



Northern Natural Gas Company

**Financial Statements (Unaudited) as of and for the
Quarterly Period Ended June 30, 2020**

Northern Natural Gas Company
Balance Sheets (Unaudited)
(Amounts in thousands, except share data)

	As of	
	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 38,218	\$ 38,792
Accounts receivable, net	55,884	94,427
Accounts receivable from affiliates	5,437	8,278
Notes receivable from BHE	500,000	240,000
Transportation and exchange gas receivables	2,456	5,365
Inventories	43,263	41,951
Income tax receivable	—	9,519
Other current assets	41,028	31,886
Total current assets	686,286	470,218
Property, plant and equipment, net	4,066,609	3,970,699
Regulatory assets	99,478	100,340
Other assets	61,324	61,538
Total assets	\$ 4,913,697	\$ 4,602,795
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 67,612	\$ 101,077
Accounts payable to affiliates	1,316	1,199
Accrued interest	19,877	19,877
Accrued property, income and other taxes	122,048	54,246
Transportation and exchange gas payables	1,850	3,309
Current portion of long-term debt	199,819	—
Other current liabilities	159,715	52,530
Total current liabilities	572,237	232,238
Long-term debt	1,047,489	1,247,108
Regulatory liabilities	428,841	426,624
Deferred income taxes	571,601	583,407
Asset retirement obligations	15,621	15,290
Other long-term liabilities	43,220	45,834
Total liabilities	2,679,009	2,550,501
Commitments and contingencies (Note 5)		
Shareholder's equity:		
Series A preferred stock - 1,000 shares authorized, \$0.01 par value, no shares issued and outstanding	—	—
Common stock - 10,000 shares authorized, \$1.00 par value, 1,002 shares issued and outstanding	1	1
Additional paid-in capital	981,868	981,868
Retained earnings	1,245,241	1,068,149
Accumulated other comprehensive income, net	7,578	2,276
Total shareholder's equity	2,234,688	2,052,294
Total liabilities and shareholder's equity	\$ 4,913,697	\$ 4,602,795

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

Northern Natural Gas Company
Statements of Income (Unaudited)
(Amounts in thousands)

	Six-Month Periods Ended June 30,	
	2020	2019
Operating revenue:		
Transportation	\$ 462,455	\$ 396,324
Storage	34,031	26,016
Gas, liquids and other sales	5,286	30,642
Total operating revenue	<u>501,772</u>	<u>452,982</u>
Operating expenses:		
Operations and maintenance	128,903	126,053
Cost of gas and liquids sales	6,235	28,480
Depreciation and amortization	75,958	43,872
Taxes, other than income taxes	33,704	30,175
Total operating expenses	<u>244,800</u>	<u>228,580</u>
Operating income	<u>256,972</u>	<u>224,402</u>
Other income (expense):		
Interest expense, net	(28,462)	(23,255)
Interest income	2,834	6,746
Other, net	4,145	6,413
Total other income (expense)	<u>(21,483)</u>	<u>(10,096)</u>
Income before income tax expense	235,489	214,306
Income tax expense	58,397	52,244
Net income	<u>\$ 177,092</u>	<u>\$ 162,062</u>

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

Northern Natural Gas Company
Statements of Comprehensive Income (Unaudited)
(Amounts in thousands)

	Six-Month Periods Ended June 30,	
	2020	2019
Net income	\$ 177,092	\$ 162,062
Other comprehensive income, net of tax:		
Unrealized gains on cash flow hedges, net of tax of \$1,928 and \$204	5,302	561
Comprehensive income	\$ 182,394	\$ 162,623

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

Northern Natural Gas Company
Statements of Changes in Shareholder's Equity (Unaudited)
(Amounts in thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income, net</u>	<u>Total</u>
Balance, December 31, 2018	\$ 1	\$ 981,868	\$ 794,292	\$ —	\$ 1,776,161
Net income	—	—	162,062	—	162,062
Other comprehensive income - cash flow hedges	—	—	—	561	561
Balance, June 30, 2019	<u>\$ 1</u>	<u>\$ 981,868</u>	<u>\$ 956,354</u>	<u>\$ 561</u>	<u>\$ 1,938,784</u>
Balance, December 31, 2019	\$ 1	\$ 981,868	\$ 1,068,149	\$ 2,276	\$ 2,052,294
Net income	—	—	177,092	—	177,092
Other comprehensive income - cash flow hedges	—	—	—	5,302	5,302
Balance, June 30, 2020	<u>\$ 1</u>	<u>\$ 981,868</u>	<u>\$ 1,245,241</u>	<u>\$ 7,578</u>	<u>\$ 2,234,688</u>

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

Northern Natural Gas Company
Statements of Cash Flows (Unaudited)
(Amounts in thousands)

	Six-Month Periods Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 177,092	\$ 162,062
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	75,958	43,872
Amortization of debt issuance costs	258	188
Deferred income taxes	(20,768)	(1,606)
Other, net	2,216	(512)
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	37,425	38,291
Inventories	(1,312)	(3,004)
Accounts payable and other accrued liabilities	78,738	3,833
Gas balancing activities	2,896	20,672
Accrued property, income and other taxes	77,321	49,932
Net cash flows from operating activities	<u>429,824</u>	<u>313,728</u>
Cash flows from investing activities:		
Capital expenditures	(170,826)	(160,233)
Purchases of marketable securities	(10,877)	(16,354)
Proceeds from sales of marketable securities	9,008	15,419
Net cash flows from investing activities	<u>(172,695)</u>	<u>(161,168)</u>
Cash flows from financing activities:		
Repayment of long-term debt	—	205,989
Issuance of promissory notes by BHE	(260,000)	(350,000)
Proceeds from redemption of promissory notes from BHE	—	40,000
Net cash flows from financing activities	<u>(260,000)</u>	<u>(104,011)</u>
Net change in cash and cash equivalents and restricted cash and cash equivalents	(2,871)	48,549
Cash and cash equivalents and restricted cash and cash equivalents at beginning of period	54,405	27,575
Cash and cash equivalents and restricted cash and cash equivalents at end of period	<u>\$ 51,534</u>	<u>\$ 76,124</u>

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

Northern Natural Gas Company
Notes to Financial Statements
(Unaudited)

(1) General

Northern Natural Gas Company (the "Company") is an indirect wholly owned subsidiary of Berkshire Hathaway Energy Company ("BHE"), a holding company that owns locally managed businesses principally engaged in the energy industry. BHE is a consolidated subsidiary of Berkshire Hathaway Inc. ("Berkshire Hathaway"). The Company owns the largest interstate natural gas pipeline system in the United States, as measured by pipeline miles, which reaches from west Texas to Michigan's Upper Peninsula (the "System"). The Company primarily transports and stores natural gas for utilities, municipalities, gas marketing companies and industrial and commercial users. The System consists of two commercial segments. Its traditional end-use and distribution market area in the northern part of its system, referred to as the Market Area, includes points in Iowa, Nebraska, Minnesota, Wisconsin, South Dakota, Michigan and Illinois. Its natural gas supply and delivery service area in the southern part of its system, referred to as the Field Area, includes points in Kansas, Texas, Oklahoma and New Mexico. The Market Area and Field Area are separated at a Demarcation Point. The System consists of 14,600 miles of natural gas pipelines, including 6,100 miles of mainline transmission pipelines and 8,500 miles of branch and lateral pipelines, with a Market Area design capacity of 6.3 billion cubic feet ("Bcf") per day, a Field Area delivery capacity of 1.7 Bcf per day to the Market Area and 1.4 Bcf per day to the West Texas area and over 79 Bcf of firm service and operational storage cycle capacity in five storage facilities. The System is configured with approximately 2,250 active receipt and delivery points which are integrated with the facilities of local distribution companies ("LDC"). Many of the Company's LDC customers are part of combined utilities that also use natural gas as a fuel source for electric generation. The Company delivers over 1.4 trillion cubic feet of natural gas to its customers annually.

The Company has no subsidiaries and does not hold a controlling financial interest in any other entity. The unaudited Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the unaudited Financial Statements as of June 30, 2020 and for the six-month periods ended June 30, 2020 and 2019. The results of operations for the six-month period ended June 30, 2020 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through August 28, 2020, which is the date the unaudited Financial Statements were available to be issued.

The preparation of the unaudited Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Financial Statements. Note 2 of Notes to Financial Statements included in the Company's audited Financial Statements for the year ended December 31, 2019 describes the most significant accounting policies used in the preparation of the unaudited Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the six-month period ended June 30, 2020.

(2) Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Cash equivalents consist of funds invested in money market mutual funds 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 cash and cash equivalents as of June 30, 2020 and December 31, 2019, consist substantially of escrow funds held to provide the Company with protection against customer credit risk. A reconciliation of cash and cash equivalents and restricted cash and cash equivalents as of June 30, 2020 and December 31, 2019, as presented in the Statements of Cash Flows is outlined below and disaggregated by the line items in which they appear on the Balance Sheets (in thousands):

	As of	
	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 38,218	\$ 38,792
Restricted cash and cash equivalents in other current assets	386	2,156
Restricted cash and cash equivalents in other assets	12,930	13,457
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 51,534</u>	<u>\$ 54,405</u>

(3) Employee Benefit Plans

The Company is a participant in benefit plans sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly owned subsidiary of BHE. The MidAmerican Energy Company Retirement Plan provides pension benefits for eligible employees ("pension plan") and the MidAmerican Energy Company Welfare Benefit Plan provides certain postretirement health care and life insurance benefits for eligible retirees ("other postretirement plan") on behalf of the Company. The Company's contributions to the pension plan and other postretirement plan totaled \$0.5 million and \$0.6 million for the six-month periods ended June 30, 2020 and 2019, respectively. As of June 30, 2020, the Company recorded in other long-term liabilities its portion of the under funded status of the pension plan and in other assets its portion of the over funded status of the other postretirement plan of \$15.0 million and \$32.6 million, respectively. As of December 31, 2019, the Company recorded in other long-term liabilities its portion of the under funded status of the pension plan and in other assets its portion of the over funded status of the other postretirement plan of \$15.0 million and \$31.7 million, respectively. Amounts attributable to the Company were allocated from MEC to the Company in accordance with the intercompany administrative service agreement. Offsetting regulatory assets and liabilities have been recorded related to the amounts not yet recognized as a component of net periodic benefit costs that will be included in regulated rates.

(4) Fair Value Measurements

The carrying value of the Company's cash, certain cash equivalents, receivables, payables and accrued liabilities approximates fair value because of the short-term maturity of these instruments. The Company 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 the Company 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 the Company's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. The Company develops these inputs based on the best information available, including its own data.

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

	Input Levels for Fair Value Measurements				Total
	Level 1	Level 2	Level 3	Other⁽¹⁾	
<u>As of June 30, 2020</u>					
Assets:					
Commodity derivatives	\$ —	\$ 13,512	\$ —	\$ (4,264)	\$ 9,248
Money market mutual funds ⁽²⁾	53,250	—	—	—	53,250
Investment funds	15,762	—	—	—	15,762
	<u>\$ 69,012</u>	<u>\$ 13,512</u>	<u>\$ —</u>	<u>\$ (4,264)</u>	<u>\$ 78,260</u>
Liabilities - commodity derivatives	<u>\$ —</u>	<u>\$ (4,264)</u>	<u>\$ —</u>	<u>\$ 4,264</u>	<u>\$ —</u>
<u>As of December 31, 2019</u>					
Assets:					
Commodity derivatives	\$ —	\$ 9,192	\$ —	\$ (4,582)	\$ 4,610
Money market mutual funds ⁽²⁾	73,436	—	—	—	73,436
Investment funds	11,596	—	—	—	11,596
	<u>\$ 85,032</u>	<u>\$ 9,192</u>	<u>\$ —</u>	<u>\$ (4,582)</u>	<u>\$ 89,642</u>
Liabilities - commodity derivatives⁽³⁾	<u>\$ —</u>	<u>\$ (6,087)</u>	<u>\$ —</u>	<u>\$ 4,582</u>	<u>\$ (1,505)</u>

(1) Represents netting under master netting arrangements.

(2) Amounts are included in cash and cash equivalents, other current assets and other assets on the Balance Sheets. The fair value of these money market mutual funds approximates cost.

(3) Amount is included in other current liabilities on the Balance Sheets.

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 the Company transacts. When quoted prices for identical contracts are not available, the Company uses forward price curves. Forward price curves represent the Company's estimates of the prices at which a buyer or seller could contract today for delivery or settlement at future dates. The Company 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 the Company. Market price quotations for certain major natural gas trading hubs are generally readily obtainable for the applicable term of the Company's outstanding derivative contracts; therefore, the Company's forward price curves for those locations and periods reflect observable market quotes. The estimated fair value of these derivative contracts is a function of underlying forward commodity prices, related volatility, counterparty creditworthiness and duration of contracts.

The Company's investments in money market mutual funds and investment funds are stated at fair value. 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.

(5) Commitments and Contingencies

Regulatory Matters

In July 2018, the FERC issued a final rule adopting procedures for determining whether natural gas pipelines were collecting unjust and unreasonable rates in light of the reduction in the federal corporate tax rate from 2017 Tax Reform. Pursuant to the final rule, in October 2018, the Company filed an informational filing on FERC Form No. 501-G and a Statement Demonstrating Why No Rate Adjustment is Necessary. In January 2019, FERC initiated a Section 5 investigation to determine whether the rates currently charged by the Company are just and reasonable. As required by the FERC Section 5 order, the Company filed a cost and revenue study in April 2019. In July 2019, the Company filed a Section 4 rate case requesting increases in its transportation and storage rates. In January 2020, the FERC approved the Company's filing to implement its interim rates subject to refund, effective January 1, 2020.

In June 2020, a settlement agreement was filed with the FERC, resolving the Section 5 investigation and Section 4 rate case and providing for increased service rates and depreciation rates. Market Area transportation reservation rates increased 28.5% and storage reservation rates increased 67.0% from the rates that were in effect in 2019. Depreciation rates are 2.3% for onshore transmission plant, 2.95% for LNG storage plant, 13.0% for intangible plant, and 2.75% for general plant. The settlement also provides for a Section 4 and Section 5 rate action moratorium through June 30, 2022, subject to certain exceptions, as well as provides for minimum annual maintenance capital spending. The settlement rates were implemented May 1, 2020. As of June 30, 2020, the Company's provision for rate refunds for January 2020 through April 2020 totaled \$69 million and was included in other current liabilities on the Balance Sheet. FERC approval of the settlement is expected before the end of 2020.

Legal Matters

The Company is party to a variety of legal actions arising out of the normal course of business. Plaintiffs occasionally seek punitive or exemplary damages. The Company does not believe that such normal and routine litigation will have a material impact on its financial results. The Company is also involved in other kinds of legal actions, some of which assert or may assert claims or seek to impose fines, penalties and other costs in substantial amounts and are described below.

The Company's storage gas migrated from its former certificated storage field boundaries near Cunningham, Kansas and was produced on leaseholds held by Nash Oil & Gas, Inc. ("Nash"), L.D. Drilling Company ("LD Drilling"), Val Energy, Inc. ("Val Energy") and Iuka-Carmi Development, LLC. In order to mitigate its losses, the Company initiated the following actions:

- In September 2009, the Company filed an application with the FERC to extend the boundaries of the Cunningham natural gas storage facility. In June 2010, FERC issued an order granting the Company certificate authority to extend the boundaries of the Cunningham natural gas storage facility by 12,320 acres. The Company either acquired the storage rights or purchased the property on 3,696 acres, or 30% of the extension area. In July 2010, the Company filed a complaint in federal district court to acquire the remaining necessary interests by eminent domain. The federal district court issued a decision in February 2015, awarding a total value of \$7.3 million. In July 2017, the Tenth Circuit Court of Appeals reduced the condemnation award by approximately \$6.0 million. The case was remanded to the federal district court for final disposition. In March 2019 the federal district court entered a Memorandum and Order adopting the Company's position on the remaining issues. Motions to reconsider the decision have been filed by the defendants and were denied by the court. In June 2020, an agreed Final Order was issued by the federal district court and the Company paid the agreed amounts into court for distribution.
- In December 2009, the Company filed a lawsuit in the 13th Judicial District, District Court, Pratt County, Kansas ("Pratt County State District Court") against ONEOK Field Services Company ("ONEOK") and Lumen Energy Corporation ("Lumen") alleging conversion based on their purchase of the storage gas from the producers after the June 2010 FERC order. The proceeds from June 2010 through February 2011 when the wells were shut-in have been held in suspense pending further proceedings. The Company expects to resolve this lawsuit in conjunction with the finalization of the condemnation case discussed above.

In December 2011, state court petitions were filed against the Company in three counties in Kansas, alleging trespass, nuisance and unjust enrichment, arising out of the migration of the Company's storage gas. The cases were moved to federal district court in Wichita, Kansas in December 2011, at the request of the Company. The case will likely be resolved in light of the completion of the condemnation and Pratt County matters described above.

While it is not possible to predict with certainty the outcome of the aforementioned litigation and other contingencies, the Company believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial results.

(6) Revenue from Contracts with Customers

The following table summarizes the Company's revenue from contracts with customers ("Customer Revenue") and revenue not considered Customer Revenue ("Other Revenue") (in thousands):

	Six-Month Periods Ended June 30,	
	2020	2019
Customer Revenue:		
Transportation service	\$ 460,198	\$ 396,181
Storage service	32,905	26,016
Gas, liquids and other sales	5,243	31,830
Total Customer Revenue	498,346	454,027
Other Revenue ⁽¹⁾	3,426	(1,045)
Total	<u>\$ 501,772</u>	<u>\$ 452,982</u>

(1) Other Revenue consists of revenue recognized in accordance with Accounting Standards Codification 815, "Derivative and Hedging" and includes net payments to counterparties for the financial settlement of certain derivative contracts.

Remaining Performance Obligations

The following table summarizes the Company's revenue, calculated using the approved rates in the Company's tariff, it expects to recognize in future periods related to significant unsatisfied performance obligations for fixed contracts with expected durations in excess of one year as of June 30, 2020 (in thousands):

Less than 12 months	\$ 690,630
More than 12 months	3,694,489
Total	<u>\$ 4,385,119</u>

(7) Other Related Party Transactions

The Company provided gas transportation, storage and other services to MEC totaling \$43.2 million and \$32.0 million for the six-month periods ended June 30, 2020 and 2019, respectively. MEC provides certain administrative and management services, including executive, financial, legal, human resources, payroll and tax, to the Company. Expenses incurred by MEC and billed to the Company are based on the individual services and expense items provided and were \$4.3 million and \$4.0 million for the six-month periods ended June 30, 2020 and 2019, respectively. MEC also provided electricity and other services to the Company of \$0.4 million for each of the six-month periods ended June 30, 2020 and 2019. The Company reimbursed MEC \$36.7 million and \$37.2 million for the six-month periods ended June 30, 2020 and 2019, respectively, for payroll, healthcare benefits and other benefit payments that MEC processed on behalf of the Company.

BHE provides certain administrative and management services, including executive, financial, legal and tax, to the Company. Expenses incurred by BHE and billed to the Company are based on the individual services and expense items provided and were \$2.1 million and \$1.6 million for the six-month periods ended June 30, 2020 and 2019, respectively. Income tax transactions with BHE resulted in net payments of \$3.5 million and \$1.9 million for the six-month periods ended June 30, 2020 and 2019, respectively.

As of June 30, 2020 and December 31, 2019, the Company had net accounts payable to BHE and certain subsidiaries for intercompany transactions totaling \$1.3 million and \$1.2 million, respectively. The Company also had accounts receivable from affiliates of \$5.4 million and \$8.3 million as of June 30, 2020 and December 31, 2019, respectively.

The Company provides certain administrative and management services, including executive, financial, regulatory, legal, information technology, human resources and procurement, to Kern River Gas Transmission Company ("Kern River"), an indirect wholly owned subsidiary of BHE. The Company billed Kern River \$0.9 million and \$0.7 million for the six-month periods ended June 30, 2020 and 2019, respectively, for these services.

The Company possesses demand promissory notes from BHE. The balance of the demand promissory notes as of June 30, 2020 and December 31, 2019 was \$500.0 million and \$240.0 million, respectively. The notes contain variable interest rates based on 30-day London Interbank Offered Rate plus a fixed spread per annum. Interest income of \$2.5 million and \$6.0 million was recorded for the six-month periods ended June 30, 2020 and 2019, respectively.

(8) Subsequent Events

In July and August 2020, BHE redeemed promissory notes from the Company totaling \$90.0 million.