



Northern Natural Gas Company

**Financial Statements and Independent Auditor's Report
as of and for the
Years Ended December 31, 2021 and 2020**



Deloitte & Touche LLP
First National Tower
1601 Dodge Street
Suite 3100
Omaha, NE 68102-1640
USA

Tel: +1 402 346 7788
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of
Northern Natural Gas Company
Omaha, Nebraska

Opinion

We have audited the financial statements of Northern Natural Gas Company (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material

if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

March 31, 2022

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

	As of December 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23	\$ 11,763
Accounts receivable, net	131,550	114,019
Accounts receivable from affiliate	11,194	10,089
Notes receivable from affiliate	325,000	185,000
Transportation and exchange gas receivables	22,812	6,781
Inventories	62,222	48,854
Income tax receivable	26,803	1,211
Other current assets	35,047	43,431
Total current assets	614,651	421,148
Property, plant and equipment, net	4,819,898	4,348,171
Regulatory assets	92,445	87,840
Other assets	73,663	63,685
Total assets	\$ 5,600,657	\$ 4,920,844
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 106,283	\$ 39,930
Accounts payable to affiliates	2,599	1,582
Accrued interest	23,116	19,877
Accrued property, income and other taxes	73,463	63,530
Transportation and exchange gas payables	21,377	9,600
Current portion of long-term debt	—	199,917
Other current liabilities	101,372	82,402
Total current liabilities	328,210	416,838
Long-term debt	1,587,534	1,047,530
Regulatory liabilities	409,438	429,513
Deferred income taxes	656,563	607,669
Asset retirement obligations	14,397	15,711
Other long-term liabilities	52,654	48,161
Total liabilities	3,048,796	2,565,422
Commitments and contingencies (Note 12)		
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	1,569,992	1,369,102
Accumulated other comprehensive income, net	—	4,451
Total shareholder's equity	2,551,861	2,355,422
Total liabilities and shareholder's equity	\$ 5,600,657	\$ 4,920,844

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

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

	Years Ended December 31,	
	2021	2020
Operating revenue:		
Transportation	\$ 834,910	\$ 858,507
Storage	93,635	91,051
Gas, liquids and other sales	143,104	18,071
Total operating revenue	<u>1,071,649</u>	<u>967,629</u>
Operating expenses:		
Operations and maintenance	335,272	305,695
Cost of gas and liquids sales	58,545	22,422
Depreciation and amortization	162,262	153,372
Taxes, other than income taxes	67,717	62,345
Total operating expenses	<u>623,796</u>	<u>543,834</u>
Operating income	<u>447,853</u>	<u>423,795</u>
Other income (expense):		
Interest expense, net	(61,145)	(55,898)
Interest income	4,182	4,548
Other, net	18,873	21,591
Total other income (expense)	<u>(38,090)</u>	<u>(29,759)</u>
Income before income tax expense	409,763	394,036
Income tax expense	93,873	93,083
Net income	<u>\$ 315,890</u>	<u>\$ 300,953</u>

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

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

	Years Ended December 31,	
	2021	2020
Net income	\$ 315,890	\$ 300,953
Other comprehensive (loss) income, net of tax-		
Unrealized (losses) gains on cash flow hedges, net of tax of \$(1,618) and \$790	(4,451)	2,175
Comprehensive income	<u>\$ 311,439</u>	<u>\$ 303,128</u>

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

Northern Natural Gas Company
Statements of Changes in Shareholder's Equity
(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, 2019	\$ 1	\$ 981,868	\$ 1,068,149	\$ 2,276	\$ 2,052,294
Net income	—	—	300,953	—	300,953
Other comprehensive income - cash flow hedges	—	—	—	2,175	2,175
Balance, December 31, 2020	1	981,868	1,369,102	4,451	2,355,422
Net income	—	—	315,890	—	315,890
Other comprehensive loss - cash flow hedges	—	—	—	(4,451)	(4,451)
Common stock dividends declared	—	—	(115,000)	—	(115,000)
Balance, December 31, 2021	<u>\$ 1</u>	<u>\$ 981,868</u>	<u>\$ 1,569,992</u>	<u>\$ —</u>	<u>\$ 2,551,861</u>

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

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

	Years Ended December 31,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 315,890	\$ 300,953
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	162,262	153,372
Amortization of debt issuance costs	365	454
Deferred income taxes	39,386	7,705
Other, net	(7,700)	(1,016)
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	(22,971)	(8,968)
Inventories	(13,368)	(6,903)
Accounts payable and other accrued liabilities	22,384	16,263
Gas balancing activities	(2,924)	(6,847)
Accrued property, income and other taxes	(15,660)	19,944
Net cash flows from operating activities	<u>477,664</u>	<u>474,957</u>
Cash flows from investing activities:		
Capital expenditures	(570,842)	(638,105)
Reimbursement of capital expenditures net of refunds	1,301	80,522
Issuance of affiliate notes receivable	(895,000)	(260,000)
Proceeds from repayment of affiliate notes receivable	755,000	315,000
Purchases of marketable securities	(8,788)	(14,796)
Proceeds from sales of marketable securities	6,856	12,098
Other	(287)	—
Net cash flows from investing activities	<u>(711,760)</u>	<u>(505,281)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	539,776	—
Repayment of long-term debt	(200,000)	—
Common stock dividends paid	(115,000)	—
Net cash flows from financing activities	<u>224,776</u>	<u>—</u>
Net change in cash and cash equivalents and restricted cash and cash equivalents	(9,320)	(30,324)
Cash and cash equivalents and restricted cash and cash equivalents at beginning of period	24,081	54,405
Cash and cash equivalents and restricted cash and cash equivalents at end of period	<u>\$ 14,761</u>	<u>\$ 24,081</u>
Supplemental Disclosure:		
Interest paid, net of amounts capitalized	<u>\$ 61,145</u>	<u>\$ 53,781</u>
Income taxes paid	<u>\$ 79,970</u>	<u>\$ 76,450</u>
Non-cash investing transactions-		
Accruals related to property, plant and equipment additions	<u>\$ 80,411</u>	<u>\$ 45,735</u>

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

Northern Natural Gas Company

Notes to Financial Statements

(1) Organization and Operations

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 14,300 miles of natural gas pipelines, including 5,800 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 95.6 Bcf of working gas capacity in five storage facilities. The System is configured with approximately 2,244 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 delivered over 1.2 trillion cubic feet of natural gas to its customers in 2021.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The Company has no subsidiaries and does not hold a controlling financial interest in any other entity. The Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates in Preparation of Financial Statements

The preparation of the 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 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; recovery of long-lived assets; 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. The Company has evaluated subsequent events through March 31, 2022, which is the date the audited Financial Statements were available to be issued.

Statement of Cash Flows

In the Company's financial statements for the year ended December 31, 2020, the Company classified "issuance of affiliate notes receivable" and "proceeds from repayment of affiliate notes receivable" as financing activities, rather than investing activities. The presentation of the amounts previously reported in the statement of cash flows for the year ended December 31, 2020 have been revised. The Company determined that this misstatement was not material to the prior period financial statements.

Accounting for the Effects of Certain Types of Regulation

The Company prepares its Financial Statements in accordance with authoritative guidance for regulated operations, which recognizes the economic effects of regulation. Accordingly, the Company is required to defer 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.

The Company 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 regulated rates from cost-based ratemaking to another form of regulation, other regulatory actions or the impact of competition that could limit the Company's ability to recover its costs. The Company 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 the federal level. 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 recognized in 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. Alternative 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 and Cash Equivalents and Restricted Cash and Cash Equivalents

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 other assets on the Balance Sheets.

Allowance for Credit Losses

Accounts receivable are primarily short-term in nature with stated collection terms of less than one year from the date of origination and are stated at the outstanding principal amount, net of an estimated allowance for credit losses. The allowance for credit losses is based on the Company's assessment of the collectability of amounts owed to the Company by its customers. This assessment requires judgment regarding the ability of customers to pay or the outcome of any pending disputes. In measuring the allowance for credit losses for accounts receivable, the Company primarily utilizes credit loss history. However, the Company may adjust the allowance for credit losses to reflect current conditions and reasonable and supportable forecasts that deviate from historical experience. As of December 31, 2021 and 2020, the allowance for credit losses was insignificant and is included in accounts receivable, net on the Balance Sheets.

Transportation Imbalances

Shippers schedule their volumes into the Company's System with subsequent deliveries to various markets. Imbalance receivables from and payables to shippers are created when receipts to the System from shippers vary from deliveries off the System, excluding quantities retained by the pipeline for fuel. Receipts and deliveries from third parties in connection with balancing and other gas service contracts also result in imbalances. Such imbalances are valued at contractual or market rates and recorded as transportation and exchange gas receivables or payables on the Balance Sheets with offsetting entries to cost of gas and liquids sales on the Statements of Income. The imbalances cause offsetting changes in the volumes of system balancing gas, which are priced at contractual or market rates, and are recorded as adjustments to system gas balances in property, plant and equipment, net on the Balance Sheets and to cost of gas and liquids sales on the Statements of Income. Settlement of imbalances occurs in accordance with the contractual terms of the agreements and timing of delivery of gas based on operational conditions.

Derivatives

The Company employs a number of different derivative contracts, which may include forwards, futures, options, swaps and other agreements to manage price risk for natural gas. 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.

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 gas and liquids sales on the Statements of Income.

For the Company's derivatives not designated as hedging contracts, the settled amount is probable of inclusion 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 the Company's derivatives designated as hedging contracts, the Company formally assesses, at inception and thereafter, whether the hedging contract is highly effective in offsetting changes in the hedged item. The Company formally documents hedging activity by transaction type and risk management strategy.

Inventories

Inventories consist primarily of materials and supplies, which mainly include replacement parts used in the periodic overhaul of gas compressor units and materials for construction, operation and maintenance and are stated at average cost.

Property, Plant and Equipment, Net

General

Additions to property, plant and equipment are recorded at cost. The Company capitalizes all construction-related material, direct labor and contract services, as well as indirect construction costs, which include debt and equity allowance for funds used during construction ("AFUDC") on rate base assets. 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.

Depreciation and amortization are computed using the straight-line method based on either estimated useful lives or mandated recovery periods as prescribed by the Federal Energy Regulatory Commission ("FERC"). Depreciation studies are completed by the Company to determine the appropriate group lives, net salvage and group depreciation rates. These studies are reviewed and rates are ultimately approved by the FERC. The United States Code of Federal Regulations require that when utility property, plant and equipment are retired, the original cost of the property retired be charged to accumulated depreciation and amortization, net of salvage and removal costs.

Negative salvage is the amount recovered in rates for the estimated removal cost after salvage proceeds to retire defined retirement units over the life of the system. A negative salvage balance that exceeds accumulated net removal costs incurred is recorded as a regulatory liability. If accumulated net removal costs incurred exceeds a negative salvage balance, a regulatory asset is recorded.

For general plant, the original cost of the property retired is charged to accumulated depreciation and amortization at the end of the depreciable lives of the asset vintages. Retirement gains or losses are not included in income except in the case of sales of operating units.

The Company capitalizes debt and equity AFUDC, which represent the cost of debt and equity funds necessary to finance the construction of regulated facilities, as a component of property, plant and equipment, with offsetting credits to the Statements of Income. AFUDC is computed based on guidelines set forth by the FERC. The company is permitted to earn a return on the cost of its rate base assets as well as recover these costs through depreciation expense over the useful lives of the assets.

AFUDC on borrowed funds totaled \$2.1 million and \$1.6 million for the years ended December 31, 2021 and 2020, respectively, and is included in interest expense, net on the Statements of Income. AFUDC on equity funds totaled \$12.2 million and \$7.1 million for the years ended December 31, 2021 and 2020, respectively, and is included in other, net on the Statements of Income.

The Company receives monetary contributions from customers that are used to aid in the construction or modification of facilities to be owned by the Company.

System Gas

Storage base gas and system balancing gas are accounted for utilizing the fixed asset accounting method as prescribed by the FERC. Under this approach, system gas volumes are classified as property, plant and equipment, net and valued at cost. Temporary encroachments upon system gas are valued at contractual or current market prices.

Asset Retirement Obligations

The Company recognizes AROs when it has a legal obligation to remove or abandon-in-place an asset upon retirement. The Company's AROs are related to the decommissioning of all offshore Gulf Coast 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 property, plant and equipment) 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 property, plant and equipment, net and amounts recovered in regulated rates to satisfy such liabilities is recorded as a regulatory asset or liability.

Impairment

The Company evaluates long-lived assets for impairment, including property, plant and equipment, 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 and any resulting impairment loss is reflected on the Statements of Income. The impacts of regulation are considered when evaluating the carrying value of regulated assets. There were no impairments in the periods presented.

Revenue Recognition

The Company uses a single five-step model to identify and recognize revenue from contracts with customers ("Customer Revenue") upon transfer of control of promised services in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

Substantially all of the Company's Customer Revenue is derived from tariff-based transportation and storage arrangements approved by the FERC. These tariff-based revenues have performance obligations to deliver services to customers which are satisfied over time as services are provided.

Revenue recognized is equal to what the Company has the right to invoice as it corresponds directly with the value to the customer of the Company's performance to date and includes billed and unbilled amounts. As of December 31, 2021 and 2020, unbilled revenue was \$5.8 million and \$4.4 million, respectively, and is included in accounts receivable, net on the Balance Sheets. The Company's transportation and storage revenue is primarily derived from fixed reservation charges based on contractual quantities and regulated rates. The remaining revenue, consisting primarily of commodity charges, is based on contractual rates and estimated usage based on scheduled quantities. Differences between scheduled quantities and actual measured quantities are reflected in revenue during the following month and historically have been immaterial.

The Company is subject to FERC regulations and, accordingly, certain revenue collected may be subject to possible refunds upon final FERC orders in pending regulated rate proceedings. The Company may record revenue that is subject to refund based on its best estimates of the final outcomes of such proceedings and other third party regulatory proceedings, advice of counsel and estimated total exposure, as well as collection and other risks. The Company had no earned revenue subject to refund for the years ended December 31, 2021 and 2020.

Income Taxes

Berkshire Hathaway includes the Company in its consolidated United States federal income tax return. Consistent with established regulatory practice, the Company's provision for income tax expense has been computed on a stand-alone return basis.

Deferred income tax assets and liabilities are based on differences between the financial statement and income tax basis of assets and liabilities using enacted 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 other comprehensive income ("OCI") are charged or credited directly to OCI. Changes in deferred income tax assets and liabilities that are associated with property-related basis differences and other various differences that the Company deems probable of being reflected in future regulatory rates, are charged or credited directly to a regulatory asset or liability and will be included in 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. Valuation allowances are established when necessary to reduce certain deferred income tax assets to the amount that is more-likely-than-not to be realized.

In determining the Company's income taxes, management is required to interpret complex income tax laws and regulations, which includes consideration of regulatory implications imposed by the FERC. The Company's income tax returns are subject to continuous examinations by federal and state income 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. The Company recognizes 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 Financial Statements from such a position are measured based on the largest benefit that is more-likely-than-not of being realized upon ultimate settlement. Although the ultimate resolution of the Company's federal, state and local income tax examinations is uncertain, the Company believes it has made adequate provisions for these 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 adverse impact on the Company's financial results. The Company's unrecognized tax benefits are included in other current assets and other long-term liabilities on the Balance Sheets. Estimated interest and penalties, if any, related to uncertain tax positions are included as a component of income tax expense on the Statements of Income.

(3) 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 December 31, 2021 and December 31, 2020, 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 December 31, 2021 and 2020, 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 December 31,	
	2021	2020
Cash and cash equivalents	\$ 23	\$ 11,763
Restricted cash and cash equivalents in other current assets	2,277	2,096
Restricted cash and cash equivalents in other assets	12,461	10,222
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 14,761</u>	<u>\$ 24,081</u>

(4) Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following as of December 31 (in thousands):

	Depreciation Rates	2021	2020
Transmission and other plant	2.3% to 10.0%	\$ 4,860,578	\$ 4,463,281
Storage plant ⁽¹⁾	1.25% to 10.0%	893,721	842,912
Intangible plant ⁽²⁾	10.00% to 13.0%	172,245	183,375
General plant and buildings	2.75% to 20.0%	140,147	131,222
Total operating assets		6,066,691	5,620,790
Accumulated depreciation and amortization		(1,442,318)	(1,384,578)
Net operating assets		4,624,373	4,236,212
Construction work-in-progress		195,525	111,959
Property, plant and equipment, net		<u>\$ 4,819,898</u>	<u>\$ 4,348,171</u>

(1) Includes recoverable system gas that is not depreciated.

(2) Includes costs for capitalized software development, contributions in aid of construction, organization and leasehold improvements.

The Company had gross costs for capitalized right of use or right of way of \$116.1 million and \$113.9 million and accumulated amortization of \$40.6 million and \$42.3 million as of December 31, 2021 and

2020, respectively, which is included in transmission and other plant and storage plant and reflected in property, plant and equipment, net on the Balance Sheets. Capitalized right of use or right of way costs based on surviving life of operating plant are amortized at rates of 1.25% for storage plant and 2.3% for transmission plant. Capitalized right of way costs with limited term life contracts are amortized over the life of the contract.

The Company had gross costs for capitalized software development of \$150.1 million and \$165.7 million and accumulated amortization of \$80.4 million and \$79.8 million as of December 31, 2021 and 2020, respectively, which is included in intangible plant and reflected in property, plant and equipment, net on the Balance Sheets. Capitalized software development costs are amortized at a rate of 13.0%.

For the years ended December 31, 2021 and 2020, depreciation expense of \$137.5 million and \$128.4 million, respectively, and amortization expense of \$24.7 million and \$24.9 million, respectively, were included in depreciation and amortization on the Statements of Income. The Company expects amortization expense to be \$22.0 million for 2022, \$23.5 million for 2023, \$23.3 million for 2024, \$23.6 million for 2025 and \$26.0 million for 2026.

(5) Regulatory Matters

Regulatory Assets

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

	<u>Remaining Life</u>	<u>2021</u>	<u>2020</u>
Deferred income taxes associated with equity AFUDC ⁽¹⁾	44 years	\$ 26,600	\$ 22,574
Deferred unamortized loss on derivative contract value	Various	19,852	20,556
Employee benefit plan ⁽²⁾	12 years	18,837	15,343
Smart pigging and hydrostatic testing costs	5 years	13,046	19,287
Onshore negative salvage	2 years	8,077	—
Unrecovered offshore ARO	4 years	4,535	6,632
Fuel trackers periodic rate adjustments	1 year	1,488	3,852
Other	Various	1,498	2,993
Total regulatory assets		<u>\$ 93,933</u>	<u>\$ 91,237</u>
Reflected as:			
Other current assets		\$ 1,488	\$ 3,397
Noncurrent assets		92,445	87,840
Total regulatory assets		<u>\$ 93,933</u>	<u>\$ 91,237</u>

1) Amortized at the same rate as onshore transmission plant.

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

The Company had regulatory assets not earning a return on investment of \$46.6 million and \$37.1 million as of December 31, 2021 and 2020, respectively.

Regulatory Liabilities

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

	<u>Remaining Life</u>	<u>2021</u>	<u>2020</u>
Excess deferred income taxes ⁽¹⁾	27 years or less	\$ 367,981	\$ 379,106
Employee benefit plan ⁽²⁾	12 years	39,344	34,937
Unrealized gain on derivative contracts	Various	2,113	9,552
Other	1 year	24,201	14,739
Total regulatory liabilities		<u>\$ 433,639</u>	<u>\$ 438,334</u>
Reflected as:			
Other current liabilities		\$ 24,201	\$ 8,821
Noncurrent liabilities		409,438	429,513
Total regulatory liabilities		<u>\$ 433,639</u>	<u>\$ 438,334</u>

- (1) Amounts represent income tax liabilities related to tax rate changes on deferred income tax assets and liabilities that the Company deems probable of being reflected in future regulatory rates.
- (2) 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.

(6) Long-Term Debt

Long-term debt consists of the following, including unamortized premiums, discounts, and debt issuance costs as of December 31 (dollars in thousands):

	<u>Par Value</u>	<u>2021</u>	<u>2020</u>
Long-term debt:			
4.25% Senior Notes, due 2021	\$ —	\$ —	\$ 199,917
5.8% Senior Bonds, due 2037	150,000	149,208	149,176
4.1% Senior Bonds, due 2042	250,000	247,873	247,809
4.3% Senior Bonds, due 2049	650,000	650,530	650,545
3.4% Senior Bonds, due 2051	550,000	539,923	—
Total long-term debt	<u>\$ 1,600,000</u>	<u>\$ 1,587,534</u>	<u>\$ 1,247,447</u>

Reflected as:

Current liabilities	\$ —	\$ 199,917
Noncurrent liabilities	1,587,534	1,047,530
	<u>\$ 1,587,534</u>	<u>\$ 1,247,447</u>

All of the Company's senior notes and bonds are due and payable on their respective maturity dates and none have mandatory prepayment terms.

The Company is prohibited from making distributions in respect of the shares of its capital stock unless, on the date of any such distribution, none of certain specified events of default exist under its senior unsecured debt and either (1) at the time and as a result of such distribution, the ratio of its debt to its total capital does not exceed 0.65 to 1.0 and the ratio of its earnings before interest, taxes, depreciation and amortization, to its interest expense is not less than 2.5 to 1.0, or (2) if the Company is not in compliance with such ratios, its senior unsecured long-term debt rating is at least BBB (or its then equivalent) from Standard and Poor's and Baa2 (or its then equivalent) from Moody's Investors Service, Inc.

(7) Income Taxes

Income tax expense consists of the following for the years ended December 31 (in thousands):

	<u>2021</u>	<u>2020</u>
Current:		
Federal	\$ 44,225	\$ 65,264
State	<u>10,262</u>	<u>20,114</u>
	<u>54,487</u>	<u>85,378</u>
Deferred:		
Federal	24,923	94
State	<u>14,463</u>	<u>7,611</u>
	<u>39,386</u>	<u>7,705</u>
Total	<u>\$ 93,873</u>	<u>\$ 93,083</u>

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

	<u>2021</u>	<u>2020</u>
Federal statutory income tax rate	21.0 %	21.0 %
State income tax, net of federal income tax benefit	5.4	5.8
Effects of ratemaking	(2.9)	(2.9)
Other	<u>(0.6)</u>	<u>(0.3)</u>
Effective income tax rate	<u>22.9 %</u>	<u>23.6 %</u>

The net deferred income tax liability consists of the following as of December 31 (in thousands):

	<u>2021</u>	<u>2020</u>
Deferred income tax assets:		
Regulatory liabilities	\$ 108,585	\$ 110,399
Accrued employee expenses	8,644	8,924
Asset retirement obligations	3,821	4,189
State carryforwards	4,567	4,607
Other	<u>7,533</u>	<u>4,762</u>
Total deferred income tax assets	133,150	132,881
Valuation allowance	<u>(1,957)</u>	<u>(2,300)</u>
Total deferred income tax assets, net	<u>131,193</u>	<u>130,581</u>
Deferred income tax liabilities:		
Property, plant and equipment, net	(751,364)	(699,690)
Regulatory assets	(24,567)	(23,369)
Employee benefits	(10,443)	(9,315)
Other	<u>(1,382)</u>	<u>(5,876)</u>
Total deferred income tax liabilities	<u>(787,756)</u>	<u>(738,250)</u>
Net deferred income tax liability	<u>\$ (656,563)</u>	<u>\$ (607,669)</u>

The Company did not have federal net operating loss or credit carryforwards as of December 31, 2021. The following table provides the Company's state net operating loss and credit carryforwards and expiration dates as of December 31, 2021 (in thousands):

Net operating loss carryforwards	\$	78,271
Deferred income taxes on net operating loss carryforwards	\$	4,531
Expiration dates		2022-indefinite
Charitable contribution carryforwards	\$	4,839
Deferred income taxes on charitable contribution carryforwards	\$	28
Expiration dates		2022-2025
Other tax credits	\$	8
Expiration dates		2022-2027

The valuation allowance primarily relates to Kansas net operating loss carryforwards that are not expected to be realized.

The United States Internal Revenue Service has closed or effectively settled its examination of the Company's income tax returns through December 31, 2013. The statute of limitations for the Company's income tax returns have expired through December 31, 2011, for Michigan, Minnesota, Nebraska, Oklahoma and Wisconsin, and through December 31, 2017, except for the impact of any federal audit adjustments, for Illinois, Iowa, Kansas and New Mexico. The closure of examinations, or the expiration of the statute of limitations, for state filings, may not preclude the state from adjusting the state net operating loss carryforward utilized in a year for which the statute of limitations is not closed.

(8) 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 \$0.9 million and \$1.1 million for the years ended December 31, 2021 and 2020, respectively. The Company recorded in other long-term liabilities its portion of the under funded status of the pension plan of \$18.8 million and \$15.3 million as of December 31, 2021, and 2020 respectively. The Company reported in other assets its portion of the over funded status of the other postretirement plan of \$39.3 million and \$34.9 million, as of December 31, 2021 and 2020, 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.

(9) Asset Retirement Obligations

The Company 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 plan revisions, inflation and changes in the amount and timing of the expected work.

The Company has concluded that it is legally obligated to remove, or abandon-in-place, its onshore pipeline and related equipment upon the final retirement of the pipeline. While interim removal or abandonment-in-place and replacement of such equipment is probable, the final retirement dates of these assets are not determinable, and therefore, the liabilities for their removal cannot be reasonably estimated. The Company has also identified AROs related to asbestos siding on some of its buildings. Because both the methods of settlement and the timing of the retirements are unknown, the amounts of these obligations cannot be reasonably estimated to determine the fair value of these obligations.

The Company's ARO liability relates to the abandonment of pipeline assets located in offshore waters. The following table reconciles the beginning and ending balances of the Company's ARO liabilities for the years ended December 31 (in thousands):

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 15,711	\$ 15,290
Change in estimated costs	—	63
Retirements	(1,716)	(301)
Accretion	402	659
Ending balance	<u>\$ 14,397</u>	<u>\$ 15,711</u>

(10) 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 financial 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				
	Level 1	Level 2	Level 3	Other ⁽¹⁾	Total
As of December 31, 2021					
Assets:					
Commodity derivatives	\$ —	\$ 14,413	\$ —	\$ (13,329)	\$ 1,084
Money market mutual funds	14,738	—	—	—	14,738
Investment funds	15,999	—	—	—	15,999
	<u>\$ 30,737</u>	<u>\$ 14,413</u>	<u>\$ —</u>	<u>\$ (13,329)</u>	<u>\$ 31,821</u>
Liabilities - commodity derivatives	<u>\$ —</u>	<u>\$ (21,231)</u>	<u>\$ —</u>	<u>\$ 13,329</u>	<u>\$ (7,902)</u>
As of December 31, 2020					
Assets:					
Commodity derivatives	\$ —	\$ 16,654	\$ —	\$ (3,040)	\$ 13,614
Money market mutual funds	45,715	—	—	—	45,715
Investment funds	14,376	—	—	—	14,376
	<u>\$ 60,091</u>	<u>\$ 16,654</u>	<u>\$ —</u>	<u>\$ (3,040)</u>	<u>\$ 73,705</u>
Liabilities - commodity derivatives	<u>\$ —</u>	<u>\$ (3,124)</u>	<u>\$ —</u>	<u>\$ 3,040</u>	<u>\$ (84)</u>

(1) Represents netting under master netting arrangements.

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.

The Company's long-term debt is carried at cost on the Financial Statements. The fair value of the Company'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 following table presents the carrying value and estimated fair value of the Company's long-term debt as of December 31 (in thousands):

	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	<u>\$ 1,587,534</u>	<u>\$ 1,802,116</u>	<u>\$ 1,247,447</u>	<u>\$ 1,474,391</u>

(11) Credit Risk

The Company has a concentration of customers in the electric and gas utility industries, principally in the upper Midwestern states. This concentration of customers may impact the Company's overall exposure to credit risk in that the customer base may be similarly affected by changes in economic, industry, weather or other conditions. The Company's 10 largest customers accounted for 65% of its system-wide transportation and storage revenue in 2021.

The following customers accounted for 10% or more of the Company's total revenues for the years ended December 31 and trade receivables as of December 31:

	Revenue		Accounts Receivable	
	2021	2020	2021	2020
CenterPoint Energy Resources Corporation ⁽¹⁾	13 %	12 %	14 %	21 %
Xcel Energy, Inc. ⁽²⁾	13	12	8	9

- (1) The Company's agreements are with CenterPoint Energy Minnesota Gas, CenterPoint Energy Services and CenterPoint Energy Gas Transmission, subsidiaries of CenterPoint Energy Resources Corporation.
- (2) The Company's agreements are with Northern States Power-Minnesota, Northern States Power-Wisconsin, Northern States Power-Generation and Southwestern Public Service Company, subsidiaries of Xcel Energy, Inc.

For shippers that have withdrawn gas prior to injection under the Company's deferred delivery services, the Company is exposed to credit risk with respect to those counterparties based upon the value of the gas withdrawn. The balances in transportation and exchange gas receivables were \$22.8 million and \$6.8 million as of December 31, 2021 and 2020, respectively. Included in these amounts were balances owed of \$18.7 million and \$4.8 million as of December 31, 2021 and 2020, respectively, which were related to the Company's deferred delivery services.

As a general policy, collateral is not required for receivables from creditworthy customers. Customers' financial condition and creditworthiness are regularly evaluated, and historical losses have been minimal. In order to provide protection against credit risk, and as permitted by the terms of the Company's tariff, the Company has, among other alternatives, required customers that lack creditworthiness as defined by the tariff to provide letters of credit, cash security deposits or to establish separate legally restricted escrow funds to be held until these customers' creditworthiness can be demonstrated. As of December 31, 2021 and 2020, the Company has reflected on the Balance Sheets escrow funds of \$2.3 million and \$2.1 million, respectively, in other current assets and \$12.5 million and \$10.2 million, respectively, in other assets with offsetting amounts in other current liabilities and long-term liabilities, respectively.

(12) Commitments and Contingencies

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.

Purchase Obligations

The Company expects to incur significant future capital expenditures to meet system reliability objectives and increased customer growth including commitments to two of its largest customers to meet minimum levels of incremental capacity requests through 2027 and 2034. As of December 31, 2021, the Company had firm construction commitments of \$88.0 million, primarily related to branch line and compressor replacements. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. Estimates may change significantly at any time as a result of, among other factors, changes in rules and regulations, including environmental; changes in income tax laws; general business conditions; load projections; system reliability standards; the cost and efficiency of construction labor, equipment, and materials; and the cost and availability of capital.

Easements

The Company has non-cancelable easements with minimum payment commitments as of December 31, 2021 of \$1.3 million, \$1.3 million, \$1.3 million, 1.3 million and \$1.3 million for the years 2022 through 2026, respectively, and \$5.0 million for the total of the years thereafter.

(13) Revenue from Contracts with Customers

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

	Years Ended December 31,	
	2021	2020
Customer Revenue:		
Transportation service	\$ 849,966	\$ 850,708
Storage service	91,239	89,828
Gas, liquids and other sales	137,514	18,029
Total Customer Revenue	1,078,719	958,565
Other Revenue ⁽¹⁾	(7,070)	9,064
Total	<u>\$ 1,071,649</u>	<u>\$ 967,629</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.

During February 2021, the south-central United States experienced a significant weather event, which disrupted natural gas and electric production in the Company's field area and created extraordinary pricing dislocation throughout the Company's system. Net income for the year ended December 31, 2021 included one-time pre-tax gains for margins on gas sales and higher transportation revenue of \$120 million.

Remaining Performance Obligations

The following table summarizes the Company's revenue 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 December 31, 2021 (in thousands):

Less than 12 months	\$ 800,423
More than 12 months	<u>3,684,729</u>
Total	<u>\$ 4,485,152</u>

(14) Other Related Party Transactions

The Company provided gas transportation, storage and other services to MEC totaling \$78.4 million and \$74.9 million for the years ended December 31, 2021 and 2020, 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 \$8.1 million and \$7.9 million for the years ended December 31, 2021 and 2020, respectively. MEC also provided electricity and other services to the Company of \$0.9 million and \$0.7 million for years ended December 31, 2021 and 2020 respectively. The Company reimbursed MEC \$86.2 million and \$81.9 million for the years ended December 31, 2021 and 2020, 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 \$8.8 million and \$4.7 million for the years ended December 31, 2021 and 2020, respectively. Income tax transactions with BHE resulted in net payments of \$79.6 million and \$75.9 million for the years ended December 31, 2021 and 2020, respectively. The income tax receivable of \$26.8 million and \$1.2 million as of December 31, 2021 and 2020 are due from BHE.

The Company had net accounts payable to BHE and certain subsidiaries for intercompany transactions totaling \$2.6 million and \$1.6 million as of December 31, 2021 and 2020, respectively. The Company also had accounts receivable from affiliates of \$11.2 million and \$10.1 million as of December 31, 2021 and 2020, 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 \$1.5 million and \$1.8 million for the years ended December 31, 2021 and 2020, respectively, for these services.

The Company possesses demand promissory notes from BHE. The balance of the demand promissory notes as of December 31, 2021 and 2020 was \$325.0 million and \$185.0 million, respectively. The notes contain variable interest rates based on 30-day LIBOR plus a fixed spread per annum. Interest income of \$2.8 million and \$3.4 million was recorded for the years ended December 31, 2021 and 2020, respectively.

(15) Subsequent Events

In January, February and March of 2022, BHE issued promissory notes totaling \$170.0 million and repaid demand promissory notes totaling \$40.0 million.