



Northern Natural Gas Company

**Financial Statements (Unaudited) as of and for the
Quarterly Period Ended September 30, 2022**

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

	As of	
	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,086	\$ 23
Accounts receivable, net	75,391	131,550
Notes receivable from affiliate	350,000	325,000
Transportation and exchange gas receivables	24,924	22,812
Inventories	71,419	62,222
Income tax receivable	20,162	26,803
Other current assets	50,903	46,241
Total current assets	<u>603,885</u>	<u>614,651</u>
Property, plant and equipment, net	5,055,419	4,819,898
Regulatory assets	86,760	92,445
Other assets	69,466	73,663
Total assets	<u><u>\$ 5,815,530</u></u>	<u><u>\$ 5,600,657</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 110,275	\$ 106,283
Accrued interest	16,066	23,116
Accrued property, income and other taxes	88,922	73,463
Accrued employee expenses	25,391	18,058
Transportation and exchange gas payables	22,555	21,377
Regulatory liabilities	17,381	24,201
Other current liabilities	66,522	61,712
Total current liabilities	<u>347,112</u>	<u>328,210</u>
Long-term debt	1,587,745	1,587,534
Regulatory liabilities	424,632	409,438
Deferred income taxes	660,398	656,563
Asset retirement obligations	14,610	14,397
Other long-term liabilities	45,858	52,654
Total liabilities	<u>3,080,355</u>	<u>3,048,796</u>
Commitments and contingencies (Note 6)		
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	1,753,306	1,569,992
Total shareholder's equity	<u>2,735,175</u>	<u>2,551,861</u>
Total liabilities and shareholder's equity	<u><u>\$ 5,815,530</u></u>	<u><u>\$ 5,600,657</u></u>

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

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

	Nine-Month Periods	
	Ended September 30,	
	2022	2021
Operating revenue:		
Transportation	\$ 602,449	\$ 583,610
Storage	69,077	71,458
Gas, liquids and other sales	97,751	130,717
Total operating revenue	<u>769,277</u>	<u>785,785</u>
Operating expenses:		
Operations and maintenance	240,360	223,562
Cost of gas and liquids sales	78,653	46,584
Depreciation and amortization	128,213	120,734
Taxes, other than income taxes	60,785	49,962
Total operating expenses	<u>508,011</u>	<u>440,842</u>
Operating income	<u>261,266</u>	<u>344,943</u>
Other income (expense):		
Interest expense, net	(46,882)	(45,262)
Interest income	5,949	3,402
Other, net	19,135	18,972
Total other income (expense)	<u>(21,798)</u>	<u>(22,888)</u>
Income before income tax expense	239,468	322,055
Income tax expense	56,154	76,279
Net income	<u>\$ 183,314</u>	<u>\$ 245,776</u>

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

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

	Nine-Month Periods Ended September 30,	
	2022	2021
Net income	\$ 183,314	\$ 245,776
Other comprehensive loss, net of tax-		
Unrealized loss on cash flow hedges, net of tax \$—, and \$(1,618)	—	(4,451)
Comprehensive income	<u>\$ 183,314</u>	<u>\$ 241,325</u>

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

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, net	Total
Balance, December 31, 2020	\$ 1	\$ 981,868	\$ 1,369,102	\$ 4,451	\$ 2,355,422
Net income	—	—	245,776	—	245,776
Other comprehensive loss - cash flow hedges	—	—	—	(4,451)	(4,451)
Dividends on common stock	—	—	(115,000)	—	(115,000)
Balance, September 30, 2021	<u>\$ 1</u>	<u>\$ 981,868</u>	<u>\$ 1,499,878</u>	<u>\$ —</u>	<u>\$ 2,481,747</u>
Balance, December 31, 2021	\$ 1	\$ 981,868	\$ 1,569,992	\$ —	\$ 2,551,861
Net income	—	—	183,314	—	183,314
Balance, September 30, 2022	<u>\$ 1</u>	<u>\$ 981,868</u>	<u>\$ 1,753,306</u>	<u>\$ —</u>	<u>\$ 2,735,175</u>

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

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

	Nine-Month Periods Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 183,314	\$ 245,776
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	128,213	120,734
Deferred income taxes	9,682	1,031
Other, net	(9,018)	(4,759)
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	41,198	36,316
Inventories	(9,197)	(5,303)
Accounts payable and other accrued liabilities	29,325	10,465
Gas balancing activities	63,366	41,403
Accrued property, income and other taxes	22,100	(5,493)
Net cash flows from operating activities	<u>458,983</u>	<u>440,170</u>
Cash flows from investing activities:		
Capital expenditures	(462,363)	(355,594)
Reimbursement of capital expenditures net of refunds	35,304	38,754
Issuance of affiliate notes receivable	(215,000)	(895,000)
Proceeds from repayment of affiliate notes receivable	190,000	555,000
Other, net	681	(1,860)
Net cash flows from investing activities	<u>(451,378)</u>	<u>(658,700)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	—	539,776
Repayment of long-term debt	—	(200,000)
Dividends on common stock	—	(115,000)
Net cash flows from financing activities	<u>—</u>	<u>224,776</u>
Net change in cash and cash equivalents and restricted cash and cash equivalents	7,605	6,246
Cash and cash equivalents and restricted cash and cash equivalents at beginning of period	14,761	24,081
Cash and cash equivalents and restricted cash and cash equivalents at end of period	<u>\$ 22,366</u>	<u>\$ 30,327</u>

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

Northern Natural Gas Company
Notes to Financial Statements
(Unaudited)

(1) General

Northern Natural Gas Company (the "Company") is an indirect wholly owned and operated 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. The Company owns the largest interstate natural gas pipeline system in the U.S., 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.

The Company has no subsidiaries and does not hold a controlling financial interest in any other entity. The unaudited Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the unaudited Financial Statements as of September 30, 2022 and for the nine-month periods ended September 30, 2022 and 2021. The results of operations for the nine-month period ended September 30, 2022 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through November 29, 2022, which is the date the unaudited Financial Statements were available to be issued.

The preparation of the unaudited Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Financial Statements. Note 2 of Notes to Financial Statements included in the Company's audited Financial Statements for the year ended December 31, 2021 describes the most significant accounting policies used in the preparation of the unaudited Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the nine-month period ended September 30, 2022.

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

Cash equivalents consist of funds invested in money market mutual funds and other investments with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by legal requirements, loan agreements or other contractual provisions. Restricted cash and cash equivalents as of September 30, 2022 and December 31, 2021, 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 September 30, 2022 and December 31, 2021, 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	
	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 11,086	\$ 23
Restricted cash and cash equivalents in other current assets	169	2,277
Restricted cash and cash equivalents in other assets	11,111	12,461
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 22,366</u>	<u>\$ 14,761</u>

(3) Regulatory Matters

In July 2022, the Company filed a general rate case that proposed an overall annual cost-of-service of \$1.3 billion. This is an increase of \$323 million above the cost of service filed in the Company's 2019 rate case of \$1.0 billion. Depreciation on increased rate base and an increase in depreciation and negative salvage rates account for \$115 million of the \$323 million increase in the filed cost of service. The Company requested increases in various rates, including transportation reservation rates ranging from 44% in the Field Area to 121% in the Market Area to be implemented, subject to refund, on August 1, 2022. In July 2022, the FERC issued an order that suspended the rates proposed for five months following the proposed effective date, until January 1, 2023, subject to refund and the outcome of hearing procedures.

(4) 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 \$0.4 million and \$0.7 million for nine-month periods ended September 30, 2022 and 2021, respectively. The Company recorded in other long-term liabilities its portion of the underfunded status of the pension plan of \$18.8 million as of both September 30, 2022 and December 31, 2021. The Company recorded in other assets its portion of the overfunded status of the other postretirement plan of \$40.7 million and \$39.3 million as of September 30, 2022 and December 31, 2021. 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.

(5) 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
<u>As of September 30, 2022:</u>					
Assets:					
Commodity derivatives	\$ —	\$ 22,564	\$ —	\$ (19,641)	\$ 2,923
Money market mutual funds	51,280	—	—	—	51,280
Investment funds	17,944	—	—	—	17,944
	<u>\$ 69,224</u>	<u>\$ 22,564</u>	<u>\$ —</u>	<u>\$ (19,641)</u>	<u>\$ 72,147</u>
Liabilities - commodity derivatives	<u>\$ —</u>	<u>\$ (29,081)</u>	<u>\$ —</u>	<u>\$ 19,641</u>	<u>\$ (9,440)</u>
<u>As of December 31, 2021:</u>					
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>

(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.

(6) 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.

(7) Revenue from Contracts with Customers

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

	Nine-Month Periods Ended September 30,	
	2022	2021
Customer Revenue:		
Transportation service	\$ 602,449	\$ 598,667
Storage service	76,858	69,117
Gas, liquids and other sales	100,195	125,125
Total Customer Revenue	779,502	792,909
Other Revenue ⁽¹⁾	(10,225)	(7,124)
Total	<u>\$ 769,277</u>	<u>\$ 785,785</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 nine-month period ended September 30, 2021 included one-time pre-tax gains for margins on gas sales and higher transportation revenue of \$116 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 September 30, 2022 (in thousands):

Less than 12 months	\$ 858,257
More than 12 months	3,792,495
Total	<u><u>\$ 4,650,752</u></u>

(8) Subsequent Events

In October and November 2022, BHE repaid demand promissory notes totaling \$70.0 million.