Kern River Funding Corporation

Issuer

Kern River Gas Transmission Company

Guarantor

Financial Statements and Officer's Certificate

For the Quarterly Period Ended March 31, 2012

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Kern River Gas Transmission Company

Kern River Funding Corporation

OFFICER'S CERTIFICATE

I, the undersigned, Mary Hausman, Controller of Kern River Gas Transmission Company and Kern River Funding Corporation (collectively, the "Companies"), hereby certify that the accompanying balance sheets of the Companies as of March 31, 2012 and December 31, 2011 and the statements of income, comprehensive income, changes in partners' capital and cash flows for the three-month periods ended March 31, 2012 and 2011 have been compiled from figures shown in the records of the Companies and fairly present the financial position of the Companies as of March 31, 2012 and December 31, 2011, and the results of operations and cash flows of the Companies for the periods presented, subject to year-end audit adjustments, all in conformity with regulatory (Kern River Gas Transmission Company) and generally accepted (Kern River Funding Corporation) accounting principles consistently applied during the periods.

This report is intended solely for the use of the Companies, the Trustee of the $510 million in debt securities issued in accordance with the August 13, 2001 Trust Indenture Agreement and the Trustee of the $836 million in debt securities issued in accordance with the May 1, 2003 Trust Indenture Agreement and should not be used for any other purpose.

Mary Hausman

Mary Hausman
Controller

Salt Lake City, Utah
May 24, 2012

Kern River Gas Transmission Company

Financial Statements – Regulatory Basis

For the Quarterly Period Ended March 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors that have affected the financial condition and results of operations of Kern River Gas Transmission Company (the "Company") during the periods included herein. This discussion should be read in conjunction with the Company's historical unaudited Financial Statements – Regulatory Basis and the notes thereto included elsewhere in this report. The Company's actual results in the future could differ significantly from the historical results.

Forward-Looking Statements

The Company may make forward-looking statements that involve judgments, assumptions and other uncertainties beyond its control. These forward-looking statements may include, among others, statements concerning revenue and cost trends, cost recovery, cost reduction strategies and anticipated outcomes, pricing strategies, changes in the utility industry, planned capital expenditures, financing needs and availability, statements of the Company's expectations, beliefs, future plans and strategies, anticipated events or trends and similar comments concerning matters that are not historical facts. These types of forward-looking statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results and performance of the Company to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. Important factors that could cause actual results to differ materially from those expectations include: market-related effects on revenues and other operating uncertainties, uncertainties relating to economic and political conditions and uncertainties regarding the impact of regulations, changes in government policy and competition. The Company undertakes no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing factors should not be construed as exclusive.

Results of Operations for the First Quarter of 2012 and 2011

Operating revenue increased $9.7 million for the first quarter of 2012 compared to 2011 primarily due to the Apex Expansion Project being placed in-service in October 2011 and better natural gas price spreads, partially offset by contract expirations.

Total depreciation and amortization, including regulatory debits and credits, increased $0.8 million for the first quarter of 2012 compared to 2011 due to the Apex Expansion Project.

Total income tax expense increased $2.5 million for the first quarter of 2012 compared to 2011 due to higher income before income tax expense.

Allowance for other funds used during construction ("Equity AFUDC") decreased $2.2 million for the first quarter of 2012 compared to 2011 due to the Apex Expansion Project being placed in-service in October 2011.

Interest on long-term notes payable to subsidiary decreased $1.1 million for the first quarter of 2012 compared to 2011 due to the scheduled repayments of the principal outstanding on long-term notes payable to subsidiary.

Allowance for borrowed funds used during construction decreased $1.2 million for the first quarter of 2012 compared to 2011 due to the Apex Expansion Project being placed in-service in October 2011.

Liquidity and Capital Resources

The Company's cash flow from transportation revenue is generally adequate to meet its obligations and commitments. In addition, the Company has access to funds through a variety of sources, including commercial banks and capital markets. Although the Company believes that such sources of liquidity will be sufficient to satisfy its obligations and capital expenditure commitments for the foreseeable future, the Company's cash flow may be affected by a variety of factors, including regulatory policies, competition, market-oriented revenue price spreads, its ability to renew long-term firm gas transportation service agreements and the creditworthiness of the Company's firm transportation customers.

The Company's cash and cash equivalents were $46.3 million as of March 31, 2012 and $30.1 million as of December 31, 2011.

Net cash flows from operating activities for the first quarter of 2012 was $77.6 million and for the first quarter of 2011 was $66.7 million. The increase was due to higher revenue collections resulting from the Apex Expansion Project and expenditures for reimbursable projects in 2011, partially offset by higher income tax payments.

Net cash flows from investing activities for the first quarter of 2012 was $(6.1) million and for the first quarter of 2011 was $(19.1) million. Capital expenditures decreased $13.0 million for the first quarter of 2012 compared to 2011 primarily due to lower spending on the Apex Expansion Project. Capital expenditures, net of salvage proceeds and excluding non-cash investing transactions such as Equity AFUDC and payables, are expected to be $66 million for the year ended December 31, 2012. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of these reviews, which may consider, among other factors, customer contracts, changes in rules and regulations, including environmental; outcomes of regulatory procedures; changes in income tax laws; general business conditions; load projections; the cost and efficiency of construction labor, equipment and materials; and the cost and availability of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. The Company expects to meet its capital expenditure requirements with cash flows from operations.

Net cash flows from financing activities for the first quarter of 2012 was $(55.3) million and consists of distributions to partners of $35.0 million and repayments of long-term notes payable to subsidiary of $20.3 million.

Net cash flows from financing activities for the first quarter of 2011 was $(20.3) million and consists of repayments of long-term notes payable to subsidiary.

KERN RIVER GAS TRANSMISSION COMPANY
BALANCE SHEETS – REGULATORY BASIS (Unaudited)
(Amounts in thousands)

	As of	
	March 31, 2012	**December 31, 2011**
ASSETS		
Utility plant, net	$ 1,835,834	$ 1,852,936
Other property and investments	22,984	22,802
Current and accrued assets:		
Cash and cash equivalents	46,314	30,099
Customer accounts receivable	32,651	33,799
Other accounts receivable, net	128	481
Transportation and exchange gas receivables	1,409	1,555
Plant materials and operating supplies	9,774	9,900
Other current and accrued assets	2,540	881
Total current and accrued assets	92,816	76,715
Deferred debits:		
Deferred income taxes	132,186	131,544
Regulatory assets	98,161	98,312
Other deferred debits	9,971	10,721
Total assets	$ 2,191,952	$ 2,193,030
PARTNERS' CAPITAL AND LIABILITIES		
Partners' capital:		
Contributed capital	$ 893,871	$ 893,871
Retained deficit	(33,152)	(26,223)
Accumulated other comprehensive (loss) income, net	(20)	34
Total partners' capital	860,699	867,682
Long-term notes payable to subsidiary – less current portion	607,927	627,862
Other non-current liabilities:		
Provision for rate refunds	748	516
Other non-current liabilities	582	585
Total other non-current liabilities	1,330	1,101
Current and accrued liabilities:		
Current portion of long-term notes payable to subsidiary	87,507	87,843
Accounts payable	6,558	9,519
Customer deposits	24,376	22,554
Income taxes payable	14,643	4,384
Accrued interest	4,164	4,256
Accrued property and other taxes	7,388	3,795
Other current and accrued liabilities	8,723	9,190
Total current and accrued liabilities	153,359	141,541
Deferred credits:		
Deferred income taxes	475,685	470,527
Regulatory liabilities	91,499	82,970
Other deferred credits	1,453	1,347
Total liabilities	1,331,253	1,325,348
Total partners' capital and liabilities	$ 2,191,952	$ 2,193,030

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

KERN RIVER GAS TRANSMISSION COMPANY
STATEMENTS OF INCOME – REGULATORY BASIS (Unaudited)
(Amounts in thousands)

	Three-Month Periods Ended March 31,	
	2012	**2011**
Operating revenue – transportation	$ 97,849	$ 88,091
Operating costs and expenses:		
Operation and maintenance	8,046	8,011
Depreciation and amortization	21,003	16,598
Regulatory debits and credits	8,058	11,686
Property and other taxes	4,801	4,437
Income tax expense	17,213	13,888
Total operating costs and expenses	59,121	54,620
Operating income	38,728	33,471
Other income (expense):		
Allowance for other funds used during construction	(66)	2,061
Other, net	(92)	(9)
Income tax benefit (expense)	56	(782)
Total other income (expense)	(102)	1,270
Interest charges:		
Interest on long-term notes payable to subsidiary	9,716	10,833
Amortization of deferred financing costs	734	817
Miscellaneous interest expense	222	344
Allowance for borrowed funds used during construction	(117)	(1,258)
Total interest charges	10,555	10,736
Net income	$ 28,071	$ 24,005

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

KERN RIVER GAS TRANSMISSION COMPANY
STATEMENTS OF COMPREHENSIVE INCOME – REGULATORY BASIS (Unaudited)
(Amounts in thousands)

	Three-Month Periods Ended March 31,	
	2012	**2011**
Net income	$ 28,071	$ 24,005
Other comprehensive (loss) income -		
Changes in fair value on cash flow hedges, net of tax of $(32) and $103	(54)	168
Comprehensive income	$ 28,017	$ 24,173

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

KERN RIVER GAS TRANSMISSION COMPANY
STATEMENTS OF CHANGES IN PARTNERS' CAPITAL – REGULATORY BASIS (Unaudited)
(Amounts in thousands)

	Contributed Capital	Retained Deficit	Accumulated Other Comprehensive (Loss) Income, Net	Total Partners' Capital
Balance, December 31, 2010	$ 838,871	$ (134,439)	$ 22	$ 704,454
Net income	-	24,005	-	24,005
Other comprehensive income – cash flow hedges	-	-	168	168
Balance, March 31, 2011	$ 838,871	$ (110,434)	$ 190	$ 728,627
Balance, December 31, 2011	$ 893,871	$ (26,223)	$ 34	$ 867,682
Net income	-	28,071	-	28,071
Other comprehensive loss – cash flow hedges	-	-	(54)	(54)
Distributions to partners	-	(35,000)	-	(35,000)
Balance, March 31, 2012	$ 893,871	$ (33,152)	$ (20)	$ 860,699

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

KERN RIVER GAS TRANSMISSION COMPANY
STATEMENTS OF CASH FLOWS – REGULATORY BASIS (Unaudited)
(Amounts in thousands)

	Three-Month Periods Ended March 31,	
	2012	**2011**
Cash flows from operating activities:		
Net income	$ 28,071	$ 24,005
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and depletion	21,003	16,598
Amortization	9,412	14,609
Deferred income taxes, net	4,548	3,319
Receivables	1,435	(932)
Plant materials and operating supplies	1	8
Payables and accrued expenses	12,859	13,051
Other regulatory assets	(98)	(1,566)
Other regulatory liabilities	(18)	(12)
Allowance for other funds used during construction	66	(2,061)
Provision for rate refunds	232	-
Other, net	71	(333)
Net cash flows from operating activities	77,582	66,686
Cash flows from investing activities:		
Capital expenditures	(6,096)	(19,066)
Net cash flows from investing activities	(6,096)	(19,066)
Cash flows from financing activities:		
Repayments of long-term notes payable to subsidiary	(20,271)	(20,272)
Distributions to partners	(35,000)	-
Net cash flows from financing activities	(55,271)	(20,272)
Net change in cash and cash equivalents	16,215	27,348
Cash and cash equivalents at beginning of period	30,099	15,178
Cash and cash equivalents at end of period	$ 46,314	$ 42,526

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

KERN RIVER GAS TRANSMISSION COMPANY
NOTES TO FINANCIAL STATEMENTS – REGULATORY BASIS
(Unaudited)

(1) General

Kern River Gas Transmission Company (the "Company") is an indirect wholly owned subsidiary of MidAmerican Energy Holdings Company ("MEHC"), a holding company based in Des Moines, Iowa, that owns subsidiaries principally engaged in the energy business. MEHC is a consolidated subsidiary of Berkshire Hathaway Inc. ("Berkshire Hathaway"). The Company owns an interstate natural gas pipeline system that extends from supply areas in the Rocky Mountains to consuming markets in Utah, Nevada and California. The Company's pipeline system consists of 1,700 miles of natural gas pipelines, including 1,400 miles of mainline section and 300 miles of common facilities, with a design capacity of 2,166,575 decatherms ("Dth") per day. The Company owns the entire mainline section, which extends from the system's point of origination near Opal, Wyoming, through the Central Rocky Mountains area into Daggett, California. The mainline section consists of 1,300 miles of 36-inch diameter pipeline and 100 miles of various laterals that connect to the mainline. The common facilities are jointly owned by the Company and Mojave Pipeline Company ("Mojave"), a wholly owned subsidiary of El Paso Corporation, as tenants-in-common, and ownership may increase or decrease pursuant to the capital contributions made by each respective joint owner. The Company has exclusive rights to 1,613,392 Dth per day of the common facilities' capacity, and Mojave has exclusive rights to 414,001 Dth per day of capacity. Operation and maintenance of the common facilities are the responsibility of Mojave Pipeline Operating Company, an affiliate of Mojave. The Company reimburses Mojave for its share of the pipeline expenses. The common facilities and associated operating costs are included in the Financial Statements – Regulatory Basis on a prorated basis. Except for quantities of natural gas owned for operational purposes, the Company does not own the natural gas that is transported through its system. The Company's transportation operations are subject to a regulated tariff that is on file with the Federal Energy Regulatory Commission ("FERC"). The tariff rates are designed to provide the Company with an opportunity to recover its costs of providing services and earn a reasonable return on its investments. The Company also owns Kern River Funding Corporation ("Funding") which is an entity organized to issue and make payments on debt securities for the Company.

The unaudited Financial Statements – Regulatory Basis have been prepared based upon the accounting regulations of the FERC pursuant to the Code of Federal Regulations, Title 18, Part 201, Uniform System of Accounts ("FERC accounting regulations"). Therefore, the unaudited Financial Statements – Regulatory Basis contain certain differences from general purpose financial statements prepared in accordance with accounting principles generally accepted in the United States of America, including the recognition of income taxes and certain regulatory assets for levelized depreciation and financial statement classifications such as deferred income taxes, income tax expense and accumulated negative salvage.

The unaudited Financial Statements – Regulatory Basis present the Company's stand-alone information. In accordance with FERC accounting regulations, the Company's 100% ownership of Funding is accounted for by the equity method. The Company's investment in Funding is included in other deferred debits on the Balance Sheets – Regulatory Basis.

Certain disclosures normally included in annual financial statements have been condensed or omitted, although the Company believes the disclosures are adequate to prevent the information presented from being misleading. Management believes the unaudited Financial Statements – Regulatory Basis contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the unaudited Financial Statements – Regulatory Basis as of March 31, 2012 and for the three-month periods ended March 31, 2012 and 2011. The results of operations for the three-month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through May 24, 2012, which is the date the Financial Statements – Regulatory Basis were available to be issued.

The preparation of the unaudited Financial Statements – Regulatory Basis in conformity with FERC accounting regulations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements – Regulatory Basis 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 – Regulatory Basis. Note 2 of Notes to Financial Statements – Regulatory Basis included in the Company's Annual Report for the year ended December 31, 2011 describes the most significant accounting policies used in the preparation of the Financial Statements – Regulatory Basis. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the three-month period ended March 31, 2012.

(2) New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, which amends FASB Accounting Standards Codification ("ASC") Topic 220, "Comprehensive Income." ASU No. 2011-05 provides an entity with the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Regardless of the option chosen, this guidance also requires presentation of items on the face of the financial statements that are reclassified from other comprehensive income to net income. This guidance does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income or how tax effects of each item of other comprehensive income are presented. This guidance is effective for reporting periods beginning after December 15, 2011. In December 2011, the FASB issued ASU No. 2011-12, which also amends FASB ASC Topic 220 to defer indefinitely the ASU No. 2011-05 requirement to present items on the face of the financial statements that are reclassified from other comprehensive income to net income. ASU No. 2011-12 is also effective for reporting periods beginning after December 15, 2011. The Company adopted this guidance on January 1, 2012 and elected the two separate but consecutive statements option.

In May 2011, the FASB issued ASU No. 2011-04, which amends FASB ASC Topic 820, "Fair Value Measurements and Disclosures." The amendments in this guidance are not intended to result in a change in current accounting. ASU No. 2011-04 requires additional disclosures relating to fair value measurements categorized within Level 3 of the fair value hierarchy, including quantitative information about unobservable inputs, the valuation process used by the entity and the sensitivity of unobservable input measurements. Additionally, entities are required to disclose the level of the fair value hierarchy for assets and liabilities that are not measured at fair value in the balance sheet, but for which disclosure of the fair value is required. This guidance is effective for reporting periods beginning after December 15, 2011. The Company adopted ASU No. 2011-04 on January 1, 2012. The adoption of this guidance did not have a material impact on the Company's disclosures included within Notes to Financial Statements – Regulatory Basis.

(3) Regulatory Matters

In December 2009, the FERC issued an order establishing revised rates for the period of the Company's current long-term contracts ("Period One rates") and required that rates be established based on a levelized rate design for eligible customers to elect to take service following the expiration of their current contracts ("Period Two rates"). The FERC set all other issues related to Period Two rates for hearing. In November 2010, the FERC issued an order that denied all requests for rehearing related to Period One rates from the FERC's December 2009 order and established that the Company is entitled to base its Period Two rates on a 100% equity capital structure. In January 2011, the Company filed a motion for clarification on certain depreciation issues with the FERC.

In July 2011, the FERC issued its order substantially adopting the presiding administrative law judge's initial decision issued in April 2011 regarding the Company's Period Two rates. According to the decisions, Period Two rates should be based on a return on equity of 11.55%, a capital structure of 100% equity, and a levelization period that coincides with a contract length of 10 or 15 years. The Company has a regulatory asset approved by the FERC associated with compressor engines and general plant replacements that can be recovered in a future rate case and was not incorporated into Period Two rates at this time. The Company, as well as others, requested rehearing and clarification of the FERC's July 2011 order on a majority of these issues. The Company filed tariffs in compliance with the FERC's order in August 2011 and, following an order on compliance, again in September 2011. In late September 2011, the FERC issued a second order on compliance, accepting the Company's tariff filing. The FERC has not yet responded to the requests for rehearing and clarification of the July 2011 order.

(4) Fair Value Measurements

The Company uses a three level hierarchy for determining fair value and 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 Company has investments in money market mutual funds that are accounted for as available for sale securities, are stated at fair value and are included in cash and cash equivalents and other property and investments on the Balance Sheets – Regulatory Basis. The fair value of the Company's money market mutual funds, which approximates cost, was $22.0 million and $21.9 million as of March 31, 2012 and December 31, 2011, respectively. The Company considers these money market mutual funds to be valued using Level 1 inputs, which are determined by using, when available, a readily observable quoted market price or net asset value of an identical security in an active market.

(5) Employee Benefit Plans

The Company participates in multi-employer benefit plans sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly owned subsidiary of MEHC. 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 $0.3 million for each of the three-month periods ended March 31, 2012 and 2011. As of March 31, 2012, the Company recorded an affiliate company payable included in other non-current liabilities relating to the pension plan and an affiliate company receivable included in other property and investments relating to the other postretirement plan of $0.6 million and $1.0 million, respectively. As of December 31, 2011, the Company recorded an affiliate company payable included in other non-current liabilities relating to the pension plan and an affiliate company receivable included in other property and investments relating to the other postretirement plan of $0.6 million and $0.9 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) Commitments and Contingencies

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 effect on its financial results.

(7) Other Related Party Transactions

MEHC provides certain administrative and management services, including executive, financial, legal, and tax, to the Company. Expenses incurred by MEHC and billed to the Company are based on the individual services and expense items provided and were $0.2 million and $0.3 million for the three-month periods ended March 31, 2012 and 2011, respectively. Income tax transactions with MEHC resulted in net payments of $2.4 million and net receipts of $0.6 million for the three-month periods ended March 31, 2012 and 2011, 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 $0.2 million for each of the three-month periods ended March 31, 2012 and 2011.

As of March 31, 2012 and December 31, 2011, the Company had net accounts payable to MEHC and certain subsidiaries for intercompany transactions totaling $0.3 million and $1.3 million, respectively, which is reflected in accounts payable on the Balance Sheets – Regulatory Basis.

Northern Natural Gas Company ("Northern"), an indirect wholly owned subsidiary of MEHC, provides certain administrative and management services, including executive, financial, regulatory and legal, to the Company. The Company was billed $0.3 million for each of the three-month periods ended March 31, 2012 and 2011 for these services.

Northern provides risk management services to the Company, pursuant to a service agreement dated August 1, 2008. The Company assumes all risks, liabilities, losses and profits associated with these risk management services. For each of the three-month periods ended March 31, 2012 and 2011, Northern entered into insignificant risk management transactions that settled on behalf of the Company.

The Company provided natural gas transportation and other services to PacifiCorp, an indirect subsidiary of MEHC, of $0.8 million for each of the three-month periods ended March 31, 2012 and 2011. PacifiCorp provided electricity and other services to the Company of $0.2 million and $0.1 million for the three-month periods ended March 31, 2012 and 2011, respectively. PacifiCorp provides certain administrative and management services, including information technology, legislative and financial, to the Company. Expenses incurred by PacifiCorp and billed to the Company are based on the individual services and expense items provided and were $0.1 million for each of the three-month periods ended March 31, 2012 and 2011. As of March 31, 2012 and December 31, 2011, the Company had net accounts receivable from PacifiCorp for intercompany transactions totaling $0.3 million, which is reflected in customer accounts receivable on the Balance Sheets – Regulatory Basis.

For the three-month periods ended March 31, 2012 and 2011, the Company distributed to its partners $35.0 million and $- million, respectively.

Kern River Funding Corporation

Financial Statements

For the Quarterly Period Ended March 31, 2012

KERN RIVER FUNDING CORPORATION
BALANCE SHEETS (Unaudited)
(Amounts in thousands, except per share data)

	As of	
	March 31, 2012	**December 31, 2011**
ASSETS		
Current assets:		
Receivable due from parent	$ 3,209	$ 3,302
Current portion of long-term notes receivable from parent	87,507	87,843
Total current assets	90,716	91,145
Long-term notes receivable from parent	607,927	627,862
Total assets	$ 698,643	$ 719,007
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accrued interest	$ 3,208	$ 3,301
Current portion of long-term notes payable	87,507	87,843
Total current liabilities	90,715	91,144
Long-term notes payable	607,927	627,862
Total liabilities	698,642	719,006
Shareholder's equity:		
Common stock, $1 par value, 1,000 shares authorized, issued and outstanding	1	1
Total liabilities and shareholder's equity	$ 698,643	$ 719,007

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

KERN RIVER FUNDING CORPORATION
STATEMENTS OF INCOME (Unaudited)
(Amounts in thousands)

	Three-Month Periods Ended March 31,	
	2012	**2011**
Revenues from long-term note receivable from parent	$ 9,716	$ 10,833
Interest expense on long-term notes payable	9,716	10,833
Net income	$ -	$ -

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

KERN RIVER FUNDING CORPORATION
STATEMENTS OF CASH FLOWS (Unaudited)
(Amounts in thousands)

	Three-Month Periods Ended March 31,	
	2012	**2011**
Cash flows from operating activities:		
Net change in receivable due from parent	$ 93	$ -
Net change in accrued interest	(93)	-
Net cash flows from operating activities	-	-
Cash flows from financing activities:		
Proceeds received on long-term notes receivable from parent	20,271	20,272
Repayments of long-term notes payable	(20,271)	(20,272)
Net cash flows from financing activities	-	-
Net change in cash	-	-
Cash at beginning of period	-	-
Cash at end of period	$ -	$ -

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

KERN RIVER FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

(1) General

Kern River Funding Corporation ("Funding") is a direct wholly owned subsidiary of Kern River Gas Transmission Company ("Kern River"). Funding was organized to issue and make payments on debt securities for Kern River. There are no other revenues or costs incurred by Funding except for those that are passed from or to Kern River.

The unaudited Financial Statements have been 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 Financial Statements as of March 31, 2012 and for the three-month periods ended March 31, 2012 and 2011. Funding has evaluated subsequent events through May 24, 2012, which is the date the unaudited Financial Statements were available to be issued.

The unaudited Financial Statements should be read in conjunction with the financial statements and notes thereto included in Funding's audited Financial Statements for the year ended December 31, 2011.