of these instruments at market rates. The following table presents the carrying value and estimated fair value of MidAmerican Funding's long-term debt as of December 31 (in millions):

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 4,381	\$ 5,012	\$ 3,877	\$ 4,245

#### (15) Commitments and Contingencies

Refer to Note 15 of MidAmerican Energy's Notes to Financial Statements.

##### *Legal Matters*

MidAmerican Funding is party to a variety of legal actions arising out of the normal course of business. Plaintiffs occasionally seek punitive or exemplary damages. MidAmerican Funding does not believe that such normal and routine litigation will have a material impact on its consolidated financial results.

#### (16) Non-Operating Income - Other, Net

Non-operating income - other, net; as shown on the Consolidated Statements of Operations, includes the following other income (expense) items for the years ended December 31 (in millions):

	2014	2013	2012
Corporate-owned life insurance income	\$ 8	\$ 15	\$ 9
Gains on sales of assets and other investments	—	1	2
Leverage leases	5	2	2
Other, net	4	3	—
Total	\$ 17	\$ 21	\$ 13

## (17) Supplemental Cash Flow Information

The summary of supplemental cash flow information as of and for the years ending December 31 is as follows (in millions):

	2014	2013	2012
<b>Supplemental cash flow information:</b>			
Interest paid, net of amounts capitalized	\$ 167	\$ 132	\$ 147
Income taxes received, net	\$ 153	\$ 42	\$ 698
<b>Supplemental disclosure of non-cash investing transactions:</b>			
Accounts payable related to utility plant additions	\$ 128	\$ 117	\$ 122
Deferred payments on equipment purchased for wind-powered generation at MidAmerican Energy <sup>(1)</sup>	\$ —	\$ —	\$ 406

- (1) In conjunction with the construction of wind-powered generating facilities, MidAmerican Energy accrued in gross utility plant in service amounts it was not contractually obligated to pay until a stated future date. Refer to Note 8 for additional information.

## (18) Related Party Transactions

The companies identified as affiliates of MidAmerican Funding are Berkshire Hathaway and its subsidiaries, including BHE and its subsidiaries. The basis for the following transactions is provided for in service agreements between MidAmerican Funding and the affiliates.

MidAmerican Funding is reimbursed for charges incurred on behalf of its affiliates. The majority of these reimbursed expenses are for allocated general costs, such as insurance and building rent, and for employee wages, benefits and costs for corporate functions, such as information technology, human resources, treasury, legal and accounting. The amount of such reimbursements was \$37 million, \$28 million and \$42 million for 2014, 2013 and 2012, respectively.

MidAmerican Funding reimbursed BHE in the amount of \$8 million, \$10 million and \$7 million in 2014, 2013 and 2012, respectively, for its share of corporate expenses.

MidAmerican Energy purchases natural gas transportation and storage capacity services from Northern Natural Gas Company, a wholly owned subsidiary of BHE, and coal transportation services from BNSF Railway Company, a wholly-owned subsidiary of Berkshire Hathaway, in the normal course of business at either tariffed or market prices. These purchases totaled \$144 million, \$155 million and \$59 million in 2014, 2013 and 2012, respectively.

MHC has a \$300 million revolving credit arrangement carrying interest at the 30-day LIBOR rate plus a spread to borrow from BHE. Outstanding balances are unsecured and due on demand. The outstanding balance was \$136 million at an interest rate of 0.408% as of December 31, 2014, and \$135 million at an interest rate of 0.418% as of December 31, 2013, and is reflected as note payable to affiliate on the Consolidated Balance Sheet.

BHE has a \$100 million revolving credit arrangement, carrying interest at the 30-day LIBOR rate plus a spread to borrow from MHC. Outstanding balances are unsecured and due on demand. There were no borrowings outstanding throughout 2014 and 2013.

MidAmerican Funding had accounts receivable from affiliates of \$7 million as of December 31, 2014 and 2013, respectively, that are included in receivables, net on the Consolidated Balance Sheets. MidAmerican Funding also had accounts payable to affiliates of \$12 million and \$14 million as of December 31, 2014 and 2013, respectively, that are included in accounts payable on the Consolidated Balance Sheets.

MidAmerican Funding is party to a tax-sharing agreement and is part of the Berkshire Hathaway United States federal income tax return. As of December 31, 2014 and 2013, MidAmerican Funding had current federal and state income taxes receivable from BHE of \$296 million and \$46 million, respectively. MidAmerican Funding received net cash receipts for federal and state income taxes from BHE totaling \$154 million, \$42 million and \$698 million for the years ended December 31, 2014, 2013 and 2012, respectively.

MidAmerican Funding recognizes the full amount of the funded status for its pension and postretirement plans, and amounts attributable to MidAmerican Funding's affiliates that have not previously been recognized through income are recognized as an intercompany balance with such affiliates. MidAmerican Funding adjusts these balances when changes to the funded status of the respective plans are recognized and does not intend to settle the balances currently. Amounts receivable from affiliates attributable to the funded status of employee benefit plans totaled \$13 million and \$5 million as of December 31, 2014 and 2013, respectively, and similar amounts payable to affiliates totaled \$30 million and \$31 million as of December 31, 2014 and 2013, respectively. See Note 11 for further information pertaining to pension and postretirement accounting.

The indenture pertaining to MidAmerican Funding's long-term debt restricts MidAmerican Funding from paying a distribution on its equity securities, unless after making such distribution either its debt to total capital ratio does not exceed 0.67:1 and its interest coverage ratio is not less than 2.2:1 or its senior secured long-term debt rating is at least BBB or its equivalent. MidAmerican Funding may seek a release from this restriction upon delivery to the indenture trustee of written confirmation from the ratings agencies that without this restriction MidAmerican Funding's senior secured long-term debt would be rated at least BBB+.

## **(19) Segment Information**

MidAmerican Funding has identified three reportable operating segments: regulated electric, regulated gas and nonregulated energy. The regulated electric segment derives most of its revenue from regulated retail sales of electricity to residential, commercial, and industrial customers and from wholesale sales. The regulated gas segment derives most of its revenue from regulated retail sales of natural gas to residential, commercial, and industrial customers and also obtains revenue by transporting gas owned by others through its distribution system. Pricing for regulated electric and regulated gas sales are established separately by regulatory agencies; therefore, management also reviews each segment separately to make decisions regarding allocation of resources and in evaluating performance. The nonregulated energy segment derives most of its revenue from nonregulated retail electric and gas activities. Common operating costs, interest income, interest expense and income tax expense are allocated to each segment based on certain factors, which primarily relate to the nature of the cost. "Other" in the tables below consists of the nonregulated subsidiaries of MidAmerican Funding not engaged in the energy business and parent company interest expense. Refer to Note 10 for a discussion of income tax method changes and related items affecting income tax (benefit) expense for the regulated electric and gas operating segments.

The following tables provide information on a reportable segment basis (in millions):

	Years Ended December 31,		
	2014	2013	2012
<b>Operating revenue:</b>			
Regulated electric	\$ 1,817	\$ 1,762	\$ 1,694
Regulated gas	996	824	659
Nonregulated energy	927	817	889
Other	22	10	5
Total operating revenue	<u>\$ 3,762</u>	<u>\$ 3,413</u>	<u>\$ 3,247</u>
<b>Depreciation and amortization:</b>			
Regulated electric	\$ 312	\$ 366	\$ 356
Regulated gas	39	37	36
Total depreciation and amortization	<u>\$ 351</u>	<u>\$ 403</u>	<u>\$ 392</u>
<b>Operating income:</b>			
Regulated electric	\$ 319	\$ 255	\$ 270
Regulated gas	75	74	47
Nonregulated energy	28	27	53
Other	1	1	(1)
Total operating income	<u>\$ 423</u>	<u>\$ 357</u>	<u>\$ 369</u>
<b>Fixed charges:</b>			
Regulated electric	\$ 141	\$ 129	\$ 123
Regulated gas	17	15	15
Other	23	23	24
Total fixed charges	<u>\$ 181</u>	<u>\$ 167</u>	<u>\$ 162</u>
<b>Income tax (benefit) expense:</b>			
Regulated electric	\$ (138)	\$ (136)	\$ (129)
Regulated gas	22	23	7
Nonregulated energy	12	10	23
Other	(6)	(7)	(9)
Total income tax (benefit) expense	<u>\$ (110)</u>	<u>\$ (110)</u>	<u>\$ (108)</u>
<b>Net income attributable to MidAmerican Funding:</b>			
Regulated electric	\$ 361	\$ 292	\$ 297
Regulated gas	40	41	28
Nonregulated energy	16	16	29
Other	(8)	(9)	(12)
Total net income attributable to MidAmerican Funding	<u>\$ 409</u>	<u>\$ 340</u>	<u>\$ 342</u>
<b>Utility construction expenditures:</b>			
Regulated electric	\$ 1,429	\$ 945	\$ 588
Regulated gas	97	81	57
Total utility construction expenditures	<u>\$ 1,526</u>	<u>\$ 1,026</u>	<u>\$ 645</u>

	As of December 31,		
	2014	2013	2012
<b>Total assets:</b>			
Regulated electric	\$ 13,050	\$ 11,723	\$ 11,089
Regulated gas	1,310	1,285	1,280
Nonregulated energy	167	131	132
Other	17	28	29
Total assets	<u>\$ 14,544</u>	<u>\$ 13,167</u>	<u>\$ 12,530</u>

Goodwill by reportable segment as of December 31, 2014 and 2013, was as follows (in millions):

Regulated electric	\$ 1,191
Regulated gas	79
Total	<u>\$ 1,270</u>

## (20) Unaudited Quarterly Operating Results

	2014			
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
	(In millions)			
Operating revenue	\$ 1,230	\$ 775	\$ 864	\$ 893
Operating income	153	51	161	58
Net income	155	30	168	56
Net income attributable to MidAmerican Funding	155	30	168	56

	2013			
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
	(In millions)			
Operating revenue	\$ 921	\$ 759	\$ 828	\$ 905
Operating income	106	43	130	78
Net income	100	22	143	76
Net income attributable to MidAmerican Funding	100	21	143	76

Quarterly data reflect seasonal variations common to a Midwest utility.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

*Disclosure Controls and Procedures*

At the end of the period covered by this Annual Report on Form 10-K, the Company (MidAmerican Energy or MidAmerican Funding, as applicable) carried out an evaluation, under the supervision and with the participation of the Company's respective management, including the Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended). Based upon that evaluation, the Company's management, including the Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to management, including the Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

*Management's Report on Internal Control over Financial Reporting*

Management of the Company (MidAmerican Energy or MidAmerican Funding, as applicable) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Under the supervision and with the participation of the Company's management, including the Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), the Company's management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 as required by the Securities Exchange Act of 1934 Rule 13a-15(c). In making this assessment, the Company's management used the criteria set forth in the framework in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation conducted under the framework in "Internal Control - Integrated Framework (2013)," the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

MidAmerican Energy Company  
February 27, 2015

MidAmerican Funding, LLC  
February 27, 2015

**Item 9B. Other Information**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Information required by Item 10 is omitted pursuant to General Instruction I(2)(c) to Form 10-K.

### Item 11. Executive Compensation

Information required by Item 11 is omitted pursuant to General Instruction I(2)(c) to Form 10-K.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by Item 12 is omitted pursuant to General Instruction I(2)(c) to Form 10-K.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by Item 13 is omitted pursuant to General Instruction I(2)(c) to Form 10-K.

### Item 14. Principal Accountant Fees and Services

The following table shows MidAmerican Funding's (consolidated) and MidAmerican Energy's fees paid or accrued for audit and audit-related services and fees paid for tax and all other services rendered by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu Limited, and their respective affiliates (collectively, the "Deloitte Entities") for each of the last two years (in millions):

	<b>MidAmerican Funding</b>		<b>MidAmerican Energy</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Audit fees <sup>(1)</sup>	\$ 1.1	\$ 1.2	\$ 1.0	\$ 1.0
Audit-related fees <sup>(2)</sup>	0.1	0.2	0.1	0.2
Tax fees <sup>(3)</sup>	—	—	—	—
All other fees	—	—	—	—
<b>Total</b>	<b>\$ 1.2</b>	<b>\$ 1.4</b>	<b>\$ 1.1</b>	<b>\$ 1.2</b>

- (1) Audit fees include fees for the audit of MidAmerican Funding's and MidAmerican Energy's consolidated financial statements and interim reviews of their quarterly financial statements, audit services provided in connection with required statutory audits, and comfort letters, consents and other services related to SEC matters.
- (2) Audit-related fees primarily include fees for assurance and related services for any other statutory or regulatory requirements, audits of certain employee benefit plans and consultations on various accounting and reporting matters.
- (3) Tax fees include fees for services relating to tax compliance, tax planning and tax advice. These services include assistance regarding federal and state tax compliance, tax return preparation and tax audits.

The audit committee of BHE has considered whether the non-audit services provided to MidAmerican Funding and MidAmerican Energy by the Deloitte Entities impaired the independence of the Deloitte Entities and concluded that they did not. All of the services performed by the Deloitte Entities were pre-approved in accordance with the pre-approval policy adopted by the audit committee of BHE. The policy provides guidelines for the audit, audit-related, tax and other non-audit services that may be provided by the Deloitte Entities to MidAmerican Funding and MidAmerican Energy. The policy (a) identifies the guiding principles that must be considered by the audit committee of BHE in approving services to ensure that the Deloitte Entities' independence is not impaired; (b) describes the audit, audit-related and tax services that may be provided and the non-audit services that are prohibited; and (c) sets forth pre-approval requirements for all permitted services. Under the policy, requests to provide services that require specific approval by the audit committee of BHE will be submitted to the audit committee of BHE by both MidAmerican Funding's and MidAmerican Energy's independent auditor and BHE's Chief Financial Officer. All requests for services to be provided by the independent auditor that do not require specific approval by the audit committee of BHE will be submitted to BHE's Chief Financial Officer and must include a detailed description of the services to be rendered. BHE's Chief Financial Officer will determine whether such services are included within the list of services that have received the general pre-approval of the audit committee of BHE. The audit committee of BHE will be informed on a timely basis of any such services rendered by the independent auditor.



## PART IV

### Item 15. Exhibits and Financial Statement Schedules

#### INDEX

	<u>Page</u>
(a)(1) Financial Statements (included herein)	
Financial statements of MidAmerican Energy and MidAmerican Funding, as well as the Reports of Independent Registered Public Accounting Firm, are in Item 8 of this Form 10-K.	<a href="#"><u>53</u></a>
(a)(2) Financial Statement Schedules	
The following schedules should be read in conjunction with the aforementioned financial statements. Other schedules are omitted because they are not required or the information therein is not applicable, or is reflected on the financial statements or notes thereto.	
MidAmerican Funding, LLC Parent Company Only Condensed Financial Statements (Schedule I)	<a href="#"><u>130</u></a>
MHC Inc. Parent Company Only Condensed Financial Statements (Schedule I)	<a href="#"><u>134</u></a>
MidAmerican Energy Company Valuation and Qualifying Accounts (Schedule II)	<a href="#"><u>138</u></a>
MidAmerican Funding, LLC and Subsidiaries; MHC Inc. and Subsidiaries Consolidated Valuation and Qualifying Accounts (Schedule II)	<a href="#"><u>139</u></a>
(b) Exhibits	
Exhibits Index	<a href="#"><u>142</u></a>
(c) Financial Statements of Affiliate Pledged as Collateral	
MHC Inc. Consolidated Financial Statements	<a href="#"><u>113</u></a>

**Item 15(c) MHC Inc. Consolidated Financial Statements**

The accompanying Consolidated Financial Statements of MHC Inc., the direct wholly owned subsidiary of MidAmerican Funding, are being provided pursuant to Rule 3-16 of the U. S. Securities and Exchange Commission's Regulation S-X. The purpose of these financial statements is to provide information about the assets and equity interests that collateralize MidAmerican Funding's long-term debt and that, upon the occurrence of any triggering event under the collateral agreement, would be available to satisfy the applicable debt obligations.

MHC Inc. and Subsidiaries

<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	<a href="#"><u>114</u></a>
<a href="#"><u>Consolidated Balance Sheets</u></a>	<a href="#"><u>115</u></a>
<a href="#"><u>Consolidated Statements of Operations</u></a>	<a href="#"><u>116</u></a>
<a href="#"><u>Consolidated Statements of Comprehensive Income</u></a>	<a href="#"><u>117</u></a>
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<a href="#"><u>Consolidated Statements of Capitalization</u></a>	<a href="#"><u>120</u></a>
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	<a href="#"><u>121</u></a>

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of  
MHC Inc.  
Des Moines, Iowa

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of MHC Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the Company's financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MHC Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Des Moines, Iowa  
February 27, 2015

**MHC INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in millions)

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Utility plant, net:		
Electric	\$ 13,426	\$ 11,936
Gas	1,432	1,365
Gross utility plant in service	14,858	13,301
Accumulated depreciation and amortization	(4,954)	(4,710)
Utility plant in service, net	9,904	8,591
Construction work in progress	606	737
Total utility plant, net	10,510	9,328
Current assets:		
Cash and cash equivalents	30	194
Receivables, net	435	457
Income taxes receivable	303	46
Inventories	185	229
Other	87	65
Total current assets	1,040	991
Other assets:		
Goodwill	1,270	1,270
Regulatory assets	908	748
Investments and nonregulated property, net	651	625
Receivable from affiliate	274	261
Other	164	203
Total other assets	3,267	3,107
<b>Total assets</b>	<b>\$ 14,817</b>	<b>\$ 13,426</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization:		
MHC common shareholder's equity	\$ 5,679	\$ 5,269
Long-term debt, excluding current portion	3,630	3,202
Total capitalization	9,309	8,471
Current liabilities:		
Short-term debt	50	—
Current portion of long-term debt	426	350
Note payable to affiliate	136	135
Accounts payable	392	369
Taxes accrued	128	118
Interest accrued	40	37
Other	131	97
Total current liabilities	1,303	1,106
Other liabilities:		
Deferred income taxes	2,657	2,290
Asset retirement obligations	432	430
Regulatory liabilities	837	875
Other	279	254
Total other liabilities	4,205	3,849
<b>Total capitalization and liabilities</b>	<b>\$ 14,817</b>	<b>\$ 13,426</b>

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

**MHC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Amounts in millions)

	Years Ended December 31,		
	2014	2013	2012
<b>Operating revenue:</b>			
Regulated electric	\$ 1,817	\$ 1,762	\$ 1,694
Regulated gas	996	824	659
Nonregulated	949	827	894
Total operating revenue	3,762	3,413	3,247
<b>Operating costs and expenses:</b>			
Regulated:			
Cost of fuel, energy and capacity	532	517	458
Cost of gas sold	720	558	424
Other operating expenses	477	435	427
Maintenance	222	224	220
Depreciation and amortization	351	403	392
Property and other taxes	123	119	115
Total regulated operating costs and expenses	2,425	2,256	2,036
Nonregulated:			
Cost of sales	881	764	807
Other	33	36	35
Total nonregulated operating costs and expenses	914	800	842
Total operating expenses	3,339	3,056	2,878
<b>Operating income</b>	423	357	369
<b>Non-operating income:</b>			
Interest and dividend income	1	1	1
Allowance for equity funds	39	19	14
Other, net	17	21	14
Total non-operating income	57	41	29
<b>Fixed charges:</b>			
Interest on long-term debt	174	151	142
Other interest expense	1	1	3
Allowance for borrowed funds	(16)	(7)	(5)
Total fixed charges	159	145	140
<b>Income before income tax benefit</b>	321	253	258
Income tax benefit	(101)	(101)	(98)
<b>Net income</b>	422	354	356
Net income attributable to noncontrolling interests	—	1	1
<b>Net income attributable to MHC</b>	\$ 422	\$ 353	\$ 355

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

**MHC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 422	\$ 354	\$ 356
Other comprehensive (loss) income, net of tax:			
Unrealized gains on available-for-sale securities, net of tax of \$1, \$1 and \$2	1	1	3
Unrealized (losses) gains on cash flow hedges, net of tax of \$(10), \$9 and \$4	(13)	12	7
Total other comprehensive (loss) income, net of tax	(12)	13	10
Comprehensive income	410	367	366
Comprehensive income attributable to noncontrolling interests	—	1	1
Comprehensive income attributable to MHC	\$ 410	\$ 366	\$ 365

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

**MHC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Amounts in millions)

	<b>MHC Common Shareholder's Equity</b>				
			<b>Accumulated Other Comprehensive Income (Loss), Net</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>
	<b>Paid-in Capital</b>	<b>Retained Earnings</b>			
<b>Balance, December 31, 2011</b>	\$ 2,430	\$ 2,142	\$ (34)	\$ 28	\$ 4,566
Net income	—	355	—	1	356
Other comprehensive income	—	—	10	—	10
Disposition of subsidiary	—	—	—	(1)	(1)
Distributions to noncontrolling interests	—	—	—	(1)	(1)
<b>Balance, December 31, 2012</b>	2,430	2,497	(24)	27	4,930
Net income	—	353	—	1	354
Other comprehensive income	—	—	13	—	13
Redemption of preferred securities of subsidiary	—	—	—	(28)	(28)
<b>Balance, December 31, 2013</b>	2,430	2,850	(11)	—	5,269
Net income	—	422	—	—	422
Other comprehensive income	—	—	(12)	—	(12)
<b>Balance, December 31, 2014</b>	<u>\$ 2,430</u>	<u>\$ 3,272</u>	<u>\$ (23)</u>	<u>\$ —</u>	<u>\$ 5,679</u>

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

**MHC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>			
Net income	\$ 422	\$ 354	\$ 356
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	351	403	392
Deferred income taxes and amortization of investment tax credits	298	102	175
Changes in other assets and liabilities	47	57	49
Other, net	(49)	(29)	(22)
Changes in other operating assets and liabilities:			
Receivables, net	(2)	(60)	(13)
Inventories	44	13	(40)
Derivative collateral, net	(53)	5	4
Contributions to pension and other postretirement benefit plans, net	(2)	8	(53)
Accounts payable	30	23	12
Taxes accrued, net	(253)	(164)	419
Other current assets and liabilities	—	22	(6)
Net cash flows from operating activities	<u>833</u>	<u>734</u>	<u>1,273</u>
<b>Net cash flows from investing activities:</b>			
Utility construction expenditures	(1,526)	(1,026)	(645)
Purchases of available-for-sale securities	(88)	(114)	(64)
Proceeds from sales of available-for-sale securities	80	102	45
Proceeds from sales of other investments	10	16	8
Other, net	(8)	10	18
Net cash flows from investing activities	<u>(1,532)</u>	<u>(1,012)</u>	<u>(638)</u>
<b>Net cash flows from financing activities:</b>			
Proceeds from long-term debt	847	947	—
Repayments of long-term debt	(356)	(670)	(283)
Repurchase of preferred securities of subsidiary	—	(28)	—
Net change in amounts receivable from/payable to affiliates	1	(124)	2
Net proceeds from short-term debt	50	—	—
Other, net	(7)	(7)	(1)
Net cash flows from financing activities	<u>535</u>	<u>118</u>	<u>(282)</u>
<b>Net change in cash and cash equivalents</b>	<b>(164)</b>	<b>(160)</b>	<b>353</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>194</b>	<b>354</b>	<b>1</b>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 30</u></b>	<b><u>\$ 194</u></b>	<b><u>\$ 354</u></b>

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



**MHC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CAPITALIZATION**  
(Amounts in millions, except share amounts)

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>MHC common shareholder's equity:</b>		
Common shares, no par; 1,000 authorized; 1,000 outstanding	\$ 2,430	\$ 2,430
Retained earnings	3,272	2,850
Accumulated other comprehensive loss, net:		
Unrealized losses on available-for-sale securities, net of tax of \$(2) and \$(3)	(3)	(4)
Unrealized losses on cash flow hedges, net of tax of \$(14) and \$(4)	(20)	(7)
MHC common shareholder's equity	<u>5,679</u>	<u>5,269</u>
<b>Long-term debt, excluding current portion:</b>		
MidAmerican Energy:		
First mortgage bonds:		
2.40%, due 2019	500	350
3.70%, due 2023	250	250
3.50%, due 2024	300	—
4.80%, due 2043	350	350
4.40%, due 2044	400	—
Notes:		
5.95% Series, due 2017	250	250
5.3% Series, due 2018	350	350
6.75% Series, due 2031	400	400
5.75% Series, due 2035	300	300
5.8% Series, due 2036	350	350
Turbine purchase obligation, 1.43%, due 2015	—	426
Variable-rate tax-exempt bond obligation series (2014- 0.07%, 2013- 0.08%):		
Due 2016	34	34
Due 2017	4	4
Due 2023, issued in 1993	7	7
Due 2023, issued in 2008	57	57
Due 2024	35	35
Due 2025	13	13
Due 2038	45	45
Unamortized debt discount	(15)	(19)
Total long-term debt, excluding current portion	<u>3,630</u>	<u>3,202</u>
<b>Total capitalization</b>	<u><b>\$ 9,309</b></u>	<u><b>\$ 8,471</b></u>

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

**MHC INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Company Organization**

MHC Inc. ("MHC") is an Iowa corporation with MidAmerican Funding, LLC ("MidAmerican Funding") as its sole shareholder. MidAmerican Funding is an Iowa limited liability company with Berkshire Hathaway Energy Company ("BHE") as its sole member. BHE is a consolidated subsidiary of Berkshire Hathaway Inc. ("Berkshire Hathaway"). MHC constitutes substantially all of MidAmerican Funding's assets, liabilities and business activities except those related to MidAmerican Funding's long-term debt securities. MHC conducts no business other than the ownership of its subsidiaries and related corporate services. MHC's principal subsidiary is MidAmerican Energy Company ("MidAmerican Energy"), a public utility with electric and natural gas operations. Direct wholly owned nonregulated subsidiaries of MHC are Midwest Capital Group, Inc. and MEC Construction Services Co.

**(2) Summary of Significant Accounting Policies**

In addition to the following significant accounting policies, refer to Note 2 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K for significant accounting policies of MHC.

*Basis of Consolidation and Presentation*

The Consolidated Financial Statements include the accounts of MHC and its subsidiaries in which it held a controlling financial interest as of the date of the financial statement. Intercompany accounts and transactions have been eliminated, other than those between rate-regulated operations. MHC has evaluated subsequent events through February 27, 2015, which is the date the Consolidated Financial Statements were issued.

*Goodwill*

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired when MidAmerican Funding purchased MHC. MHC evaluates goodwill for impairment at least annually and completed its annual review as of October 31. When evaluating goodwill for impairment, MHC estimates the fair value of the reporting unit. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, then the identifiable assets, including identifiable intangible assets, and liabilities of the reporting unit are estimated at fair value as of the current testing date. The excess of the estimated fair value of the reporting unit over the current estimated fair value of net assets establishes the implied value of goodwill. The excess of the recorded goodwill over the implied goodwill value is charged to earnings as an impairment loss. Significant judgment is required in estimating the fair value of the reporting unit and performing goodwill impairment tests. MHC uses a variety of methods to estimate a reporting unit's fair value, principally discounted projected future net cash flows. Key assumptions used include, but are not limited to, the use of estimated future cash flows; multiples of earnings and regulatory asset value; and an appropriate discount rate. In estimating future cash flows, MHC incorporates current market information, as well as historical factors. As such, the determination of fair value incorporates significant unobservable inputs. During 2014, 2013 and 2012, MHC did not record any goodwill impairments.

**(3) Jointly Owned Utility Facilities**

Refer to Note 3 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K.

**(4) Regulatory Matters**

Refer to Note 4 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K.

**(5) Investments and Nonregulated Property, Net**

Investments and nonregulated property, net consists of the following amounts as of December 31 (in millions):

	<u>2014</u>	<u>2013</u>
Nuclear decommissioning trust	\$ 424	\$ 394
Rabbi trusts	177	177
Auction rate securities	26	23
Nonregulated property, net of accumulated depreciation of \$11 and \$11, respectively	21	21
Other	3	10
Total	<u>\$ 651</u>	<u>\$ 625</u>

In addition to the following discussion, refer to Note 5 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K for additional information regarding the investments included in the table above. In addition to assets of MidAmerican Energy, nonregulated property, net includes a corporate aircraft owned by MHC.

**(6) Components of Accumulated Other Comprehensive Loss, Net**

Refer to Note 6 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K.

**(7) Noncontrolling Interests**

Refer to Note 7 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K for a discussion of MidAmerican Energy's preferred securities, which were MHC's noncontrolling interest at the time of their redemption.

**(8) Long-Term Debt**

Refer to Note 8 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K.

**(9) Short-Term Debt and Credit Facilities**

Refer to Note 9 of MidAmerican Energy's Notes to Financial Statements. In addition to MidAmerican Energy's credit facilities, MHC has a \$4 million unsecured credit facility, which expires in June 2015 and has a variable interest rate based on LIBOR plus a spread. As of December 31, 2014 and 2013, there were no borrowings outstanding under this credit facility. As of December 31, 2014, MHC was in compliance with the covenants of its revolving credit facility.

## (10) Income Taxes

MHC's income tax benefit consists of the following for the years ended December 31 (in millions):

	2014	2013	2012
<b>Current:</b>			
Federal	\$ (397)	\$ (193)	\$ (253)
State	(2)	(10)	(20)
	<u>(399)</u>	<u>(203)</u>	<u>(273)</u>
<b>Deferred:</b>			
Federal	297	100	198
State	2	3	(21)
	<u>299</u>	<u>103</u>	<u>177</u>
<b>Investment tax credits</b>	(1)	(1)	(2)
Total	<u>\$ (101)</u>	<u>\$ (101)</u>	<u>\$ (98)</u>

A reconciliation of the federal statutory income tax rate to MHC's effective income tax rate applicable to income before income tax benefit is as follows for the years ended December 31:

	2014	2013	2012
Federal statutory income tax rate	35 %	35 %	35 %
Income tax credits	(57)	(68)	(55)
State income tax, net of federal income tax benefit	(1)	(2)	(10)
Income tax method changes	—	—	(6)
Effects of ratemaking	(8)	(3)	—
Other, net	—	(2)	(2)
Effective income tax rate	<u>(31)%</u>	<u>(40)%</u>	<u>(38)%</u>

Income tax credits relate primarily to production tax credits earned by MidAmerican Energy's wind-powered generating facilities. Federal renewable electricity production tax credits are earned as energy from qualifying wind-powered generating facilities is produced and sold and are based on a per-kilowatt hour rate pursuant to the applicable federal income tax law. Wind-powered generating facilities are eligible for the credits for 10 years from the date the qualifying generating facilities are placed in-service.

MidAmerican Energy's income tax benefit for the year ended December 31, 2012, reflects \$16 million of federal income tax benefits recognized in connection with an income tax method change for income tax years prior to 2012 related to repair costs for its regulated utility electric transmission and distribution assets based on guidance published by the Internal Revenue Service.

The income tax method change results in current deductibility for applicable repair costs, which are capitalized for book purposes. MidAmerican Energy retroactively applied the method changes and deducted amounts related to prior years' costs on the tax return that includes the year of change. State utility rate regulation in Iowa requires that the tax effect of certain temporary differences be flowed through immediately to customers. Therefore, certain deferred amounts that would otherwise have been recognized in income tax expense have been included as changes in regulatory assets in recognition of MidAmerican Energy's ability to recover increased tax expense when such temporary differences reverse. This treatment of such temporary differences impacts income tax expense and effective income tax rates from year to year.

MHC's net deferred income tax liability consists of the following as of December 31 (in millions):

	<u>2014</u>	<u>2013</u>
<b>Deferred income tax assets:</b>		
Regulatory liabilities	\$ 332	\$ 351
Employee benefits	68	61
Derivative contracts	30	9
Asset retirement obligations	185	172
Other	69	72
Total deferred income tax assets	<u>684</u>	<u>665</u>
<b>Deferred income tax liabilities:</b>		
Depreciable property	(2,950)	(2,604)
Regulatory assets	(366)	(304)
Other	(25)	(43)
Total deferred income tax liabilities	<u>(3,341)</u>	<u>(2,951)</u>
Net deferred income tax liability	<u>\$ (2,657)</u>	<u>\$ (2,286)</u>
<b>Reflected as:</b>		
Current assets - other	\$ —	\$ 4
Deferred income taxes	(2,657)	(2,290)
	<u>\$ (2,657)</u>	<u>\$ (2,286)</u>

As of December 31, 2014, MHC has available \$20 million of state carryforwards, principally related to \$426 million of net operating losses, that expire at various intervals between 2014 and 2032.

The United States Internal Revenue Service has effectively settled its examination of BHE's income tax returns through December 2009, including components related to MHC. In addition, state jurisdictions have closed their examinations of MHC's income tax returns through at least February 9, 2006, including Iowa and Illinois, which are closed through December 31, 2012, and December 31, 2008, respectively.

A reconciliation of the beginning and ending balances of MHC's net unrecognized tax benefits is as follows for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>
<b>Beginning balance</b>	\$ 29	\$ 37
Additions based on tax positions related to the current year	6	11
Additions for tax positions of prior years	38	3
Reductions based on tax positions related to the current year	(4)	(10)
Reductions for tax positions of prior years	(40)	(9)
Statute of limitations	(3)	(2)
Settlements	—	(1)
<b>Ending balance</b>	<u>\$ 26</u>	<u>\$ 29</u>

As of December 31, 2014 and 2013, substantially all of MHC's unrecognized tax benefits of \$26 million and \$29 million, respectively, if recognized, would have an impact on the effective tax rate. The unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility.

**(11) Employee Benefit Plans**

Refer to Note 11 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K for additional information regarding MHC's pension, supplemental retirement and postretirement benefit plans.

Pension and postretirement costs allocated by MHC to its parent and other affiliates in each of the years ended December 31, were as follows (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Pension costs	\$ 4	\$ 6	\$ 5
Other postretirement costs	(2)	(2)	(2)

**(12) Asset Retirement Obligations**

Refer to Note 12 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K.

**(13) Risk Management and Hedging Activities**

Refer to Note 13 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K.

**(14) Fair Value Measurements**

Refer to Note 14 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K.

**(15) Commitments and Contingencies**

Refer to Note 15 of MidAmerican Energy's Notes to Financial Statements in Item 8 of this Form 10-K.

*Legal Matters*

MHC is party to a variety of legal actions arising out of the normal course of business. Plaintiffs occasionally seek punitive or exemplary damages. MHC does not believe that such normal and routine litigation will have a material impact on its consolidated financial results.

**(16) Non-Operating Income - Other, Net**

Non-operating income - other, net; as shown on the Consolidated Statements of Operations, includes the following other income (expense) items for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Corporate-owned life insurance income	\$ 8	\$ 15	\$ 9
Gains on sales of assets and other investments	—	1	2
Leverage leases	5	2	2
Other, net	4	3	1
Total	<u>\$ 17</u>	<u>\$ 21</u>	<u>\$ 14</u>

## (17) Supplemental Cash Flow Information

The summary of supplemental cash flow information as of and for the years ending December 31 is as follows (in millions):

	2014	2013	2012
<b>Supplemental cash flow information:</b>			
Interest paid, net of amounts capitalized	\$ 144	\$ 109	\$ 125
Income taxes received, net	\$ 143	\$ 32	\$ 689
<b>Supplemental disclosure of non-cash investing and financing transactions:</b>			
Accounts payable related to utility plant additions	\$ 128	\$ 117	\$ 122
Deferred payments on equipment purchased for wind-powered generation at MidAmerican Energy <sup>(1)</sup>	\$ —	\$ —	\$ 406

- (1) In conjunction with the construction of wind-powered generating facilities, MidAmerican Energy accrued in gross utility plant in service amounts it was not contractually obligated to pay until a stated future date. Refer to Note 8 for additional information.

## (18) Related Party Transactions

The companies identified as affiliates of MHC are Berkshire Hathaway and its subsidiaries, including BHE and its subsidiaries. The basis for the following transactions is provided for in service agreements between MHC and the affiliates.

MHC is reimbursed for charges incurred on behalf of its affiliates. The majority of these reimbursed expenses are for allocated general costs, such as insurance and building rent, and for employee wages, benefits and costs for corporate functions, such as information technology, human resources, treasury, legal and accounting. The amount of such reimbursements was \$37 million, \$28 million and \$42 million for 2014, 2013 and 2012, respectively.

MHC reimbursed BHE in the amount of \$8 million, \$10 million and \$7 million in 2014, 2013 and 2012, respectively, for its share of corporate expenses.

MidAmerican Energy purchases natural gas transportation and storage capacity services from Northern Natural Gas Company, a wholly owned subsidiary of BHE, and coal transportation services from BNSF Railway Company, a wholly-owned subsidiary of Berkshire Hathaway, in the normal course of business at either tariffed or market prices. These purchases totaled \$144 million, \$155 million and \$59 million in 2014, 2013 and 2012, respectively.

MHC has a \$300 million revolving credit arrangement carrying interest at the 30-day LIBOR rate plus a spread to borrow from BHE. Outstanding balances are unsecured and due on demand. The outstanding balance was \$136 million at an interest rate of 0.408% as of December 31, 2014, and \$135 million at an interest rate of 0.418% as of December 31, 2013, and is reflected as note payable to affiliate on the Consolidated Balance Sheet.

BHE has a \$100 million revolving credit arrangement carrying interest at the 30-day LIBOR rate plus a spread to borrow from MHC. Outstanding balances are unsecured and due on demand. There were no borrowings outstanding throughout 2014 and 2013.

MHC settles all obligations of MidAmerican Funding including primarily interest costs on MidAmerican Funding's long-term debt. Net amounts paid by MHC on behalf of MidAmerican Funding totaled \$13 million, \$13 million and \$13 million for 2014, 2013 and 2012, respectively.

MHC had accounts receivable from affiliates of \$281 million and \$266 million as of December 31, 2014 and 2013, respectively, that are reflected in receivables, net and receivable from affiliate on the Consolidated Balance Sheets. MHC also had accounts payable to affiliates of \$12 million and \$14 million as of December 31, 2014 and 2013, respectively, that are included in accounts payable on the Consolidated Balance Sheets.

MHC is party to a tax-sharing agreement and is part of the Berkshire Hathaway United States federal income tax return. As of December 31, 2014 and 2013, MHC had current federal and state income taxes receivable from BHE of \$296 million and \$46 million, respectively. MHC received net cash receipts for federal and state income taxes from BHE totaling \$144 million, \$32 million and \$689 million for the years ended December 31, 2014, 2013 and 2012, respectively.

MHC recognizes the full amount of the funded status for its pension and postretirement plans, and amounts attributable to MHC's affiliates that have not previously been recognized through income are recognized as an intercompany balance with such affiliates. MHC adjusts these balances when changes to the funded status of the respective plans are recognized and does not intend to settle the balances currently. Amounts receivable from affiliates attributable to the funded status of employee benefit plans totaled \$13 million and \$5 million as of December 31, 2014 and 2013, respectively, and similar amounts payable to affiliates totaled \$30 million and \$31 million, as of December 31, 2014 and 2013, respectively. See Note 11 for further information pertaining to pension and postretirement accounting.

## **(19) Segment Information**

MHC has identified three reportable operating segments: regulated electric, regulated gas and nonregulated energy. The regulated electric segment derives most of its revenue from regulated retail sales of electricity to residential, commercial, and industrial customers and from wholesale sales. The regulated gas segment derives most of its revenue from regulated retail sales of natural gas to residential, commercial, and industrial customers and also obtains revenue by transporting gas owned by others through its distribution system. Pricing for regulated electric and regulated gas sales are established separately by regulatory agencies; therefore, management also reviews each segment separately to make decisions regarding allocation of resources and in evaluating performance. The nonregulated energy segment derives most of its revenue from nonregulated retail electric and gas activities. Common operating costs, interest income, interest expense and income tax expense are allocated to each segment based on certain factors, which primarily relate to the nature of the cost. "Other" in the tables below consists principally of the nonregulated subsidiaries of MHC not engaged in the energy business. Refer to Note 10 for a discussion of income tax method changes and related items affecting income tax (benefit) expense for the regulated electric and gas operating segments.



The following tables provide information on a reportable segment basis (in millions):

	Years Ended December 31,		
	2014	2013	2012
<b>Operating revenue:</b>			
Regulated electric	\$ 1,817	\$ 1,762	\$ 1,694
Regulated gas	996	824	659
Nonregulated energy	927	817	889
Other	22	10	5
Total operating revenue	<u>\$ 3,762</u>	<u>\$ 3,413</u>	<u>\$ 3,247</u>
<b>Depreciation and amortization:</b>			
Regulated electric	\$ 312	\$ 366	\$ 356
Regulated gas	39	37	36
Total depreciation and amortization	<u>\$ 351</u>	<u>\$ 403</u>	<u>\$ 392</u>
<b>Operating income:</b>			
Regulated electric	\$ 319	\$ 255	\$ 270
Regulated gas	75	74	47
Nonregulated energy	28	27	53
Other	1	1	(1)
Total operating income	<u>\$ 423</u>	<u>\$ 357</u>	<u>\$ 369</u>
<b>Fixed charges:</b>			
Regulated electric	\$ 141	\$ 129	\$ 123
Regulated gas	17	15	15
Other	1	1	2
Total fixed charges	<u>\$ 159</u>	<u>\$ 145</u>	<u>\$ 140</u>
<b>Income tax (benefit) expense:</b>			
Regulated electric	\$ (138)	\$ (136)	\$ (129)
Regulated gas	22	23	7
Nonregulated energy	12	10	23
Other	3	2	1
Total income tax (benefit) expense	<u>\$ (101)</u>	<u>\$ (101)</u>	<u>\$ (98)</u>
<b>Net income attributable to MHC:</b>			
Regulated electric	\$ 361	\$ 292	\$ 297
Regulated gas	40	41	28
Nonregulated energy	16	16	29
Other	5	4	1
Total net income attributable to MHC	<u>\$ 422</u>	<u>\$ 353</u>	<u>\$ 355</u>
<b>Utility construction expenditures:</b>			
Regulated electric	\$ 1,429	\$ 945	\$ 588
Regulated gas	97	81	57
Total utility construction expenditures	<u>\$ 1,526</u>	<u>\$ 1,026</u>	<u>\$ 645</u>

	As of December 31,		
	2014	2013	2012
<b>Total assets:</b>			
Regulated electric	\$ 13,050	\$ 11,723	\$ 11,089
Regulated gas	1,310	1,285	1,280
Nonregulated energy	167	131	132
Other	290	287	275
Total assets	<u>\$ 14,817</u>	<u>\$ 13,426</u>	<u>\$ 12,776</u>

Goodwill by reportable segment as of December 31, 2014 and 2013 was as follows (in millions):

Regulated electric	\$ 1,191
Regulated gas	79
Total	<u>\$ 1,270</u>

**MIDAMERICAN FUNDING, LLC**  
**PARENT COMPANY ONLY**  
**CONDENSED BALANCE SHEETS**  
(Amounts in millions)

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Current assets:		
Receivables from affiliates	\$ 2	\$ 3
Investments in and advances to subsidiaries	5,679	5,269
<b>Total assets</b>	<b>\$ 5,681</b>	<b>\$ 5,272</b>
<b>LIABILITIES AND MEMBER'S EQUITY</b>		
Current liabilities:		
Interest accrued and other current liabilities	\$ 8	\$ 8
Payable to affiliate	274	261
Long-term debt	325	325
Other	1	1
Total liabilities	608	595
Member's equity:		
Paid-in capital	1,679	1,679
Retained earnings	3,417	3,009
Accumulated other comprehensive loss, net	(23)	(11)
Total member's equity	5,073	4,677
<b>Total liabilities and member's equity</b>	<b>\$ 5,681</b>	<b>\$ 5,272</b>

The accompanying notes are an integral part of this financial statement schedule.

**MIDAMERICAN FUNDING, LLC**  
**PARENT COMPANY ONLY**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Interest on long-term debt	\$ 22	\$ 22	\$ 22
Loss before income taxes	(22)	(22)	(22)
Income tax benefit	(9)	(9)	(9)
Equity in undistributed earnings of subsidiaries	422	353	355
Net income	<u>\$ 409</u>	<u>\$ 340</u>	<u>\$ 342</u>

The accompanying notes are an integral part of this financial statement schedule.

**MIDAMERICAN FUNDING, LLC**  
**PARENT COMPANY ONLY**  
**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 409	\$ 340	\$ 342
Total other comprehensive (loss) income, net of tax	(12)	13	10
Comprehensive income	<u>\$ 397</u>	<u>\$ 353</u>	<u>\$ 352</u>

The accompanying notes are an integral part of this financial statement schedule.

**MIDAMERICAN FUNDING, LLC**  
**PARENT COMPANY ONLY**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
(In millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net cash flows from operating activities	\$ (13)	\$ (13)	\$ (13)
Net cash flows from investing activities	—	—	—
Net cash flows from financing activities:			
Net change in amounts payable to subsidiary	13	13	13
Net cash flows from financing activities	13	13	13
Net change in cash and cash equivalents	—	—	—
Cash and cash equivalents at beginning of year	—	—	—
Cash and cash equivalents at end of year	\$ —	\$ —	\$ —

The accompanying notes are an integral part of this financial statement schedule.

**MIDAMERICAN FUNDING, LLC**  
**PARENT COMPANY ONLY**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

Incorporated by reference are MidAmerican Funding, LLC and Subsidiaries Consolidated Statements of Changes in Equity for the three years ended December 31, 2014, and the related Consolidated Statements of Capitalization as of December 31, 2014 and 2013, in Part II, Item 8.

*Basis of Presentation* - The condensed financial information of MidAmerican Funding, LLC's ("MidAmerican Funding's") investments in subsidiaries is presented under the equity method of accounting. Under this method, the assets and liabilities of subsidiaries are not consolidated. The investments in and advances to subsidiaries are recorded on the Condensed Balance Sheets. The income from operations of the subsidiaries is reported on a net basis as equity in undistributed earnings of subsidiary companies on the Condensed Statements of Operations.

*Payable to Affiliate* - MHC, Inc. ("MHC") settles all obligations of MidAmerican Funding including primarily interest costs on, and repayments of, MidAmerican Funding's long-term debt. Net amounts paid by MHC on behalf of MidAmerican Funding totaled \$13 million for each of the years 2014, 2013 and 2012.

See the notes to the consolidated MidAmerican Funding financial statements in Part II, Item 8 for other disclosures.

**MHC INC.**  
**PARENT COMPANY ONLY**  
**CONDENSED BALANCE SHEETS**  
(Amounts in millions)

	As of December 31,	
	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1	\$ —
Receivables from affiliates	1	1
Receivable from parent	274	261
Investments and nonregulated property, net	13	17
Goodwill	1,270	1,270
Investments in and advances to subsidiaries	4,275	3,866
<b>Total assets</b>	<b>\$ 5,834</b>	<b>\$ 5,415</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
Current liabilities:		
Payables to affiliates	\$ 150	\$ 139
Deferred income taxes	5	5
Other	—	2
<b>Total liabilities</b>	<b>155</b>	<b>146</b>
Shareholder's equity:		
Paid-in capital	2,430	2,430
Retained earnings	3,272	2,850
Accumulated other comprehensive loss, net	(23)	(11)
<b>Total shareholder's equity</b>	<b>5,679</b>	<b>5,269</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 5,834</b>	<b>\$ 5,415</b>

The accompanying notes are an integral part of this financial statement schedule.

**MHC INC.**  
**PARENT COMPANY ONLY**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(Amounts in millions)

	Years Ended December 31,		
	2014	2013	2012
Other income	\$ 2	\$ 2	\$ 2
Other interest expense	—	—	1
Income before income taxes	2	2	1
Income tax expense	1	1	1
Equity in undistributed earnings of subsidiaries	421	352	355
Net income	<u>\$ 422</u>	<u>\$ 353</u>	<u>\$ 355</u>

The accompanying notes are an integral part of this financial statement schedule.

**MHC INC.**  
**PARENT COMPANY ONLY**  
**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in millions)

	Years Ended December 31,		
	2014	2013	2012
Net income	\$ 422	\$ 353	\$ 355
Total other comprehensive (loss) income, net of tax	(12)	13	10
Comprehensive income	<u>\$ 410</u>	<u>\$ 366</u>	<u>\$ 365</u>

The accompanying notes are an integral part of this financial statement schedule.



**MHC INC.**  
**PARENT COMPANY ONLY**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net cash flows from operating activities	\$ —	\$ —	\$ —
Net cash flows from investing activities:			
Dividend from subsidiary	—	125	—
Net change in amounts receivable from parent	(13)	(13)	(13)
Other	3	—	—
Net cash flows from investing activities	(10)	112	(13)
Net cash flows from financing activities:			
Net change in amounts payable to subsidiaries	10	(1)	(2)
Net change in note payable to Berkshire Hathaway Energy Company	1	(111)	15
Net cash flows from financing activities	11	(112)	13
Net change in cash and cash equivalents	1	—	—
Cash and cash equivalents at beginning of year	—	—	—
Cash and cash equivalents at end of year	\$ 1	\$ —	\$ —

The accompanying notes are an integral part of this financial statement schedule.

**MHC INC.**  
**PARENT COMPANY ONLY**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

Incorporated by reference are MHC Inc. and Subsidiaries Consolidated Statements of Changes in Equity for the three years ended December 31, 2014, and the related Consolidated Statements of Capitalization as of December 31, 2014 and 2013, in Part IV, Item 15(c).

*Basis of Presentation* - The condensed financial information of MHC Inc.'s ("MHC's") investments in subsidiaries is presented under the equity method of accounting. Under this method, the assets and liabilities of subsidiaries are not consolidated. The investments in and advances to subsidiaries are recorded on the Condensed Balance Sheets. The income from operations of the subsidiaries is reported on a net basis as equity in undistributed earnings of subsidiary companies on the Condensed Statements of Operations.

*Receivable from Parent* - MHC settles all obligations of MidAmerican Funding, LLC ("MidAmerican Funding") including primarily interest costs on MidAmerican Funding's long-term debt. Net amounts paid by MHC on behalf of MidAmerican Funding totaled \$13 million for each of the years 2014, 2013 and 2012.

See the notes to the consolidated MHC financial statements in Part IV, Item 15(c) for other disclosures.

**MIDAMERICAN ENERGY COMPANY**  
**VALUATION AND QUALIFYING ACCOUNTS**  
**FOR THE THREE YEARS ENDED DECEMBER 31, 2014**  
(Amounts in millions)

<b>Column A Description</b>	<b>Column B Balance at Beginning of Year</b>	<b>Column C Additions Charged to Income</b>	<b>Column D Deductions</b>	<b>Column E Balance at End of Year</b>
Reserves Deducted From Assets To Which They Apply:				
Reserve for uncollectible accounts receivable:				
Year ended 2014	\$ 10	\$ 7	\$ (10)	\$ 7
Year ended 2013	\$ 10	\$ 7	\$ (7)	\$ 10
Year ended 2012	\$ 8	\$ 8	\$ (6)	\$ 10
Reserves Not Deducted From Assets <sup>(1)</sup> :				
Year ended 2014	\$ 9	\$ 12	\$ (10)	\$ 11
Year ended 2013	\$ 9	\$ 6	\$ (6)	\$ 9
Year ended 2012	\$ 8	\$ 6	\$ (5)	\$ 9

- (1) Reserves not deducted from assets include estimated liabilities for losses retained by MidAmerican Energy for workers compensation, public liability and property damage claims.

**MIDAMERICAN FUNDING, LLC AND SUBSIDIARIES**  
**MHC INC. AND SUBSIDIARIES**  
**CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS**  
**FOR THE THREE YEARS ENDED DECEMBER 31, 2014**  
(Amounts in millions)

<b>Column A Description</b>	<b>Column B Balance at Beginning of Year</b>	<b>Column C Additions Charged to Income</b>	<b>Column D Deductions</b>	<b>Column E Balance at End of Year</b>
Reserves Deducted From Assets To Which They Apply:				
Reserve for uncollectible accounts receivable:				
Year ended 2014	\$ 10	\$ 7	\$ (10)	\$ 7
Year ended 2013	\$ 10	\$ 7	\$ (7)	\$ 10
Year ended 2012	\$ 8	\$ 8	\$ (6)	\$ 10
Reserves Not Deducted From Assets <sup>(1)</sup> :				
Year ended 2014	\$ 9	\$ 12	\$ (10)	\$ 11
Year ended 2013	\$ 9	\$ 6	\$ (6)	\$ 9
Year ended 2012	\$ 8	\$ 6	\$ (5)	\$ 9

- (1) Reserves not deducted from assets include primarily estimated liabilities for losses retained by MidAmerican Funding and MHC for workers compensation, public liability and property damage claims.

## SIGNATURES

### MIDAMERICAN ENERGY

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDAMERICAN ENERGY COMPANY  
(Registrant)

Date: February 27, 2015

/s/ William J. Fehrman

William J. Fehrman  
President and Chief Executive Officer  
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/William J. Fehrman</u> William J. Fehrman	President, Chief Executive Officer and Director (principal executive officer)	February 27, 2015
<u>/s/Thomas B. Specketer</u> Thomas B. Specketer	Vice President, Chief Financial Officer and Director (principal financial and accounting officer)	February 27, 2015
<u>/s/Steven R. Weiss</u> Steven R. Weiss	Senior Vice President and Director	February 27, 2015

MIDAMERICAN FUNDING, LLC

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDAMERICAN FUNDING, LLC  
(Registrant)

Date: February 27, 2015

/s/ William J. Fehrman

William J Fehrman

President

(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/William J. Fehrman</u> William J. Fehrman	President and Manager (principal executive officer)	February 27, 2015
<u>/s/Thomas B. Specketer</u> Thomas B. Specketer	Vice President and Controller (principal financial and accounting officer)	February 27, 2015
<u>/s/Patrick J. Goodman</u> Patrick J. Goodman	Manager	February 27, 2015
<u>/s/Sandra Hatfield Clubb</u> Sandra Hatfield Clubb	Manager	February 27, 2015
<u>/s/Douglas L. Anderson</u> Douglas L. Anderson	Manager	February 27, 2015

## EXHIBIT INDEX

### Exhibits Filed Herewith

#### MidAmerican Energy

- 23.1 Consent of Deloitte & Touche LLP
- 31.1 Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Principal Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### MidAmerican Funding

- 31.3 Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.4 Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.3 Principal Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.4 Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### MidAmerican Energy and MidAmerican Funding

- 101 The following financial information from MidAmerican Energy's and MidAmerican Funding's Annual Report on Form 10-K for the year ended December 31, 2014, is formatted in XBRL (eXtensible Business Reporting Language) and included herein: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Consolidated Statements of Capitalization, and (vii) the Notes to Consolidated Financial Statements, tagged in summary and detail.

### Exhibits Incorporated by Reference

#### MidAmerican Energy

- 3.1 Restated Articles of Incorporation of MidAmerican Energy Company, as amended October 27, 1998. (Filed as Exhibit 3.3 to MidAmerican Energy's Quarterly Report on Form 10-Q for the period ended September 30, 1998).
- 3.2 Restated Bylaws of MidAmerican Energy Company, as amended July 24, 1996. (Filed as Exhibit 3.1 to MidAmerican Energy's Quarterly Report on Form 10-Q for the period ended June 30, 1996).
- 14 Code of Ethics for Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. (Filed as Exhibit 14.1 to MidAmerican Energy's Annual Report on Form 10-K for the year ended December 31, 2003).

## MidAmerican Funding

- 3.1 Articles of Organization of MidAmerican Funding, LLC (Filed as Exhibit 3.1 to MidAmerican Funding's Registration Statement on Form S-4, Registration No. 333-90553).
- 3.2 Operating Agreement of MidAmerican Funding, LLC (Filed as Exhibit 3.2 to MidAmerican Funding's Registration Statement on Form S-4, Registration No. 333-90553).
- 3.3 Amendment No. 1 to the Operating Agreement of MidAmerican Funding, LLC dated as of February 9, 2010. (Filed as Exhibit 3.3 to MidAmerican Funding's Annual Report on Form 10-K for the year ended December 31, 2010).
- 4.1 Indenture, dated as of March 11, 1999, by and between MidAmerican Funding, LLC and IBJ Whitehall Bank & Trust Company, as Trustee (Filed as Exhibit 4.1 to MidAmerican Funding's Registration Statement on Form S-4, Registration No. 333-90553).
- 4.2 First Supplemental Indenture, dated as of March 11, 1999, by and between MidAmerican Funding, LLC and IBJ Whitehall Bank & Trust Company, as Trustee (Filed as Exhibit 4.2 to MidAmerican Funding's Registration Statement on Form S-4, Registration No. 333-90553).
- 4.3 Registration Rights Agreement, dated March 9, 1999, by and among MidAmerican Funding, LLC, Credit Suisse First Boston Corporation, Lehman Brothers, Inc., Goldman Sachs & Co. and Merrill Lynch & Co. (Filed as Exhibit 4.2 to MidAmerican Funding's Registration Statement on Form S-4, Registration No. 333-90553).
- 14 Code of Ethics for Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. (Filed as Exhibit 14.2 to MidAmerican Funding's Annual Report on Form 10-K for the year ended December 31, 2003).

## MidAmerican Energy and MidAmerican Funding

- 4.1 Form of indenture between MidAmerican Energy and The Bank of New York, as Trustee. (Filed as Exhibit 4.1 to MidAmerican Energy's Registration Statement on Form S-3, Registration No. 333-59760, dated January 31, 2002).
- 4.2 First Supplemental Indenture, dated as of February 8, 2002, by and between MidAmerican Energy Company and The Bank of New York, as Trustee. (Filed as Exhibit 4.3 to MidAmerican Energy's Annual Report on Form 10-K for the year ended December 31, 2004).
- 4.3 Third Supplemental Indenture, dated as of October 1, 2004, by and between MidAmerican Energy Company and The Bank of New York, as Trustee. (Filed as Exhibit 4.1 to MidAmerican Energy's Annual Report on Form 10-K for the year ended December 31, 2004).
- 4.4 Fourth Supplemental Indenture, dated November 1, 2005, by and between MidAmerican Energy Company and the Bank of New York Trust Company, N.A., as Trustee. (Filed as Exhibit 4.1 to MidAmerican Energy's Annual Report on Form 10-K for the year ended December 31, 2005).
- 4.5 Indenture, dated as of October 1, 2006 - Senior Debt Securities between MidAmerican Energy Company and The Bank of New York Trust Company, N.A., as Trustee (Filed as Exhibit 4.1 to MidAmerican Energy's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006).
- 4.6 First Supplemental Indenture, dated as of October 6, 2006 - 5.800% Notes due 2036 between MidAmerican Energy Company and The Bank of New York Trust Company, N.A., as Trustee (Filed as Exhibit 4.2 to MidAmerican Energy's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006).
- 4.7 Second Supplemental Indenture, dated as of June 29, 2007 - 5.65% Notes due 2012 and 5.95% Notes due 2017, between MidAmerican Energy Company and The Bank of New York Trust Company, N.A., as Trustee (Filed as Exhibit 4.1 to MidAmerican Energy's Current Report on Form 8-K dated June 29, 2007).
- 4.8 Third Supplemental Indenture, dated as of March 25, 2008 - 5.30% Notes due 2018, between MidAmerican Energy Company and The Bank of New York Trust Company, N.A., as Trustee (Filed as Exhibit 4.1 to MidAmerican Energy's Current Report on Form 8-K dated March 25, 2008).



- 4.9 Indenture, dated as of September 9, 2013, between MidAmerican Energy Company and The Bank of New York Mellon Trust Company, N.A., as trustee (Filed as Exhibit 4.1 to MidAmerican Energy's Current Report on Form 8-K dated September 13, 2013).
- 4.10 First Supplemental Indenture, dated as of September 19, 2013, between MidAmerican Energy Company and The Bank of New York Mellon Trust Company, N.A., as trustee (Filed as Exhibit 4.1 to MidAmerican Energy's Current Report on Form 8-K dated September 19, 2013).
- 4.11 Specimen of 2.40% First Mortgage Bonds due 2019 (Filed as Exhibit 4.2 to MidAmerican Energy's Current Report on Form 8-K dated September 19, 2013).
- 4.12 Specimen of 3.70% First Mortgage Bonds due 2023 (Filed as Exhibit 4.3 to MidAmerican Energy's Current Report on Form 8-K dated September 19, 2013).
- 4.13 Specimen of 4.80% First Mortgage Bonds due 2043 (Filed as Exhibit 4.4 to MidAmerican Energy's Current Report on Form 8-K dated September 19, 2013).
- 4.14 Amendment Number 1 to First Supplemental Indenture, dated as of April 3, 2014, between MidAmerican Energy Company and The Bank of New York Mellon Trust Company, N.A., as trustee (Filed as Exhibit 4.1 to MidAmerican Energy's Current Report on Form 8-K dated April 3, 2014).
- 4.15 Second Supplemental Indenture, dated as of April 3, 2014, between MidAmerican Energy Company and The Bank of New York Mellon Trust Company, N.A., as trustee (Filed as Exhibit 4.2 to MidAmerican Energy's Current Report on Form 8-K dated April 3, 2014).
- 4.16 Specimen of 3.50% First Mortgage Bonds due 2024 (Filed as Exhibit 4.4 to MidAmerican Energy's Current Report on Form 8-K dated April 3, 2014).
- 4.17 Specimen of 4.40% First Mortgage Bonds due 2044 (Filed as Exhibit 4.5 to MidAmerican Energy's Current Report on Form 8-K dated April 3, 2014).
- 4.18 Mortgage, Security Agreement, Fixture Filing and Financing Statement, dated as of September 9, 2013, from MidAmerican Energy Company to The Bank of New York Mellon Trust Company, N.A., as collateral trustee (Filed as Exhibit 4.2 to MidAmerican Energy's Current Report on Form 8-K dated September 13, 2013).
- 4.19 Intercreditor and Collateral Trust Agreement, dated as of September 9, 2013, among MidAmerican Energy Company, The Bank of New York Mellon Trust Company, N.A., as trustee, and The Bank of New York Mellon Trust Company, N.A., as collateral trustee (Filed as Exhibit 4.3 to MidAmerican Energy's Current Report on Form 8-K dated September 13, 2013).
- 4.20 Form of Indenture, between MidAmerican Energy Company and the Trustee, (Senior Unsecured Debt Securities) (Filed as Exhibit 4.1 to MidAmerican Energy's Registration Statement on Form S-3, Registration No. 333-192077, filed November 4, 2013).
- 4.21 Form of Indenture, between MidAmerican Energy Company and the Trustee, (Subordinated Unsecured Debt Securities) (Filed as Exhibit 4.2 to MidAmerican Energy's Registration Statement on Form S-3, Registration No. 333-192077, filed November 4, 2013).

- 10.1 Iowa Utilities Board Order Approving Settlement With Modifications, issued December 21, 2001, in regards to MidAmerican Energy Company (Filed as Exhibit 10.7 to MidAmerican Energy's Annual Report on Form 10-K for the year ended December 31, 2001).
- 10.2 Stipulation and Agreement in Regard to MidAmerican Energy Company Ratemaking Principles for Wind Energy Investment, approved by the Iowa Utilities Board on October 17, 2003 (Filed as Exhibit 10 to MidAmerican Funding's and MidAmerican Energy's joint Form 10-Q for the quarter ended September 30, 2003).
- 10.3 \$600,000,000 Credit Agreement, dated as of March 27, 2013, among MidAmerican Energy Company, as Borrower, the banks, financial institutions and other institutional lenders, as Initial Lenders, JPMorgan Chase Bank, N.A., as Administrative Agent and Swingline Lender, and the LC Issuing Banks (Filed as Exhibit 10.1 to MidAmerican Energy's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
- 10.4 Stipulation and Agreement Dated December 20, 2004, in Regard to MidAmerican Energy Company Ratemaking Principles for the 2005 Wind Expansion Project, approved by the Iowa Utilities Board on January 31, 2005. (Filed as Exhibit 10.2 to MidAmerican Energy's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
- 10.5 Stipulation and Agreement Dated December 14, 2005, in Regard to MidAmerican Energy Company Ratemaking Principles for the 2006-2007 Wind Expansion Project, approved by the Iowa Utilities Board on April 18, 2006. (Filed as Exhibit 10.3 to MidAmerican Energy's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
- 10.6 Stipulation and Agreement Dated March 23, 2007, in Regard to MidAmerican Energy Company Ratemaking Principles for "Wind IV Iowa Projects", approved by the Iowa Utilities Board on July 27, 2007. (Filed as Exhibit 10.1 to MidAmerican Funding's and MidAmerican Energy's joint Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).
- Note: Pursuant to (b) (4) (iii) (A) of Item 601 of Regulation S-K, MidAmerican Energy has not filed as an exhibit to this Form 10-K certain instruments with respect to long-term debt not registered in which the total amount of securities authorized there under does not exceed 10% of total assets of MidAmerican Energy, but hereby agrees to furnish to the Commission on request any such instruments.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-192077 on Form S-3 of our report dated February 27, 2015, relating to the financial statements and financial statement schedule of MidAmerican Energy Company, appearing in this Annual Report on Form 10-K of MidAmerican Energy Company for the year ended December 31, 2014.

/s/ Deloitte & Touche LLP

Des Moines, Iowa  
February 27, 2015

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, William J. Fehrman, certify that:

1. I have reviewed this annual report on Form 10-K of MidAmerican Energy Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2015

/s/ William J. Fehrman

William J. Fehrman

President and Chief Executive Officer  
(principal executive officer)

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Thomas B. Specketer, certify that:

1. I have reviewed this annual report on Form 10-K of MidAmerican Energy Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2015

/s/ Thomas B. Specketer

Thomas B. Specketer

Vice President and Chief Financial Officer  
(principal financial officer)

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, William J. Fehrman, certify that:

1. I have reviewed this annual report on Form 10-K of MidAmerican Funding, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2015

/s/ William J. Fehrman  
William J. Fehrman  
President  
(principal executive officer)

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Thomas B. Specketer, certify that:

1. I have reviewed this annual report on Form 10-K of MidAmerican Funding, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2015

/s/ Thomas B. Specketer  
Thomas B. Specketer  
Vice President and Controller  
(principal financial officer)

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, William J. Fehrman, President of MidAmerican Energy Company (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 27, 2015

/s/ William J. Fehrman

William J. Fehrman  
President and Chief Executive Officer  
(principal executive officer)



**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Thomas B. Specketer, Vice President and Chief Financial Officer of MidAmerican Energy Company (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 27, 2015

/s/ Thomas B. Specketer  
Thomas B. Specketer  
Vice President and Chief Financial Officer  
(principal financial officer)

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, William J. Fehrman, President of MidAmerican Funding, LLC (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 27, 2015

/s/ William J. Fehrman

William J. Fehrman

President

(principal executive officer)

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Thomas B. Specketer, Vice President and Controller of MidAmerican Funding, LLC (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 27, 2015

/s/ Thomas B. Specketer  
Thomas B. Specketer  
Vice President and Controller  
(principal financial officer)