

Eastern Gas Transmission and Storage, Inc.

Consolidated Financial Statements

Fiscal Years Ended December 31, 2021, 2020 and 2019  
with Independent Auditor's Report

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## DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

The following abbreviations or acronyms used in this document are defined below:

Abbreviation or Acronym	Definition
AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
Atlantic Coast Pipeline	Atlantic Coast Pipeline, LLC
BHE	Berkshire Hathaway Energy Company
BHE GT&S	BHE GT&S, LLC and its subsidiaries
Customer Revenue	Revenue from contracts with customers
DEI	Dominion Energy, Inc.
DES	Dominion Energy Services, Inc.
Eastern Energy Gas	Eastern Energy Gas Holdings, LLC and its subsidiaries
EGTS	Eastern Gas Transmission and Storage, Inc. and its subsidiaries
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse Gases
GT&S Transaction	The acquisition of substantially all of the natural gas transmission and storage business of Dominion Energy, Inc., including Eastern Gas Transmission and Storage, Inc., by Berkshire Hathaway Energy Company on November 1, 2020
Hope	Hope Gas, Inc.
LIBOR	London Interbank Offered Rate
MidAmerican Energy	MidAmerican Energy Company
NAAQS	National Ambient Air Quality Standards
NSPS	New Source Performance Standard
OCI	Other Comprehensive Income (Loss)
Supply Header Project	Project previously intended for Eastern Gas Transmission and Storage, Inc. to provide approximately 1,500,000 decatherms of firm transportation service to various customers in connection with the Atlantic Coast Pipeline project
VIE	Variable Interest Entity

## **INDEPENDENT AUDITOR'S REPORT**

To The Board of Directors of Eastern Gas Transmission and Storage, Inc.

### **Opinion**

We have audited the consolidated financial statements of Eastern Gas Transmission and Storage, Inc. (the "Company") which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income, cash flows, and changes in equity for each of the three years in the period ended December 31, 2021, and the related notes to the consolidated 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 available to be 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

**EASTERN GAS TRANSMISSION AND STORAGE, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in millions)

ASSETS	As of December 31,	
	2021	2020
<b>Current assets:</b>		
Cash and cash equivalents	\$ 11	\$ 10
Restricted cash and cash equivalents	15	13
Trade receivables, net	98	95
Receivables from affiliates	9	3
Other receivables	7	45
Inventories	48	48
Income taxes receivable	19	—
Prepayments	35	35
Natural gas imbalances	94	25
Other current assets	3	3
Total current assets	339	277
Property, plant and equipment, net	4,440	4,309
Deferred income taxes	199	354
Affiliated notes receivable	3	7
Other assets	120	127
<b>Total assets</b>	<b>\$ 5,101</b>	<b>\$ 5,074</b>

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

**EASTERN GAS TRANSMISSION AND STORAGE, INC.**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
(Amounts in millions, except share data)

	<b>As of December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 54	\$ 47
Accounts payable to affiliates	13	2
Accrued property, income and other taxes	71	65
Accrued employee expenses	12	18
Notes payable	68	81
Asset retirement obligations	33	36
Regulatory liabilities	25	18
Other current liabilities	52	33
Total current liabilities	328	300
Long-term debt	1,581	1,895
Regulatory liabilities	507	525
Other long-term liabilities	145	175
Total liabilities	2,561	2,895
<b>Commitments and Contingencies (Note 15)</b>		
<b>Shareholder's equity:</b>		
Common stock - \$10,000 par value, 75,000 shares authorized and 60,101 issued and outstanding	609	609
Additional paid-in capital	1,241	929
Retained earnings	721	641
Accumulated other comprehensive loss, net	(31)	—
Total shareholder's equity	2,540	2,179
<b>Total liabilities and shareholder's equity</b>	<b>\$ 5,101</b>	<b>\$ 5,074</b>

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

**EASTERN GAS TRANSMISSION AND STORAGE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Operating revenue</b>	\$ 891	\$ 916	\$ 981
<b>Operating expenses:</b>			
Cost of gas	13	21	3
Operations and maintenance	376	392	477
Depreciation and amortization	166	163	159
Property and other taxes	62	53	59
Disallowance and abandonment of utility plant	(11)	525	13
Total operating expenses	606	1,154	711
<b>Operating income (loss)</b>	285	(238)	270
<b>Other income (expense):</b>			
Interest expense	(78)	(89)	(95)
Allowance for borrowed funds	2	5	12
Allowance for equity funds	6	12	16
Other, net	2	62	52
Total other income (expense)	(68)	(10)	(15)
<b>Income (loss) before income tax expense (benefit)</b>	217	(248)	255
Income tax expense (benefit)	61	(67)	52
<b>Net income (loss)</b>	\$ 156	\$ (181)	\$ 203

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



**EASTERN GAS TRANSMISSION AND STORAGE, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Net income (loss)	\$ 156	\$ (181)	\$ 203
Other comprehensive (loss) income, net of tax:			
Unrealized losses on cash flow hedges, net of tax of \$(12), \$— and \$—	(31)	—	—
Unrecognized amounts on retirement benefits, net of tax of \$—, \$30, and \$12	—	77	36
Total other comprehensive (loss) income, net of tax	(31)	77	36
Comprehensive income (loss)	<u>\$ 125</u>	<u>\$ (104)</u>	<u>\$ 239</u>

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

**EASTERN GAS TRANSMISSION AND STORAGE, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Amounts in millions, except shares)

	<b>Common Stock</b>		<b>Additional</b>	<b>Retained</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Earnings</b>	<b>Other</b>	<b>Equity</b>
			<b>Capital</b>		<b>Comprehensive</b>	
					<b>Loss, Net</b>	
<b>Balance, December 31, 2018</b>	60,101	\$ 609	\$ 529	\$ 825	\$ (113)	\$ 1,850
Net income	—	—	—	203	—	203
Other comprehensive income	—	—	—	—	36	36
Contributions	—	—	360	—	—	360
Dividends	—	—	—	(81)	—	(81)
<b>Balance, December 31, 2019</b>	60,101	609	889	947	(77)	2,368
Net loss	—	—	—	(181)	—	(181)
Other comprehensive income	—	—	—	—	77	77
Dividends	—	—	—	(125)	—	(125)
Acquisition of EGTS by BHE	—	—	40	—	—	40
<b>Balance, December 31, 2020</b>	60,101	609	929	641	—	2,179
Net income	—	—	—	156	—	156
Other comprehensive loss	—	—	—	—	(31)	(31)
Contributions	—	—	312	—	—	312
Dividends	—	—	—	(76)	—	(76)
<b>Balance, December 31, 2021</b>	<u>60,101</u>	<u>\$ 609</u>	<u>\$ 1,241</u>	<u>\$ 721</u>	<u>\$ (31)</u>	<u>\$ 2,540</u>

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

**EASTERN GAS TRANSMISSION AND STORAGE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in millions)

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 156	\$ (181)	\$ 203
Adjustments to reconcile net income (loss) to net cash flows from			
(Gains) losses on other items, net	(8)	517	13
Depreciation and amortization	166	163	159
Allowance for equity funds	(6)	(12)	(16)
Changes in regulatory assets and liabilities	—	24	17
Deferred income taxes	93	(121)	(5)
Other, net	(7)	26	(14)
Changes in other operating assets and liabilities:			
Trade receivables and other assets	2	53	(63)
Pension and other postretirement benefit plans	(17)	(85)	(102)
Accrued property, income and other taxes	(23)	10	4
Accounts payable and other liabilities	11	(27)	22
Net cash flows from operating activities	<u>367</u>	<u>367</u>	<u>218</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(358)	(263)	(277)
Loans to affiliates	(14)	—	—
Repayment of loans by affiliates	19	—	—
Other, net	(4)	(2)	1
Net cash flows from investing activities	<u>(357)</u>	<u>(265)</u>	<u>(276)</u>
<b>Cash flows from financing activities:</b>			
(Repayment) issuance of notes payable, net	(13)	34	(234)
Proceeds from equity contributions	20	—	360
Dividends paid	(18)	(125)	(81)
Other, net	4	—	—
Net cash flows from financing activities	<u>(7)</u>	<u>(91)</u>	<u>45</u>
<b>Net change in cash and cash equivalents and restricted cash and cash equivalents</b>			
	3	11	(13)
<b>Cash and cash equivalents and restricted cash and cash equivalents at beginning of period</b>	<u>23</u>	<u>12</u>	<u>25</u>
<b>Cash and cash equivalents and restricted cash and cash equivalents at end of period</b>	<u>\$ 26</u>	<u>\$ 23</u>	<u>\$ 12</u>

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

**EASTERN GAS TRANSMISSION AND STORAGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Organization and Operations**

EGTS conducts business activities consisting of FERC-regulated interstate natural gas transmission pipeline and underground storage. EGTS' operations include transmission pipelines in Maryland, New York, Ohio, Pennsylvania, Virginia and West Virginia. EGTS also operates one of the nation's largest underground natural gas storage systems located in New York, Pennsylvania and West Virginia. EGTS is a wholly-owned subsidiary of Eastern Energy Gas. Prior to the GT&S Transaction, Eastern Energy Gas was an indirect wholly-owned subsidiary of DEI. On November 1, 2020, BHE completed its acquisition of substantially all of the natural gas transmission and storage business of DEI. As a result of the GT&S Transaction, Eastern Energy Gas became an indirect wholly-owned subsidiary of BHE. BHE is a holding company based in Des Moines, Iowa that owns subsidiaries principally engaged in the energy industry. BHE is a consolidated subsidiary of Berkshire Hathaway Inc. See Note 3 for more information regarding the GT&S Transaction.

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

*Basis of Consolidation and Presentation*

The Consolidated Financial Statements include the accounts of EGTS and its subsidiaries in which it holds a controlling financial interest as of the financial statement date. Intercompany accounts and transactions have been eliminated.

*Use of Estimates in Preparation of Financial Statements*

The preparation of the Consolidated 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; certain assumptions made in accounting for pension and other postretirement benefits; 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 Consolidated Financial Statements.

*Accounting for the Effects of Certain Types of Regulation*

EGTS prepares its Consolidated Financial Statements in accordance with authoritative guidance for regulated operations, which recognizes the economic effects of regulation. Accordingly, EGTS 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.

EGTS 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 EGTS' ability to recover its costs. EGTS 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 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 recognized in net income, returned to customers or re-established as 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 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 restricted cash and cash equivalents on the Consolidated Balance Sheets.

### *Allowance for Credit Losses*

Trade receivables are primarily short-term in nature and are stated at the outstanding principal amount, net of an estimated allowance for credit losses. The allowance for credit losses is based on EGTS' assessment of the collectability of amounts owed to EGTS 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 trade receivables, EGTS primarily evaluates the financial condition of the individual customer and the nature of any disputed amount. As of December 31, 2021 and 2020, the allowance for credit losses totaled \$3 million and \$2 million, respectively, and is included in trade receivables, net on the Consolidated Balance Sheets.

### *Derivatives*

EGTS employs a number of different derivative contracts, which may include forwards, futures, options, swaps, and other agreements, to manage its commodity price and interest rate risks. Derivative contracts are recorded on the Consolidated 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 Consolidated 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 gas on the Consolidated Statements of Operations.

For EGTS' derivatives not designated as hedging contracts, unrealized gains and losses are recognized on the Consolidated Statements of Operations as operating revenue for derivatives related to natural gas sales contracts.

For EGTS' derivatives designated as hedging contracts, EGTS formally assesses, at inception and thereafter, whether the hedging contract is highly effective in offsetting changes in the hedged item. EGTS formally documents hedging activity by transaction type and risk management strategy. For derivative instruments that are accounted for as cash flow hedges or fair value hedges, the cash flows from the derivatives and from the related hedged items are classified in operating cash flows.

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 Consolidated Statements of Changes in Equity as AOCI, net of tax, until the contract settles and the hedged item is recognized in earnings. EGTS 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 and are determined using the average cost method.

### *Gas Imbalances*

Natural gas imbalances occur when the physical amount of natural gas delivered from, or received by, a pipeline system or storage facility differs from the contractual amount of natural gas delivered or received. EGTS values these imbalances due to, or from, shippers and operators at an appropriate index price at period end, subject to the terms of its tariff for regulated entities. Imbalances are primarily settled in-kind. Imbalances due to EGTS from other parties are reported in natural gas imbalances and imbalances that EGTS owes to other parties are reported in other current liabilities on the Consolidated Balance Sheets.

### *Property, Plant and Equipment, Net*

#### *General*

Additions to property, plant and equipment are recorded at cost. EGTS capitalizes all construction-related materials, direct labor and contract services, as well as indirect construction costs. Indirect construction costs include debt and equity AFUDC, as applicable. 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 generally computed by applying the composite or straight-line method based on estimated useful lives. Depreciation studies are completed by EGTS to determine the appropriate group lives, net salvage and group depreciation rates. These studies are reviewed and rates are ultimately approved by the FERC. 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 Consolidated Balance Sheets, depending on whether the obligation meets the requirements of an ARO. As actual removal costs are incurred, the associated liability is reduced.

Generally when EGTS retires or sells a component of regulated property, plant and equipment, it charges the original cost, net of any proceeds from the disposition, to accumulated depreciation. Any gain or loss on disposals of all other 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 regulated facilities, is capitalized by EGTS as a component of property, plant and equipment, with offsetting credits to the Consolidated Statements of Operations. AFUDC is computed based on guidelines set forth by the FERC. After construction is completed, EGTS 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*

EGTS recognizes AROs when it has a legal obligation to perform decommissioning, reclamation or removal activities upon retirement of an asset. EGTS' AROs are primarily related to the obligations associated with its natural gas pipeline and storage well assets. 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, net) and for accretion of the ARO liability due to the passage of time. For EGTS, the difference between the ARO liability, the corresponding ARO asset included in property, plant and equipment, net and amounts recovered in rates to satisfy such liabilities is recorded as a regulatory asset or liability.

### *Impairment*

EGTS 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 Consolidated Statements of Operations. As substantially all property, plant and equipment is used in regulated businesses, the impacts of regulation are considered when evaluating the carrying value of regulated assets. See Note 7 for more information.

### *Leases*

EGTS has non-cancelable operating leases primarily for office space, office equipment and land and finance leases consisting primarily of natural gas pipeline facilities and vehicles. These leases generally require EGTS to pay for insurance, taxes and maintenance applicable to the leased property. Given the capital intensive nature of the utility industry, it is common for a portion of lease costs to be capitalized when used during construction or maintenance of assets, in which the associated costs will be capitalized with the corresponding asset and depreciated over the remaining life of that asset. Certain leases contain renewal options for varying periods and escalation clauses for adjusting rent to reflect changes in price indices. EGTS does not include options in its lease calculations unless there is a triggering event indicating EGTS is reasonably certain to exercise the option. EGTS' accounting policy is to not recognize right-of-use assets and lease obligations for leases with contract terms of one year or less and not separate lease components from non-lease components and instead account for each separate lease component and the non-lease components associated with a lease as a single lease component. Leases will be evaluated for impairment in line with Accounting Standards Codification 360, "Property, Plant and Equipment" when a triggering event has occurred that might affect the value and use of the assets being leased.

EGTS' operating and finance right-of-use assets are recorded in other assets and the operating and finance lease liabilities are recorded in current and long-term other liabilities accordingly.

### *Revenue Recognition*

EGTS uses a single five-step model to identify and recognize Customer Revenue upon transfer of control of promised goods or services in an amount that reflects the consideration to which EGTS expects to be entitled in exchange for those goods or services. EGTS records sales and excise taxes collected directly from customers and remitted directly to the taxing authorities on a net basis on the Consolidated Statements of Operations.

A majority of EGTS' Customer Revenue is derived from tariff-based sales arrangements approved by the FERC. These tariff-based revenues are mainly comprised of natural gas transmission and storage services and have performance obligations which are satisfied over time as services are provided.

Revenue recognized is equal to what EGTS has the right to invoice as it corresponds directly with the value to the customer of EGTS' performance to date and includes billed and unbilled amounts. As of December 31, 2021 and 2020, trade receivables, net on the Consolidated Balance Sheets relate substantially to Customer Revenue, including unbilled revenue of \$28 million and \$86 million, respectively. Payments for amounts billed are generally due from the customer within 30 days of billing. Rates charged for energy products and services are established by regulators or contractual arrangements that establish the transaction price as well as the allocation of price amongst the separate performance obligations. When preliminary regulated rates are permitted to be billed prior to final approval by the applicable regulator, certain revenue collected may be subject to refund and a liability for estimated refunds is accrued. In the event one of the parties to a contract has performed before the other, EGTS would recognize a contract asset or contract liability depending on the relationship between EGTS' performance and the customer's payment. EGTS has recognized contract assets of \$19 million and \$29 million as of December 31, 2021 and 2020, respectively, and \$3 million of contract liabilities as of both December 31, 2021 and 2020, due to EGTS' performance on certain contracts.

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

Premiums, discounts and debt issuance 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*

Prior to the GT&S Transaction, DEI included EGTS in its consolidated United States federal income tax return. Subsequent to the GT&S Transaction, Berkshire Hathaway Inc. includes EGTS in its consolidated United States federal income tax return. Consistent with established regulatory practice, EGTS' provision for income taxes 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 associated with components of OCI are charged or credited directly to OCI. Changes in deferred income tax assets and liabilities associated with certain property-related basis differences and other various differences that EGTS' regulated businesses deems probable to be passed on to its customers are charged or credited directly to a regulatory asset or liability 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. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount that is more-likely-than-not to be realized.

In determining EGTS' income taxes, management is required to interpret complex income tax laws and regulations, which includes consideration of regulatory implications imposed by the FERC. EGTS' income tax returns are subject to continuous examinations by federal, state and local 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. EGTS 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 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 EGTS' federal, state and local income tax examinations is uncertain, EGTS 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 impact on EGTS' consolidated financial results. 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.

#### *Segment Information*

EGTS currently has one segment, which includes its natural gas pipeline and storage operations.

#### *Subsequent Events*

EGTS has evaluated subsequent events through the date that these Consolidated Financial Statements were available to be issued on March 31, 2022.



### (3) Business Acquisitions and Dispositions

#### *Acquisition of EGTS by BHE*

In July 2020, DEI entered into an agreement to sell substantially all of its gas transmission and storage operations, including EGTS, to BHE. In November 2020, the GT&S Transaction was completed and EGTS became an indirect wholly-owned subsidiary of BHE. DEI retained the assets and obligations of the pension and other postretirement employee benefit plans associated with the operations sold and relating to services provided before closing. The GT&S Transaction was treated as a deemed asset sale for federal and state income tax purposes and all deferred taxes at EGTS were reset to reflect financial and tax basis differences as of November 1, 2020. See Notes 10 and 11 for more information on the GT&S Transaction.

In accordance with the terms of the GT&S Transaction, DEI retained certain assets and liabilities associated with EGTS and settled all affiliated balances. As a result, EGTS recorded a contribution for the reset of deferred taxes of \$1.0 billion and \$34 million for retained tax liabilities payable to EGTS by DEI, net of distributions of \$904 million related to the pension and other postretirement employee benefit plans retained by DEI and \$107 million of other pension related amounts. In addition, EGTS decided to forgo recovery of \$18 million of certain property, plant and equipment as a result of the GT&S Transaction, included in disallowance and abandonment of utility plant on the Consolidated Statement of Operations.

### (4) Property, Plant and Equipment, Net

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

	<b>Depreciable Life</b>	<b>2021</b>	<b>2020</b>
Interstate natural gas pipeline and storage assets	29 - 41 years	\$ 6,517	\$ 6,247
Intangible plant	5 - 40 years	74	77
Plant in service		6,591	6,324
Accumulated depreciation and amortization		(2,339)	(2,208)
Plant in service, net		4,252	4,116
Construction work-in-progress		188	193
Property, plant and equipment, net		<u>\$ 4,440</u>	<u>\$ 4,309</u>

### (5) Jointly Owned Utility Facilities

Under joint facility ownership agreements with other utilities, EGTS, as a tenant in common, has undivided interests in jointly owned transmission and storage facilities. EGTS 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 primarily based on their percentage of ownership. Operating costs and expenses on the Consolidated Statements of Operations include EGTS' share of the expenses of these facilities.

The amounts shown in the table below represent EGTS' share in each jointly owned facility included in property, plant and equipment, net as of December 31, 2021 (dollars in millions):

	EGTS' Share	Facility in Service	Accumulated Depreciation and Amortization	Construction Work-in- Progress
Ellisburg Pool	39 %	\$ 31	\$ 11	\$ 1
Ellisburg Station	50	26	8	1
Harrison	50	53	18	—
Leidy	50	132	46	7
Oakford	50	200	68	2
Total		<u>\$ 442</u>	<u>\$ 151</u>	<u>\$ 11</u>

#### (6) Leases

The following table summarizes EGTS' leases recorded on the Consolidated Balance Sheets as of December 31 (in millions):

	2021	2020
<b>Right-of-use assets:</b>		
Operating leases	\$ 20	\$ 30
Finance leases	—	7
Total right-of-use assets	<u>\$ 20</u>	<u>\$ 37</u>
<b>Lease liabilities:</b>		
Operating leases	\$ 18	\$ 28
Finance leases	—	5
Total lease liabilities	<u>\$ 18</u>	<u>\$ 33</u>

The following table summarizes EGTS' lease costs for the years ended December 31 (in millions):

	2021	2020	2019
Operating	\$ 3	\$ 6	\$ 7
Short-term	—	3	4
Total lease costs	<u>\$ 3</u>	<u>\$ 9</u>	<u>\$ 11</u>
<b>Weighted-average remaining lease term (years):</b>			
Operating leases	14.7	11.7	11.5
Finance leases	—	4.6	5.5
<b>Weighted-average discount rate:</b>			
Operating leases	4.3 %	4.4 %	4.4 %
Finance leases	— %	2.6 %	4.1 %

The following table summarizes EGTS' supplemental cash flow information relating to leases for the years ended December 31 (in millions):

	2021	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 3	\$ 9	\$ 11
Operating cash flows from finance leases	1	—	—
Right-of-use assets obtained in exchange for lease liabilities:			
Finance leases	\$ —	\$ 1	\$ 6

EGTS has the following remaining operating lease commitments as of December 31, 2021 (in millions):

2022	\$ 2
2023	2
2024	2
2025	2
2026	1
Thereafter	16
Total undiscounted lease payments	25
Less - amounts representing interest	(7)
Lease liabilities	<u>\$ 18</u>

## (7) Regulatory Matters

### *Regulatory Assets*

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

	Weighted Average Remaining Life	2021	2020
Employee benefit plans <sup>(1)</sup>	14 years	\$ 58	\$ 65
Other	Various	6	3
Total regulatory assets		<u>\$ 64</u>	<u>\$ 68</u>
Reflected as:			
Current assets		\$ 2	\$ 2
Noncurrent assets		62	66
Total regulatory assets		<u>\$ 64</u>	<u>\$ 68</u>

(1) Represents costs expected to be recovered through future rates generally over the expected remaining service period of plan participants.

EGTS had regulatory assets not earning a return on investment of \$64 million and \$68 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. EGTS' regulatory liabilities reflected on the Consolidated Balance Sheets consist of the following as of December 31 (in millions):

	<b>Weighted Average Remaining Life</b>	<b>2021</b>	<b>2020</b>
Income taxes refundable through future rates <sup>(1)</sup>	Various	\$ 391	\$ 403
Other postretirement benefit costs <sup>(2)</sup>	Various	116	104
Cost of removal <sup>(3)</sup>	44 years	16	30
Other	Various	9	6
<b>Total regulatory liabilities</b>		<b>\$ 532</b>	<b>\$ 543</b>

### Reflected as:

Current liabilities	\$ 25	\$ 18
Noncurrent liabilities	507	525
<b>Total regulatory liabilities</b>	<b>\$ 532</b>	<b>\$ 543</b>

- (1) Amounts primarily represent income tax liabilities related to the federal tax rate change from 35% to 21% that are probable to be passed on to customers, offset by income tax benefits related to certain property-related basis differences and other various differences that were previously passed on to customers and will be included in regulated rates when the temporary differences reverse.
- (2) Reflects a regulatory liability for the collection of postretirement benefit costs allowed in rates in excess of expense incurred.
- (3) Amounts represent estimated costs, as accrued through depreciation rates and exclusive of ARO liabilities, of removing regulated property, plant and equipment in accordance with accepted regulatory practices.

## Regulatory Matters

In September 2021, EGTS filed a general rate case for its FERC-jurisdictional services, with proposed rates to be effective November 1, 2021. EGTS' previous general rate case was settled in 1998. EGTS proposed an annual cost-of-service of approximately \$1.1 billion, and requested increases in various rates, including general system storage rates by 85% and general system transportation rates by 60%. In October 2021, the FERC issued an order that accepted the November 1, 2021 effective date for certain changes in rates, while suspending the other changes for five months following the proposed effective date, until April 1, 2022, subject to refund and the outcome of hearing procedures. This matter is pending.

In July 2017, the FERC audit staff communicated to EGTS that it had substantially completed an audit of EGTS' compliance with the accounting and reporting requirements of the FERC's Uniform System of Accounts and provided a description of matters and preliminary recommendations. In November 2017, the FERC audit staff issued its audit report. In December 2017, EGTS provided its response to the audit report. EGTS requested FERC review of the contested findings and submitted its plan for compliance with the uncontested portions of the report. EGTS reached resolution of certain matters with the FERC in the fourth quarter of 2018. EGTS recognized a charge for a disallowance of plant, originally established beginning in 2012, for the resolution of one matter with the FERC. In December 2020, the FERC issued a final ruling on the remaining matter, which resulted in a \$43 million (\$31 million after-tax) charge for disallowance of capitalized AFUDC, recorded within disallowance and abandonment of utility plant in the Consolidated Statement of Operations. As a condition of the December 2020 ruling, EGTS filed its proposed accounting entries and supporting documentation with the FERC during the second quarter of 2021. During the finalization of these entries, EGTS refined the estimated charge for disallowance of capitalized AFUDC, which resulted in a reduction to the estimated charge of \$11 million (\$8 million after-tax) that was recorded in disallowance and abandonment of utility plant in its Consolidated Statement of Operations in the second quarter of 2021. In September 2021, the FERC approved EGTS' accounting entries and supporting documentation.

In December 2014, EGTS entered into a precedent agreement with Atlantic Coast Pipeline for the Supply Header Project. As a result of the cancellation of the Atlantic Coast Pipeline project, in the second quarter of 2020 EGTS recorded a charge of \$482 million (\$359 million after-tax) in disallowance and abandonment of utility plant in its Consolidated Statement of Operations associated with the probable abandonment of a significant portion of the project as well as the establishment of a \$75 million ARO. In the third quarter of 2020, EGTS recorded an additional charge of \$10 million (\$7 million after-tax) associated with the probable abandonment of a significant portion of the project and a \$29 million (\$20 million after-tax) benefit from a revision to the previously established ARO, both of which were recorded in disallowance and abandonment of utility plant in EGTS' Consolidated Statement of Operations. As EGTS evaluates its future use, approximately \$40 million remains within property, plant and equipment for a potential modified project.

In January 2018, EGTS filed an application to request FERC authorization to construct and operate certain facilities located in Ohio and Pennsylvania for the Sweden Valley project. In June 2019, EGTS withdrew its application for the project due to certain regulatory delays. As a result of the project abandonment, during the second quarter of 2019, EGTS recorded a charge of \$13 million (\$10 million after-tax), included in disallowance and abandonment of utility plant on the Consolidated Statement of Operations.

#### **(8) Investments and Restricted Cash and Cash Equivalents**

Investments and restricted cash and cash equivalents consists of the following as of December 31 (in millions):

	2021	2020
<b>Investments:</b>		
Investment funds	\$ 13	\$ —
Total investments	13	—
<b>Restricted cash and cash equivalents:</b>		
Customer deposits	15	13
Total restricted cash and cash equivalents	15	13
Total investments and restricted cash and cash equivalents	<u>\$ 28</u>	<u>\$ 13</u>
<b>Reflected as:</b>		
Current assets	\$ 15	\$ 13
Noncurrent assets	13	—
Total investments and restricted cash and cash equivalents	<u>\$ 28</u>	<u>\$ 13</u>

## (9) Long-term Debt

On June 30, 2021, as part of an intercompany transaction between Eastern Energy Gas and EGTS, Eastern Energy Gas exchanged a total of \$1.6 billion of its issued and outstanding third-party notes for new notes, making EGTS the primary obligor of the new notes. The terms of the new notes are substantially similar to the terms of the original Eastern Energy Gas notes. The intercompany debt exchange was a common control transaction accounted for as a debt modification. As such, no gain or loss was recognized in the Consolidated Statements of Operations and approximately \$17 million of unamortized discounts and debt issuance costs and \$32 million of deferred losses on previously settled interest rate swaps remaining in AOCI were contributed to EGTS by Eastern Energy Gas in connection with the transaction. In addition, new fees of \$2 million paid directly to note holders in connection with the exchange were deferred as additional debt issuance costs that will be amortized over the lives of the respective notes. As a result of the transaction, EGTS' \$1.9 billion of long-term indebtedness to Eastern Energy Gas was cancelled in full and the remaining balance was satisfied through a capital contribution.

EGTS' long-term debt consists of the following, including unamortized discounts and debt issuance costs, as of December 31 (dollars in millions):

	Par Value	2021
3.60% Senior Notes, due 2024	\$ 111	\$ 110
3.00% Senior Notes, due 2029	426	422
4.80% Senior Notes, due 2043	346	341
4.60% Senior Notes, due 2044	444	437
3.90% Senior Notes, due 2049	273	271
Total long-term debt	<u>\$ 1,600</u>	<u>\$ 1,581</u>
Reflected as:		
Long-term debt		<u>\$ 1,581</u>

### Annual Payment on Long-Term Debt

The annual repayments of long-term debt for the years beginning January 1, 2022 and thereafter, are as follows (in millions):

2022	\$ —
2023	—
2024	111
2025	—
2026	—
2027 and thereafter	1,489
Total	<u>1,600</u>
Unamortized discounts and debt issuance costs	(19)
Total	<u>\$ 1,581</u>

### AOCI

The following table presents selected information related to losses on interest rate cash flow hedges included in AOCI in EGTS' Consolidated Balance Sheet as of December 31, 2021 (in millions):

	AOCI After-Tax	Amounts Expected to be Reclassified to Earnings During the Next 12 Months After-Tax	Maximum Term
Interest rate	\$ (31)	\$ (3)	276 months

EGTS reclassified \$1 million from AOCI to interest expense for the year ended December 31, 2021.

# (10) Income Taxes

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

	2021	2020	2019
<b>Current:</b>			
Federal	\$ (22)	\$ 48	\$ 52
State	(10)	6	5
	(32)	54	57
<b>Deferred:</b>			
Federal	67	(93)	(7)
State	26	(28)	2
	93	(121)	(5)
Total	<u>\$ 61</u>	<u>\$ (67)</u>	<u>\$ 52</u>

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

	2021	2020	2019
Federal statutory income tax rate	21 %	21 %	21 %
State income tax, net of federal income tax benefit	8	7	2
Effects of ratemaking	—	2	(2)
AFUDC-equity	—	1	(2)
Write-off of regulatory assets	—	(3)	—
Other, net	(1)	(1)	1
Effective income tax rate	<u>28 %</u>	<u>27 %</u>	<u>20 %</u>

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

	2021	2020
<b>Deferred income tax assets:</b>		
Employee benefits	\$ 31	\$ 28
Intangibles and goodwill	298	323
Derivatives and hedges	12	—
Property related items	—	2
Other	4	2
Total deferred income tax assets	<u>345</u>	<u>355</u>
<b>Deferred income tax liabilities:</b>		
Property related items	(77)	—
Debt exchange	(60)	—
Employee benefits	(9)	(1)
Total deferred income tax liabilities	<u>(146)</u>	<u>(1)</u>
Net deferred income tax asset	<u>\$ 199</u>	<u>\$ 354</u>

The significant change in net deferred taxes is due to higher tax depreciation due to the GT&S Transaction being treated as a deemed asset sale for federal and state income tax purposes and the debt exchange at EGTS, which created a temporary difference related to the accelerated deduction of the repurchase premium that will be recognized over the terms of the new notes. See Note 9 for more information on the debt exchange.

Through October 31, 2020, EGTS was included in DEI's consolidated federal income tax return and, where applicable, combined state income tax returns. As a result of the GT&S Transaction, DEI retained the rights and obligations of EGTS' federal and state income tax returns through October 31, 2020. The statute of limitations for EGTS' income tax returns filed for periods after November 1, 2020 remain open for examination for federal and Connecticut, Maryland, North Carolina, Pennsylvania, South Carolina, Virginia, and West Virginia.

## **(11) Employee Benefit Plans**

As discussed in Note 3, in November 2020, the GT&S Transaction was completed and the assets and obligations of the pension and other postretirement employee benefit plans associated with the operations sold and relating to services provided before closing were retained by DEI. As a result, just prior to completing the sale, net benefit plan assets of \$904 million were distributed through an equity transaction with DEI.

### *Subsequent to the GT&S Transaction*

#### *Defined Benefit Plans*

Subsequent to the GT&S Transaction, EGTS is a participant in benefit plans sponsored by MidAmerican Energy, an affiliate. The MidAmerican Energy Company Retirement Plan includes a qualified pension plan that provides pension benefits for eligible employees. The MidAmerican Energy Company Welfare Benefit Plan provides certain postretirement health care and life insurance benefits for eligible retirees on behalf of EGTS. EGTS made \$16 million and \$2 million of contributions to the MidAmerican Energy Company Retirement Plan for the years ended December 31, 2021 and 2020, respectively. EGTS made \$9 million and \$2 million of contributions to the MidAmerican Energy Company Welfare Benefit Plan for the years ended December 31, 2021 and 2020, respectively. Amounts attributable to EGTS were allocated from MidAmerican Energy 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.

#### *Defined Contribution Plan*

EGTS participates in the BHE GT&S defined contribution employee savings plan subsequent to the GT&S Transaction. EGTS' matching contributions are based on each participant's level of contribution. Contributions cannot exceed the maximum allowable for tax purposes. EGTS' contributions to the 401(k) plan were \$4 million and \$1 million for the years ended December 31, 2021 and 2020, respectively.

### *Prior to the GT&S Transaction*

#### *Defined Benefit Plans*

Prior to the GT&S Transaction, certain EGTS employees not represented by collective bargaining units were covered by the Dominion Energy Pension Plan, a defined benefit pension plan sponsored by DEI that provides benefits to multiple DEI subsidiaries. As participating employers, EGTS was subject to DEI's funding policy, which was to contribute annually an amount that is in accordance with the Employee Retirement Income Security Act of 1974. EGTS' net periodic pension credit related to this plan was \$17 million and \$16 million for the years ended December 31, 2020 and 2019, respectively, reflected in operations and maintenance expense in the Consolidated Statements of Operations. The funded status of various DEI subsidiary groups and employee compensation are the basis for determining the share of total pension costs for participating DEI subsidiaries.

Prior to the GT&S Transaction, certain retiree healthcare and life insurance benefits for EGTS employees not represented by collective bargaining units were covered by the Dominion Energy Retiree Health and Welfare Plan, a plan sponsored by DEI that provides certain retiree healthcare and life insurance benefits to multiple DEI subsidiaries. EGTS' net periodic benefit credit related to this plan was \$5 million for each of the years ended December 31, 2020 and 2019, reflected in operations and maintenance expense in the Consolidated Statements of Operations. Employee headcount is the basis for determining the share of total other postretirement benefit costs for participating DEI subsidiaries.



Pension benefits for EGTS employees represented by collective bargaining units were covered by a separate pension plan that provides benefits to employees of both EGTS and Hope. Employee compensation was the basis for allocating pension costs and obligations between EGTS and Hope. Retiree healthcare and life insurance benefits, for EGTS employees represented by a collective bargaining unit, were covered by a separate other postretirement benefit plan that provides benefits to both EGTS and Hope. Employee headcount was the basis for allocating other postretirement benefit costs and obligations between EGTS and Hope.

#### *Pension Remeasurement*

In the third quarter of 2020, EGTS remeasured a pension plan due to a curtailment resulting from the agreement for DEI to retain the assets and obligations of the pension benefit plan associated with the GT&S Transaction. The remeasurement resulted in an increase in the pension benefit obligation of \$3 million and a decrease in the fair value of the pension plan assets of \$7 million for EGTS. The impact of the remeasurement on net periodic pension benefit credit was recognized prospectively from the remeasurement date and was not material. The discount rate used for the remeasurement was 3.16%. All other assumptions used for the remeasurement were consistent with the measurement as of December 31, 2019.

#### *Voluntary Retirement Program*

In March 2019, DEI announced a voluntary retirement program to employees that met certain age and service requirements. The voluntary retirement program will not compromise safety or EGTS' ability to comply with applicable laws and regulations. In 2019, upon the determinations made concerning the number of employees that elected to participate in the program, EGTS recorded a charge of \$30 million (\$23 million after-tax) primarily reflected in operations and maintenance expense in its Consolidated Statement of Operations.

In the second quarter of 2019, EGTS remeasured its pension and other postretirement benefit plans as a result of the voluntary retirement program. The impact of the remeasurement on net periodic benefit cost (credit) was recognized prospectively from the remeasurement date. The discount rate used for the remeasurement was 4.10% for the EGTS pension plan and 4.06% for the EGTS other postretirement benefit plan. All other assumptions used for the remeasurement were consistent with the measurement as of December 31, 2018.

#### *Net Periodic Benefit Credit*

Net periodic benefit credit for the plans included the following components for the years ended December 31 (in millions):

	<b>Pension</b>		<b>Other Postretirement</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Service cost	\$ 5	\$ 6	\$ 1	\$ 1
Interest cost	8	11	4	5
Expected return on plan assets	(47)	(54)	(16)	(16)
Settlement	—	1	—	1
Net amortization	3	4	(3)	(2)
Net periodic benefit credit	<u>\$ (31)</u>	<u>\$ (32)</u>	<u>\$ (14)</u>	<u>\$ (11)</u>

Significant assumptions used to determine periodic credits for the years ended December 31:

	Pension		Other Postretirement	
	2020	2019	2020	2019
Discount rate	3.16% - 3.63%	4.10% - 4.42%	3.44 %	4.05% - 4.37%
Expected long-term rate of return on plan assets	8.60 %	8.65 %	8.50 %	8.50 %
Weighted average rate of increase for compensation	4.73 %	4.55 %	N/A	N/A
Healthcare cost trend rate			6.50 %	6.50 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			5.00 %	5.00 %
Year that the rate reached the ultimate trend rate			2026	2025

#### *Defined Contribution Plans*

EGTS participated in the DEI defined contribution employee savings plans prior to the GT&S Transaction. EGTS' matching contributions were based on each participant's level of contribution. Contributions could not exceed the maximum allowable for tax purposes. EGTS' contributions to the 401(k) plan were \$2 million and \$4 million for the years ended December 31, 2020 and 2019, respectively.

#### **(12) Asset Retirement Obligations**

EGTS 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.

EGTS 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 interim removal of natural gas pipelines and certain storage wells in EGTS' underground natural gas storage network cannot currently be estimated, and no amounts are recognized on the Consolidated Financial Statements other than those included in the cost of removal regulatory liability established via approved depreciation rates in accordance with accepted regulatory practices. Cost of removal regulatory liabilities totaled \$16 million and \$30 million as of December 31, 2021 and 2020, respectively. EGTS will continue to monitor operational and strategic developments to identify if sufficient information exists to reasonably estimate a retirement date for these assets.

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

	2021	2020
<b>Beginning balance</b>	\$ 71	\$ 59
Change in estimated costs	—	(36)
Additions	—	48
Retirements	(17)	(3)
Accretion	1	3
<b>Ending balance</b>	<u>\$ 55</u>	<u>\$ 71</u>
<b>Reflected as:</b>		
Current liabilities	\$ 33	\$ 36
Other long-term liabilities	22	35
<b>Total ARO liability</b>	<u>\$ 55</u>	<u>\$ 71</u>

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

EGTS is exposed to the impact of market fluctuations in commodity prices, principally, to natural gas market fluctuations primarily related to fuel retained and used during the operation of the pipeline system as well as lost and unaccounted for gas. EGTS has established a risk management process that is designed to identify, assess, manage, mitigate, monitor and report, each of the various types of risk involved in its business. To mitigate a portion of its commodity price risk, EGTS 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. EGTS does not hedge all of its commodity price risk, thereby exposing the unhedged portion to changes in market prices. See Note 14 for further information about fair value measurements and associated valuation methods for derivatives.

Subsequent to the GT&S Transaction, EGTS has elected to offset derivative contracts where master netting arrangements allow. There have been no other significant changes in EGTS' accounting policies related to derivatives. Refer to Notes 2 and 14 for additional information on derivative contracts.

#### *Credit Risk*

EGTS 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. Credit risk may be concentrated to the extent EGTS' counterparties have similar economic, industry or other characteristics and due to direct or indirect relationships among the counterparties. For the year ended December 31, 2021, the ten largest customers provided 38% of the total storage and transportation revenues. Before entering into a transaction, EGTS 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, EGTS 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, EGTS exercises rights under these arrangements, including calling on the counterparty's credit support arrangement.

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

The carrying value of EGTS' cash, certain cash equivalents, receivables, payables, accrued liabilities and short-term borrowings approximates fair value because of the short-term maturity of these instruments. EGTS has various financial assets and liabilities that are measured at fair value on the Consolidated 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 EGTS 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 EGTS' judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. EGTS develops these inputs based on the best information available, including its own data.

The following table presents EGTS' financial assets and liabilities recognized on the Consolidated 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	Total
<b>As of December 31, 2021</b>				
<b>Assets:</b>				
Investment funds	\$ 13	\$ —	\$ —	\$ 13
	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13</u>
<b>As of December 31, 2020</b>				
<b>Liabilities:</b>				
Commodity derivatives	\$ —	\$ (1)	\$ —	\$ (1)
	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ (1)</u>

Derivative contracts are recorded on the Consolidated Balance Sheets as either assets or liabilities and are stated at estimated fair value unless they are designated as normal purchase 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 EGTS transacts. When quoted prices for identical contracts are not available, EGTS uses forward price curves. Forward price curves represent EGTS' estimates of the prices at which a buyer or seller could contract today for delivery or settlement at future dates. EGTS 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 brokers, exchanges, direct communication with market participants and actual transactions executed by EGTS. Market price quotations are generally readily obtainable for the applicable term of EGTS' outstanding derivative contracts; therefore, EGTS' forward price curves reflect observable market quotes. Market price quotations for certain natural gas trading hubs are not as readily obtainable due to the length of the contracts. Given that limited market data exists for these contracts, as well as for those contracts that are not actively traded, EGTS 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, related volatility, counterparty creditworthiness and duration of contracts.

EGTS' third-party long-term debt is carried at cost, including unamortized premiums, discounts and debt issuance costs as applicable, on the Consolidated Financial Statements. The fair value of EGTS' third-party 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. EGTS had no outstanding third-party long-term debt as of December 31, 2020. The following table presents the carrying value and estimated fair value of EGTS' third-party long-term debt as of December 31 (in millions):

	2021	
	Carrying Value	Fair Value
Long-term debt	\$ 1,581	\$ 1,812

EGTS' related-party long-term debt was carried at cost on the Consolidated Balance Sheet. The fair value of EGTS' related-party long-term debt could not be determined because of EGTS' affiliation with the party with whom the agreement existed. The carrying amount approximated its fair value as of December 31, 2020. EGTS had no outstanding related-party long-term debt as of December 31, 2021.

## **(15) Commitments and Contingencies**

### *Environmental Laws and Regulations*

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

#### *Air*

##### *Revisions to Ozone National Ambient Air Quality Ozone Standards*

The Clean Air Act includes NAAQS. States adopt rules that ensure their air quality meets the NAAQS. In October 2015, the EPA published a rule lowering the ground level ozone NAAQS for non-attainment designations. States had until August 2021 to develop plans to address the new standard, which did not result in a material impact on EGTS' results of operations and cash flows. The EPA and environmental groups finalized a consent decree in January 2022 that sets deadlines for the agency to approve or disapprove the "good neighbor" provisions of interstate ozone plans of dozens of states. Relevant to EGTS, the EPA must, by April 30, 2022, approve or disapprove the interstate ozone state implementation plans of Maryland, New York, Ohio, Pennsylvania and West Virginia. Also in January 2022, the EPA initiated interagency review of a new rule to address "good neighbor" state implementation plan provisions. While the interagency review is not yet complete and the proposed rule is not available for public comment, the EPA has indicated that the action would apply in certain states for which the EPA has either disapproved a "good neighbor" state implementation plan submission or has made a finding of failure to submit such a plan for the 2015 ozone NAAQS. The action would determine whether and to what extent ozone-precursor emissions reductions are required to eliminate significant contribution or interference with maintenance from upwind states that are linked to air quality problems in other states for the 2015 standard. Until the EPA takes final action consistent with this decree, EGTS cannot predict the impact to its results of operations, financial condition and/or cash flows.

##### *Oil and Gas New Source Performance Standards*

In August 2020, the EPA issued two final amendments related to the reconsideration of the NSPS for the oil and natural gas sector applicable to volatile organic compound and methane emissions. Together, the two amendments have the effect of rescinding the methane portion of the NSPS for all segments of the oil and natural gas sector, rescinding all NSPS for the transmission and storage segment and modifying some of the NSPS volatile organic compound requirements for facilities in the production and processing segments. On June 30, 2021, President Biden signed into law a joint resolution of Congress, adopted under the Congressional Review Act, disapproving the August 2020 rule. The resolution reinstated the 2012 volatile organic compounds standards and the 2016 volatile organic compounds and methane standards for the oil and natural gas transmission and storage segments, as well as the methane standards for the production and processing segments of the oil and gas sector. On November 2, 2021, the EPA proposed rules that would reduce methane emissions from both new and existing sources in the oil and natural gas industry. The proposals would expand and strengthen emissions reduction requirements for new, modified and reconstructed oil and natural gas sources and would require states to reduce methane emissions from existing sources nationwide. The EPA took comment on the proposed rules through January 31, 2022. The EPA intends to issue a supplemental proposal in 2022, including draft regulatory text, and plans to finalize the rules by the end of 2022. Until the EPA ultimately takes final action on this rulemaking, EGTS cannot predict the impact to its results of operations, financial condition and/or cash flows.

##### *Carbon Regulations*

In August 2016, the EPA issued a draft rule proposing to reaffirm that a source's obligation to obtain a prevention of significant deterioration or Title V permit for GHG is triggered only if such permitting requirements are first triggered by non-GHG, or conventional, pollutants that are regulated by the New Source Review program, and to set a significant emissions rate at 75,000 tons per year of carbon dioxide equivalent emissions under which a source would not be required to apply best available control technology for its GHG emissions. Until the EPA ultimately takes final action on this rulemaking, EGTS cannot predict the impact to its results of operations, financial condition and/or cash flows.

## Legal Matters

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

## Surety Bonds

As of December 31, 2021, EGTS had purchased \$16 million of surety bonds. Under the terms of the surety bonds, Eastern Energy Gas is obligated to indemnify the respective surety bond company for any amounts paid.

## (16) Revenue from Contracts with Customers

The following table summarizes EGTS' Customer Revenue by regulated and nonregulated, with further disaggregation of regulated by line of business, for the years ended December 31 (in millions):

	2021	2020	2019
Customer Revenue:			
Regulated:			
Gas transportation	\$ 574	\$ 583	\$ 606
Gas storage	188	191	192
Wholesale	57	41	6
Other	(3)	—	—
Total regulated	816	815	804
Nonregulated	73	100	176
Total Customer Revenue	889	915	980
Other revenue	2	1	1
Total operating revenue	\$ 891	\$ 916	\$ 981

## Remaining Performance Obligations

The following table summarizes EGTS' revenue it expects to recognize in future periods related to significant unsatisfied remaining performance obligations for fixed contracts with expected durations in excess of one year as of December 31, 2021 (in millions):

	Performance obligations expected to be satisfied		
	Less than 12 months	More than 12 months	Total
	\$ 640	\$ 3,060	\$ 3,700

## (17) Variable Interest Entities

The primary beneficiary of a VIE is required to consolidate the VIE and to disclose certain information about its significant variable interests in the VIE. The primary beneficiary of a VIE is the entity that has both: (1) the power to direct the activities that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE.

EGTS had been engaged to oversee the construction of, and to subsequently operate and maintain, the projects undertaken by Atlantic Coast Pipeline based on the overall direction and oversight of Atlantic Coast Pipeline's members. Prior to the GT&S Transaction, an affiliate of EGTS held a membership interest in Atlantic Coast Pipeline; therefore, EGTS was considered to have a variable interest in Atlantic Coast Pipeline. Prior to the cancellation of the project in 2020, the members of Atlantic Coast Pipeline held the power to direct the construction, operations and maintenance activities of the entity. EGTS concluded it was not the primary beneficiary of Atlantic Coast Pipeline as it did not have the power to direct the activities of Atlantic Coast Pipeline that most significantly impacted its economic performance. EGTS had no obligation to absorb any losses of the VIE.

Prior to the GT&S Transaction, EGTS purchased shared services from DES, an affiliated VIE, of \$53 million and \$65 million for the years ended December 31, 2020 and 2019, respectively. EGTS determined that neither it nor any of its consolidated entities was the primary beneficiary of DES as neither it nor any of its consolidated entities had both the power to direct the activities that most significantly impact their economic performance as well as the obligation to absorb losses and benefits which could be significant to them. DES provided accounting, legal, finance and certain administrative and technical services. Neither EGTS nor any of its consolidated entities had any obligation to absorb more than its allocated share of DES costs.

## (18) Supplemental Cash Flow Disclosures

### *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 cash and cash equivalents consist of customer deposits as allowed under the FERC gas tariff. A reconciliation of cash and cash equivalents and restricted cash and cash equivalents as presented on the Consolidated Statements of Cash Flows is outlined below and disaggregated by the line items in which they appear on the Consolidated Balance Sheets (in millions):

	As of December 31,	
	2021	2020
Cash and cash equivalents	\$ 11	\$ 10
Restricted cash and cash equivalents	15	13
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 26</u>	<u>\$ 23</u>

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

	2021	2020	2019
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid, net of amounts capitalized	\$ 71	\$ 82	\$ 83
Income taxes (received) paid, net	<u>\$ (12)</u>	<u>\$ 58</u>	<u>\$ 60</u>
<b>Supplemental disclosure of non-cash investing and financing transactions:</b>			
Accruals related to property, plant and equipment additions	\$ 29	\$ 25	\$ 11
Equity distributions	<u>\$ (58)</u>	<u>\$ —</u>	<u>\$ —</u>
Equity contributions	<u>\$ 292</u>	<u>\$ —</u>	<u>\$ —</u>
Acquisition of EGTS by BHE	<u>\$ —</u>	<u>\$ 40</u>	<u>\$ —</u>

## (19) Related Party Transactions

### *Transactions Prior to the GT&S Transaction*

Prior to the GT&S Transaction, EGTS engaged in related party transactions primarily with other DEI subsidiaries (affiliates). EGTS' receivable and payable balances with affiliates were settled based on contractual terms or on a monthly basis, depending on the nature of the underlying transactions. Through October 31, 2020, EGTS was included in DEI's consolidated federal income tax return and, where applicable, DEI's combined state income tax returns. All affiliate payables or receivables were settled with DEI prior to the closing date of the GT&S Transaction.

EGTS transacted with affiliates for certain quantities of natural gas and other commodities at market prices in the ordinary course of business. Additionally, EGTS provided transportation and storage services to affiliates. EGTS also entered into certain other contracts with affiliates, and related parties, including construction services, which were presented separately from contracts involving commodities or services. EGTS participated in certain DEI benefit plans as described in Note 11.

DES and other affiliates provided accounting, legal, finance and certain administrative and technical services to EGTS. EGTS provided certain services to related parties, including technical services.

The financial statements for the years ended December 31, 2020 and 2019 include costs for certain general, administrative and corporate expenses assigned by DES to EGTS on the basis of direct and allocated methods in accordance with EGTS' services agreements with DES. Where costs incurred cannot be determined by specific identification, the costs were allocated based on the proportional level of effort devoted by DES resources that is attributable to the entity, determined by reference to number of employees, salaries and wages and other similar measures for the relevant DES service. Management believes the assumptions and methodologies underlying the allocation of general corporate overhead expenses are reasonable.

Subsequent to the GT&S Transaction, EGTS' transactions with other DEI subsidiaries are no longer related party transactions.

Presented below are EGTS' significant transactions with DES and other affiliated and related parties for the years ended December 31 (in millions):

	2020	2019
Sales of natural gas and transportation and storage services	\$ 71	\$ 91
Purchases of natural gas and transportation and storage services	7	11
Services provided by related parties <sup>(1)</sup>	67	83
Services provided to related parties <sup>(2)</sup>	86	118

(1) Includes capitalized expenditures of \$14 million and \$17 million for the years ended December 31, 2020 and 2019, respectively.

(2) Includes amounts attributable to Atlantic Coast Pipeline, a related party VIE prior to the GT&S Transaction. See below for more information.

EGTS provided services to Atlantic Coast Pipeline, which totaled \$46 million and \$103 million for the years ended December 31, 2020 and 2019, respectively, included in operating revenue in the Consolidated Statements of Operations.

#### *Borrowings With Eastern Energy Gas*

EGTS has a \$400 million intercompany revolving credit agreement from its parent, Eastern Energy Gas, expiring in November 2022. The credit agreement, which is for general corporate purposes, has a variable interest rate based on LIBOR plus a fixed spread. Net outstanding borrowings totaled \$68 million with a weighted-average interest rate of 0.51% as of December 31, 2021 and \$81 million with a weighted-average interest rate of 1.725% as of December 31, 2020. Interest expense related to these borrowings totaled \$— million, \$1 million and \$6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

In March 2021, Eastern Energy Gas entered into a \$400 million intercompany revolving credit agreement from EGTS that currently expires in March 2023. The credit agreement, which is for general corporate purposes, has a variable interest rate based on LIBOR plus a fixed spread. Net outstanding borrowings totaled \$2,071 with a weighted-average interest rate of 0.51% as of December 31, 2021. Interest income related to this borrowing totaled \$2,071 for the year ended December 31, 2021.

EGTS had also borrowed from Eastern Energy Gas pursuant to a series of long-term notes with fixed interest rates ranging from 3.6% to 5.0%, due 2024 to 2047. Net outstanding borrowings under these notes totaled \$1.9 billion as of December 31, 2020. EGTS incurred interest charges related to these borrowings of \$44 million, \$88 million and \$88 million for the years ended December 31, 2021, 2020 and 2019, respectively.

#### *Transactions Subsequent to the GT&S Transaction*

EGTS is party to a tax-sharing agreement and is part of the Berkshire Hathaway Inc. consolidated United States federal income tax return. For current federal and state income taxes, EGTS had a receivable from BHE of \$11 million as of December 31, 2021, and a payable to BHE of \$1 million as of December 31, 2020. EGTS received net cash receipts for federal and state income taxes from BHE totaling \$10 million for the year ended December 31, 2021, and paid net cash payments for federal and state income taxes to BHE totaling \$7 million for the year ended December 31, 2020.

Trade receivables, net as of both December 31, 2021 and 2020 included \$2 million of accrued unbilled revenue. This revenue is based on estimated amounts of services provided but not yet billed to various affiliates.



As of December 31, 2021 and 2020, EGTS had \$8 million and \$1 million, respectively, of natural gas imbalances payable to affiliates, presented in other current liabilities on the Consolidated Balance Sheets. As of December 31, 2021 and 2020, EGTS had \$— million and \$1 million, respectively, of natural gas imbalances receivable from affiliates, presented in natural gas imbalances on the Consolidated Balance Sheet.

EGTS participates in certain MidAmerican Energy benefit plans as described in Note 11. As of December 31, 2021 and 2020 EGTS' net amount due to MidAmerican Energy associated with these plans and primarily reflected in other long-term liabilities on the Consolidated Balance Sheets was \$76 million and \$95 million, respectively.

Presented below are EGTS' significant transactions with related parties for the years ended December 31 (in millions):

	<b>2021</b>	<b>2020</b>
Sales of natural gas and transportation and storage services	\$ 28	\$ 4
Purchases of natural gas and transportation and storage services	5	—
Services provided by related parties	26	2
Services provided to related parties	57	10