Northern Natural Gas Company

Financial Statements (Unaudited) as of and for the Quarterly Period Ended June 30, 2019

Northern Natural Gas Company

Balance Sheets (Unaudited)

(Amounts in thousands, except share data)

	As of	
	June 30, 2019	**December 31, 2018**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,229	$ 14,749
Accounts receivable, net	61,260	107,776
Accounts receivable from affiliates	4,780	9,246
Notes receivable from BHE	615,000	305,000
Transportation and exchange gas receivables	8,050	16,231
Inventories	38,661	35,657
Other current assets	21,141	28,037
Total current assets	814,121	516,696
Property, plant and equipment, net	3,506,819	3,359,034
Regulatory assets	111,576	116,848
Other assets	52,982	49,424
Total assets	$ 4,485,498	$ 4,042,002
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	$ 84,671	$ 71,735
Accounts payable to affiliates	808	1,191
Accrued interest	19,877	15,804
Accrued property, income and other taxes	105,861	56,395
Transportation and exchange gas payables	8,772	14,740
Other current liabilities	51,211	34,176
Total current liabilities	271,200	194,041
Long-term debt	1,247,695	1,041,512
Regulatory liabilities	425,788	434,362
Deferred income taxes	529,306	523,715
Asset retirement obligations	33,762	33,290
Other long-term liabilities	38,963	38,921
Total liabilities	2,546,714	2,265,841
Commitments and contingencies (Note 7)		
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	956,354	794,292
Accumulated other comprehensive income, net	561	—
Total shareholder's equity	1,938,784	1,776,161
Total liabilities and shareholder's equity	$ 4,485,498	$ 4,042,002

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

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

	Six-Month Periods Ended June 30, 2019	Six-Month Periods Ended June 30, 2018
Operating revenue:		
Transportation	$ 396,324	$ 361,714
Storage	26,016	29,159
Gas, liquids and other sales	30,642	83,980
Total operating revenue	452,982	474,853
Operating expenses:		
Operations and maintenance	126,053	111,324
Cost of gas and liquids sales	28,480	89,891
Depreciation and amortization	43,872	40,490
Taxes, other than income taxes	30,175	27,414
Total operating expenses	228,580	269,119
Operating income	224,402	205,734
Other income (expense):		
Interest expense, net	(23,255)	(19,276)
Interest income	6,746	2,985
Other, net	6,413	5,202
Total other income (expense)	(10,096)	(11,089)
Income before income tax expense	214,306	194,645
Income tax expense	52,244	47,432
Net income	$ 162,062	$ 147,213

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

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

	Six-Month Periods Ended June 30,			
		2019		2018
Net income	$	162,062	$	147,213
Other comprehensive income, net of tax:				
Unrealized gains on cash flow hedges, net of tax of $204 and $ -		561		—
Comprehensive income	$	162,623	$	147,213

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, 2017	$	1	$	981,868	$	598,169	$	—	$	1,580,038
Net income		—		—		147,213		—		147,213
Dividends on common stock		—		—		(30,000)		—		(30,000)
Balance, June 30, 2018	$	1	$	981,868	$	715,382	$	—	$	1,697,251
Balance, December 31, 2018	$	1	$	981,868	$	794,292	$	—	$	1,776,161
Net income		—		—		162,062		—		162,062
Other comprehensive income - cash flow hedges		—		—		—		561		561
Balance, June 30, 2019	$	1	$	981,868	$	956,354	$	561	$	1,938,784

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

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

	Six-Month Periods Ended June 30,	
	2019	**2018**
Cash flows from operating activities:		
Net income	$ 162,062	$ 147,213
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	43,872	40,490
Amortization of debt issuance costs	188	261
Deferred income taxes	(1,606)	(1,097)
Other, net	(512)	1,348
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	38,291	43,240
Inventories	(3,004)	(1,553)
Accounts payable and other accrued liabilities	3,833	(2,870)
Gas balancing activities	20,672	(20,447)
Accrued property, income and other taxes	49,932	(18,279)
Net cash flows from operating activities	313,728	188,306
Cash flows from investing activities:		
Capital expenditures	(160,233)	(108,060)
Purchases of marketable securities	(16,354)	(9,107)
Proceeds from sales of marketable securities	15,419	5,517
Net cash flows from investing activities	(161,168)	(111,650)
Cash flows from financing activities:		
Proceeds from long-term debt, net	205,989	—
Issuance of promissory notes by BHE	(350,000)	(110,000)
Proceeds from redemption of promissory notes from BHE	40,000	60,000
Dividends on common stock	—	(30,000)
Net cash flows from financing activities	(104,011)	(80,000)
Net change in cash and cash equivalents and restricted cash and cash equivalents	48,549	(3,344)
Cash and cash equivalents and restricted cash and cash equivalents at beginning of period	27,575	29,759
Cash and cash equivalents and restricted cash and cash equivalents at end of period	$ 76,124	$ 26,415

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

Northern Natural Gas Company
Notes to Financial Statements
(Unaudited)

(1) General

Northern Natural Gas Company (the "Company") is an indirect wholly owned subsidiary of Berkshire Hathaway Energy Company ("BHE"), a holding company that owns locally managed businesses principally engaged in the energy industry. BHE is a consolidated subsidiary of Berkshire Hathaway Inc. ("Berkshire Hathaway"). The Company owns the largest interstate natural gas pipeline system in the United States, as measured by pipeline miles, which reaches from west Texas to Michigan's Upper Peninsula (the "System"). The Company primarily transports and stores natural gas for utilities, municipalities, gas marketing companies and industrial and commercial users. The System consists of two commercial segments. Its traditional end-use and distribution market area in the northern part of its system, referred to as the Market Area, includes points in Iowa, Nebraska, Minnesota, Wisconsin, South Dakota, Michigan and Illinois. Its natural gas supply and delivery service area in the southern part of its system, referred to as the Field Area, includes points in Kansas, Texas, Oklahoma and New Mexico. The Market Area and Field Area are separated at a Demarcation Point. The System consists of 14,700 miles of natural gas pipelines, including 6,300 miles of mainline transmission pipelines and 8,400 miles of branch and lateral pipelines, with a Market Area design capacity of 6.0 billion cubic feet ("Bcf") per day, a Field Area delivery capacity of 1.7 Bcf per day to the Market Area and 1.4 Bcf per day to the West Texas area and over 79 Bcf of firm service and operational storage cycle capacity in five storage facilities. The System is configured with approximately 2,300 active receipt and delivery points which are integrated with the facilities of local distribution companies ("LDC"). Many of the Company's LDC customers are part of combined utilities that also use natural gas as a fuel source for electric generation. The Company delivers over 1.2 trillion cubic feet of natural gas to its customers annually.

The Company has no subsidiaries and does not hold a controlling financial interest in any other entity. The unaudited Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the unaudited Financial Statements as of June 30, 2019 and for the six-month periods ended June 30, 2019 and 2018. The results of operations for the six-month period ended June 30, 2019 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through August 29, 2019, 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, 2018 describes the most significant accounting policies used in the preparation of the unaudited Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the six-month period ended June 30, 2019.

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

Cash equivalents consist of funds invested in money market mutual funds and other investments with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by legal requirements, loan agreements or other contractual provisions. Restricted cash and cash equivalents as of June 30, 2019 and December 31, 2018, consist substantially of escrow funds held to provide the Company with protection against customer credit risk. A reconciliation of cash and cash equivalents and restricted cash and cash equivalents as of June 30, 2019 and December 31, 2018, as presented in the Statements of Cash Flows is outlined below and disaggregated by the line items in which they appear on the Balance Sheets (in thousands):

	As of	
	June 30, 2019	**December 31, 2018**
Cash and cash equivalents	$ 65,229	$ 14,749
Restricted cash and cash equivalents in other current assets	463	337
Restricted cash and cash equivalents in other assets	10,432	12,489
Total cash and cash equivalents and restricted cash and cash equivalents	$ 76,124	$ 27,575

(3) Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, which creates FASB Accounting Standards Codification ("ASC") Topic 842, "Leases" and supersedes Topic 840 "Leases." This guidance increases transparency and comparability among entities by recording lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize on the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous guidance. Following the issuance of ASU No. 2016-02, the FASB issued several ASUs that clarified the implementation guidance for ASU No. 2016-02 but did not change the core principle of the guidance. The Company adopted this guidance for all applicable contracts in-effect as of January 1, 2019 under a modified retrospective method, and the adoption did not have a cumulative effect impact at the date of initial adoption nor a material impact on the Company’s Financial Statements and disclosures included within Notes to Financial Statements.

(4) Recent Financial Transactions

In June 2019, the Company issued $200 million of its 4.30% Senior Bonds due January 2049. The bonds are part of the same series as the $450 million aggregate principal amount of 4.30% bonds due 2049 that were issued in July 2018. The Company intends to use the net proceeds for general corporate purposes, including to fund capital expenditures.

(5) 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 $0.6 million for each of the six-month periods ended June 30, 2019 and 2018. As of June 30, 2019, the Company recorded in other long-term liabilities its portion of the under funded status of the pension plan and in other assets its portion of the over funded status of the other postretirement plan of $14.5 million and $28.1 million, respectively. As of December 31, 2018, the Company recorded in other long-term liabilities its portion of the under funded status of the pension plan and in other assets its portion of the over funded status of the other postretirement plan of $14.5 million and $27.4 million, respectively. Amounts attributable to the Company were allocated from MEC to the Company in accordance with the intercompany administrative service agreement. Offsetting regulatory assets and liabilities have been recorded related to the amounts not yet recognized as a component of net periodic benefit costs that will be included in regulated rates.

(6) Fair Value Measurements

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

- Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

- Level 3 - Unobservable inputs reflect the Company's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. The Company develops these inputs based on the best information available, including its own data.

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

	Input Levels for Fair Value Measurements				
	Level 1	**Level 2**	**Level 3**	**Other[1]**	**Total**
As of June 30, 2019					
Assets:					
Commodity derivatives	$ —	$ 3,002	$ —	$ (1,498)	$ 1,504
Money market mutual funds[2]	87,125	—	—	—	87,125
Investment funds	13,239	—	—	—	13,239
	$ 100,364	$ 3,002	$ —	$ (1,498)	$ 101,868
Liabilities - commodity derivatives[3]	$ —	$ (1,498)	$ —	$ 1,498	$ —
As of December 31, 2018					
Assets:					
Commodity derivatives	$ —	$ 3,383	$ —	$ (1,585)	$ 1,798
Money market mutual funds[2]	42,526	—	—	—	42,526
Investment funds	6,102	—	—	—	6,102
	$ 48,628	$ 3,383	$ —	$ (1,585)	$ 50,426
Liabilities - commodity derivatives[3]	$ —	$ (2,425)	$ —	$ 1,585	$ (840)

(1) Represents netting under master netting arrangements.

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

(3) Amounts are included in other current liabilities on the Balance Sheets.

Derivative contracts are recorded on the Balance Sheets as either assets or liabilities and are stated at estimated fair value unless they are designated as normal purchases or normal sales and qualify for the exception afforded by GAAP. When available, the fair value of derivative contracts is estimated using unadjusted quoted prices for identical contracts in the market in which the Company transacts. When quoted prices for identical contracts are not available, the Company uses forward price curves. Forward price curves represent the Company's estimates of the prices at which a buyer or seller could contract today for delivery or settlement at future dates. The Company bases its forward price curves upon market price quotations, when available, or internally developed and commercial models, with internal and external fundamental data inputs. Market price quotations are obtained from independent energy brokers, exchanges, direct communication with market participants and actual transactions executed by the Company. Market price quotations for certain major natural gas and crude oil 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 with realized and unrealized gains and losses recognized in earnings. 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.

(7) Commitments and Contingencies

Regulatory Matters

In July 2018, the FERC issued a final rule adopting procedures for determining whether natural gas pipelines were collecting unjust and unreasonable rates in light of the reduction in the federal corporate tax rate from 2017 Tax Reform. Pursuant to the final rule, in October 2018, the Company filed an informational filing on FERC Form No. 501-G and a Statement Demonstrating Why No Rate Adjustment is Necessary. In January 2019, FERC initiated a Section 5 investigation to determine whether the rates currently charged by the Company are just and reasonable. As required by the FERC Section 5 order, the Company filed a full cost and revenue study on April 1, 2019. On July 1, 2019, the Company filed a Section 4 rate case. The Company has requested increases in various rates, including transportation reservation rates ranging from approximately 35% in the Field Area to 90% in the Market Area to be implemented, subject to refund, effective January 1, 2020. The Section 5 investigation remains as a separate case from the Section 4 rate case.

Legal Matters

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

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

- In September 2009, the Company filed an application with the FERC to extend the boundaries of the Cunningham natural gas storage facility. In June 2010, FERC issued an order granting the Company certificate authority to extend the boundaries of the Cunningham natural gas storage facility by 12,320 acres. The Company either acquired the storage rights or purchased the property on 3,696 acres, or 30% of the extension area. In July 2010, the Company filed a complaint in federal district court to acquire the remaining necessary interests by eminent domain. The federal district court established a three-person condemnation panel which issued a report in August 2014, recommending a total award of $7.3 million. The federal district court issued a decision in February 2015, adopting the condemnation panel's recommendations. In July 2017, the Tenth Circuit Court of Appeals reversed the federal district court award requiring the Company to pay for the value of storage gas remaining in the extension area and rejected the appeals of the defendants for additional compensation for storage rights and wells that were converted to observation wells. The Tenth Circuit Court of Appeals also rejected the defendants' request for attorney's fees. The decision reduced the condemnation award by approximately $6.0 million. The case was remanded to the federal district court for final disposition. Briefs were filed in April 2018, on the remand issues, and responsive briefs were filed in May 2018. In March 2019 the federal district court entered a Memorandum and Order adopting the Company's position on the remaining issues. Motions to reconsider the decision have been filed by the defendants and were denied by the court. In July 2019, the defendants filed a notice of appeal to the Tenth Circuit Court of Appeals.

- The Company filed a lawsuit in December 2008 against Nash, LD Drilling and Val Energy in the United States District Court for the District of Kansas for nuisance, conversion and unjust enrichment related to the storage gas losses from the June 2010 FERC order through February 2011 after which the third-party wells in the extension area were shut-in. The conversion and unjust enrichment claims related to production of storage gas before the date of the certificate expansion order have been dismissed. In May 2016, the court issued an order lifting the stay that had been in place since August 2011. Expert reports have been exchanged and expert depositions were taken in February and March 2019. Dispositive motions have been filed by the Company and by the defendants. Trial is set for October 2019.

- In December 2009, the Company filed a lawsuit in the 13th Judicial District, District Court, Pratt County, Kansas ("Pratt County State District Court") against ONEOK Field Services Company ("ONEOK") and Lumen Energy Corporation ("Lumen") alleging conversion based on their purchase of the storage gas from the producers after the June 2010 FERC order. In August 2014, the Pratt County State District Court granted the producers' motion for summary judgment, finding the Company did not have a viable conversion claim related to the gas produced after June 2010. The Company appealed the decision to the Kansas Court of Appeals and the case was transferred to the Kansas Supreme Court in October 2017. Oral argument was held in September 2018. The proceeds from June 2010 through February 2011 when the wells were shut-in will continue to be held in suspense pending appeal with the Kansas Supreme Court. The Company has valued these amounts at approximately $3.4 million.

- In December 2011, state court petitions were filed against the Company in three counties in Kansas, alleging trespass, nuisance and unjust enrichment, arising out of the migration of the Company's storage gas. The cases were moved to federal district court in Wichita, Kansas in December 2011, at the request of the Company. The case will likely remain stayed.

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

(8) Revenue from Contracts with Customers

The following table summarizes the Company's revenue from contracts with customers ("Customer Revenue") (in thousands):

	Six-Month Periods Ended June 30,	
	2019	2018
Customer Revenue:		
Transportation service	396,181	361,714
Storage service	26,016	29,159
Gas, liquids and other sales	31,830	83,190
Total Customer Revenue	454,027	474,063
Other Revenue(1)	(1,045)	790
Total	$ 452,982	$ 474,853

(1) Revenue not considered Customer Revenue ("Other Revenue") consists of revenue recognized in accordance with Accounting Standards Codification 815, "Derivative and Hedging" and includes net payments to counterparties for the financial settlement of certain derivative contracts.

Remaining Performance Obligations

The following table summarizes the Company's Customer 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 June 30, 2019 (in thousands):

Less than 12 months	$ 710,215
More than 12 months	4,145,789
Total	$ 4,856,004

(9) Other Related Party Transactions

The Company provided gas transportation, storage and other services to MEC totaling $32.0 million and $34.4 million for the six-month periods ended June 30, 2019 and 2018, respectively. MEC provides certain administrative and management services, including executive, financial, legal, human resources, payroll and tax, to the Company. Expenses incurred by MEC and billed to the Company are based on the individual services and expense items provided and were $4.0 million and $3.5 million for the six-month periods ended June 30, 2019 and 2018, respectively. MEC also provided electricity and other services to the Company of $0.4 million and $0.3 million for the six-month periods ended June 30, 2019 and 2018. The Company reimbursed MEC $37.2 million and $32.2 million for the six-month periods ended June 30, 2019 and 2018, respectively, for payroll, healthcare benefits and other benefit payments that MEC processed on behalf of the Company.

BHE provides certain administrative and management services, including executive, financial, legal and tax, to the Company. Expenses incurred by BHE and billed to the Company are based on the individual services and expense items provided and were $1.6 million and $1.5 million for the six-month periods ended June 30, 2019 and 2018, respectively. Income tax transactions with BHE resulted in net payments of $1.9 million and $61.4 million for the six-month periods ended June 30, 2019 and 2018, respectively.

As of June 30, 2019 and December 31, 2018, the Company had net accounts payable to BHE and certain subsidiaries for intercompany transactions totaling $0.8 million and $1.2 million, respectively. The Company also had accounts receivable from affiliates of $4.8 million and $9.2 million as of June 30, 2019 and December 31, 2018.

The Company provides certain administrative and management services, including executive, financial, regulatory, legal, information technology, human resources and procurement, to Kern River Gas Transmission Company ("Kern River"), an indirect wholly owned subsidiary of BHE. The Company billed Kern River $0.7 million and $0.8 million for the six-month periods ended June 30, 2019 and 2018, respectively, for these services.

The Company possesses demand promissory notes from BHE. The balance of the demand promissory notes as of June 30, 2019 and December 31, 2018 was $615.0 million and $305.0 million, respectively. The notes contain variable interest rates based on 30-day London Interbank Offered Rate plus a fixed spread per annum. Interest income of $6.0 million and $2.4 million was recorded for the six-month periods ended June 30, 2019 and 2018, respectively.

(10) Subsequent Events

In August 2019, BHE redeemed promissory notes from the Company totaling $40.0 million.