



Northern Natural Gas Company

**Financial Statements as of and for the
Six-Month Period Ended June 30, 2013**

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

	As of	
	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 126,384	\$ 82,762
Accounts receivable, net	50,227	65,250
Accounts receivable from affiliates	3,196	7,376
Notes receivable from MEHC	230,000	230,000
Transportation and exchange gas receivables	2,360	6,374
Inventories	24,156	23,208
Other current assets	16,884	20,904
Total current assets	453,207	435,874
Property, plant and equipment, net	2,237,737	2,241,931
Regulatory assets	150,725	158,254
Other assets	42,591	42,448
Total assets	\$ 2,884,260	\$ 2,878,507
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 9,658	\$ 20,798
Accounts payable to affiliates	1,334	477
Accrued interest	13,114	13,626
Accrued property, income and other taxes	57,054	70,294
Transportation and exchange gas payables	3,059	5,873
Derivative contracts	7,580	8,082
Other current liabilities	33,802	28,329
Total current liabilities	125,601	147,479
Regulatory liabilities	19,151	18,619
Derivative contracts	56,535	60,967
Asset retirement obligations	37,009	36,333
Long-term debt	899,383	899,367
Deferred income taxes	436,389	408,641
Other long-term liabilities	15,987	17,390
Total liabilities	1,590,055	1,588,796
Commitments and contingencies (Notes 4 and 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	312,305	307,847
Accumulated other comprehensive income (loss), net	31	(5)
Total shareholder's equity	1,294,205	1,289,711
Total liabilities and shareholder's equity	\$ 2,884,260	\$ 2,878,507

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,	
	2013	2012
Operating revenue:		
Transportation	\$ 269,800	\$ 263,788
Storage	20,427	26,333
Gas, liquids and other sales	18,712	12,927
Total operating revenue	<u>308,939</u>	<u>303,048</u>
Operating costs and expenses:		
Operating and maintenance	80,545	76,389
Cost of gas and liquids sales	20,404	14,121
Depreciation and amortization	32,207	31,947
Amortization of regulatory assets	595	1,108
Taxes, other than income taxes	26,994	27,110
Total operating costs and expenses	<u>160,745</u>	<u>150,675</u>
Operating income	<u>148,194</u>	<u>152,373</u>
Other income (expense):		
Interest expense, net	(22,086)	(25,303)
Interest income	775	865
Other, net	13,537	1,398
Total other income (expense)	<u>(7,774)</u>	<u>(23,040)</u>
Income before income tax expense	140,420	129,333
Income tax expense	55,962	51,600
Net income	<u>\$ 84,458</u>	<u>\$ 77,733</u>

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

	Six-Month Periods Ended June 30,	
	2013	2012
Net income	\$ 84,458	\$ 77,733
Other comprehensive income -		
Unrealized gains on cash flow hedges, net of tax of \$24 and \$1,053	36	1,593
Comprehensive income	<u>\$ 84,494</u>	<u>\$ 79,326</u>

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

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss), net</u>	<u>Total</u>
Balance, December 31, 2011	\$ 1	\$ 981,868	\$ 294,132	\$ (1,596)	\$ 1,274,405
Net income	—	—	77,733	—	77,733
Other comprehensive income - cash flow hedges	—	—	—	1,593	1,593
Dividends on common stock	—	—	(121,000)	—	(121,000)
Balance, June 30, 2012	<u>\$ 1</u>	<u>\$ 981,868</u>	<u>\$ 250,865</u>	<u>\$ (3)</u>	<u>\$ 1,232,731</u>
Balance, December 31, 2012	\$ 1	\$ 981,868	\$ 307,847	\$ (5)	\$ 1,289,711
Net income	—	—	84,458	—	84,458
Other comprehensive income - cash flow hedges	—	—	—	36	36
Dividends on common stock	—	—	(80,000)	—	(80,000)
Balance, June 30, 2013	<u>\$ 1</u>	<u>\$ 981,868</u>	<u>\$ 312,305</u>	<u>\$ 31</u>	<u>\$ 1,294,205</u>

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,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 84,458	\$ 77,733
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	32,207	31,947
Amortization of regulatory assets	595	1,108
Amortization of deferred financing costs	153	401
Deferred income taxes	30,748	30,867
Other, net	4,658	3,680
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	25,243	26,692
Inventories	(949)	571
Accounts payable and other accrued liabilities	1,515	(1,055)
Gas balancing activities	(8,496)	6,155
Accrued property, income and other taxes	(13,240)	(35,695)
Net cash flows from operating activities	<u>156,892</u>	<u>142,404</u>
Cash flows from investing activities:		
Capital expenditures	(32,318)	(36,635)
Plant removal costs	(942)	(905)
Proceeds from sales of assets	—	72
Net cash flows from investing activities	<u>(33,260)</u>	<u>(37,468)</u>
Cash flows from financing activities:		
Dividends on common stock	(80,000)	(121,000)
Other	(10)	—
Net cash flows from financing activities	<u>(80,010)</u>	<u>(121,000)</u>
Net change in cash and cash equivalents	43,622	(16,064)
Cash and cash equivalents at beginning of period	82,762	60,916
Cash and cash equivalents at end of period	<u>\$ 126,384</u>	<u>\$ 44,852</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 subsidiary of MidAmerican Energy Holdings Company ("MEHC"), a holding company that owns subsidiaries principally engaged in the energy business. MEHC 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 southern Texas to Michigan's Upper Peninsula (the "System"). The System, which is interconnected with many interstate and intrastate pipelines in the national grid system, consists of two operationally integrated systems. 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 Company primarily transports and stores natural gas for utilities, municipalities, other pipeline companies, gas marketing companies, industrial and commercial users and other end-users. The System consists of 14,900 miles of natural gas pipelines, including 6,500 miles of mainline transmission pipelines and 8,400 miles of branch and lateral pipelines, with a Market Area design capacity of 5.5 billion cubic feet ("Bcf") per day and a Field Area delivery capacity of 2.0 Bcf per day to the Market Area. Additionally, the Company has three underground natural gas storage facilities and two liquefied natural gas storage peaking units that have a total firm service and operational storage cycle capacity of over 73 Bcf and over 2.0 Bcf per day of peak delivery capability. 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 0.9 trillion cubic feet of natural gas to its customers annually.

The Company has no subsidiaries. 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 June 30, 2013 and for the six-month periods ended June 30, 2013 and 2012. The results of operations for the six-month period ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through August 14, 2013, 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, 2012 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, 2013.

(2) New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-04, which amends FASB Accounting Standards Codification ("ASC") Topic 405, "Liabilities." The amendments in this guidance require an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the amount the reporting entity agreed to pay plus any additional amounts the reporting entity expects to pay on behalf of its co-obligor. Additionally, the guidance requires the entity to disclose the nature and amount of the obligation, as well as other information about those obligations. This guidance is effective for interim and annual reporting periods beginning after December 15, 2013. The Company is currently evaluating the impact of adopting this guidance on its Financial Statements.

In February 2013, the FASB issued ASU No. 2013-02, which amends FASB ASC Topic 220, "Comprehensive Income." The amendments in this guidance require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required by GAAP that provide additional detail about those amounts. The Company adopted this guidance on January 1, 2013. The adoption of this guidance did not have a material impact on the Company's disclosures included within Notes to Financial Statements.

In December 2011, the FASB issued ASU No. 2011-11, which amends FASB ASC Topic 210, "Balance Sheet." The amendments in this guidance require an entity to provide quantitative disclosures about offsetting financial instruments and derivative instruments. Additionally, this guidance requires qualitative and quantitative disclosures about master netting agreements or similar agreements when the financial instruments and derivative instruments are not offset. In January 2013, the FASB issued ASU No. 2013-01, which also amends FASB ASC Topic 210 to clarify that the scope of ASU No. 2011-11 only applies to derivative instruments, repurchase agreements, reverse purchase agreements and securities borrowing and securities lending transactions that are either being offset or are subject to an enforceable master netting arrangement or similar agreement. The Company adopted the guidance on January 1, 2013. The adoption of the guidance did not have a material impact on the Company's disclosures included within Notes to Financial Statements.

(3) Employee Benefit Plans

The Company is a participant in 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 and other postretirement plans were \$0.6 million for each of the six-month periods ended June 30, 2013 and 2012. As of June 30, 2013, the Company recorded an affiliate company payable included in other long-term liabilities relating to the pension plan and an affiliate company receivable included in other assets relating to the other postretirement plan of \$3.3 million and \$18.8 million, respectively. As of December 31, 2012, the Company recorded an affiliate company payable included in other long-term liabilities relating to the pension plan and an affiliate company receivable included in other assets relating to the other postretirement plan of \$3.5 million and \$18.1 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.

(4) Risk Management and Hedging Activities

The Company is exposed to the impact of market fluctuations in natural gas prices as supply and demand are impacted by, among many other unpredictable items, weather, market liquidity, customer usage, storage and transportation constraints. The Company does not engage in a material amount of proprietary trading activities.

The Company has established a risk management process that is designed to identify, assess, monitor, report, manage and mitigate each of the various types of risk involved in its business. To mitigate a portion of its natural gas price risk, the Company uses commodity derivative contracts generally at fixed prices to hedge natural gas for operational and preferred deferred delivery ("PDD") storage, fuel requirements and other transactions. The Company uses natural gas commodity swaps to hedge the margin on forecasted gas sales and purchases required for operational storage balancing purposes and to hedge the margin on anticipated future PDD storage contracts.

For certain designated markets, certain customers pay a fixed price of \$.09 per decatherm ("dth") of volumes delivered to purchase compressor fuel and system use gas from the Company. The Company estimates it will be required to purchase an annual average of 1.0 Bcf of natural gas through October 2022 to meet these requirements based on a projected average system requirements factor of 1.2% of volumes delivered. The Company's contracts with these customers provide service through October 2019, with annual renewal options for one customer to continue service through October 2022. As of June 30, 2013, the Company had purchased gas and entered into swap agreements covering more than the expected contractual requirements through October 2022.

Interest rate risk exists on future debt issuances. The Company manages its interest rate risk by limiting its exposure to variable interest rates primarily through the issuance of fixed-rate long-term debt and by monitoring market changes in interest rates. Additionally, the Company may from time to time enter into interest rate derivative contracts, such as interest rate swaps or locks, to mitigate the Company's exposure to interest rate risk. The Company does not hedge all of its commodity price and interest rate risks, thereby exposing the unhedged portion to changes in market prices.

There have been no significant changes in the Company's accounting policies related to derivatives. Refer to Note 5 for additional information on derivative contracts.

The following table, which reflects master netting arrangements and excludes contracts that have been designated as normal under the normal purchases or normal sales exception afforded by GAAP, summarizes the fair value of the Company's derivative contracts, on a gross basis, and reconciles those amounts to the amounts presented on a net basis on the Balance Sheets (in thousands):

	Derivative Assets		Derivative Liabilities		Total
	Current ⁽¹⁾	Noncurrent	Current	Noncurrent	
As of June 30, 2013					
Not designated as hedging contracts⁽²⁾:					
Commodity assets	\$ 86	\$ —	\$ 97	\$ 22	\$ 205
Commodity liabilities	(4)	—	(7,646)	(56,557)	(64,207)
Total	<u>82</u>	<u>—</u>	<u>(7,549)</u>	<u>(56,535)</u>	<u>(64,002)</u>
Designated as cash flow hedging contracts:					
Commodity assets	577	—	80	—	657
Commodity liabilities	(494)	—	(111)	—	(605)
Total	<u>83</u>	<u>—</u>	<u>(31)</u>	<u>—</u>	<u>52</u>
Total derivatives - net basis⁽³⁾	<u>\$ 165</u>	<u>\$ —</u>	<u>\$ (7,580)</u>	<u>\$ (56,535)</u>	<u>\$ (63,950)</u>
As of December 31, 2012					
Not designated as hedging contracts⁽²⁾:					
Commodity assets	\$ 226	\$ —	\$ 148	\$ —	\$ 374
Commodity liabilities	(2)	—	(8,230)	(60,967)	(69,199)
Total	<u>224</u>	<u>—</u>	<u>(8,082)</u>	<u>(60,967)</u>	<u>(68,825)</u>
Designated as cash flow hedging contracts:					
Commodity assets	496	—	—	—	496
Commodity liabilities	(504)	—	—	—	(504)
Total	<u>(8)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8)</u>
Total derivatives - net basis⁽³⁾	<u>\$ 216</u>	<u>\$ —</u>	<u>\$ (8,082)</u>	<u>\$ (60,967)</u>	<u>\$ (68,833)</u>

- (1) Current derivative assets are included in other current assets on the Balance Sheets.
- (2) The Company's commodity derivatives not designated as hedging contracts are generally included in regulated rates, and as of June 30, 2013 and December 31, 2012, a regulatory asset of \$64.0 million and \$68.8 million, respectively, was recorded related to the net derivative liability of \$64.0 million and \$68.8 million, respectively.
- (3) The net notional amounts of outstanding commodity derivative contracts with fixed price terms that comprise the mark-to-market values included above is 19 million dth of natural gas purchases as of both June 30, 2013 and December 31, 2012.

Not Designated as Hedging Contracts

The following table reconciles the beginning and ending balances of the Company's regulatory assets and summarizes the pre-tax gains and losses on commodity derivative contracts recognized in regulatory assets, as well as amounts reclassified to earnings for the six-month periods ended June 30 (in thousands):

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 68,825	\$ 63,907
Changes in fair value recognized in regulatory assets	(248)	14,125
Net gains reclassified to operating revenue	—	3,546
Net losses reclassified to cost of gas and liquids sales	(4,575)	(4,426)
Ending balance	<u>\$ 64,002</u>	<u>\$ 77,152</u>

Designated as Hedging Contracts

The following table reconciles the beginning and ending balances of the Company's accumulated other comprehensive (income) loss (pre-tax) and summarizes pre-tax gains and losses on commodity derivative contracts designated and qualifying as cash flow hedges recognized in other comprehensive income ("OCI"), as well as amounts reclassified to earnings for the six-month periods ended June 30 (in thousands):

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 8	\$ 2,651
Changes in fair value recognized in OCI	(35)	(2,646)
Net losses reclassified to operating revenue	(25)	—
Ending balance	<u>\$ (52)</u>	<u>\$ 5</u>

Realized gains and losses on hedges and hedge ineffectiveness are recognized on the Statements of Income as operating revenue or cost of gas and liquids sales depending upon the nature of the item being hedged. For each of the six-month periods ended June 30, 2013 and 2012, hedge ineffectiveness was insignificant. As of June 30, 2013, the Company had cash flow hedges with expiration dates extending through December 2013 and the pre-tax net unrealized gains forecasted to be reclassified from accumulated other comprehensive income into earnings over the next twelve months are insignificant.

Credit Risk

The Company extends unsecured credit to energy marketing companies, financial institutions and other market participants in conjunction with its derivative contracts. Credit risk relates to the risk of loss that might occur as a result of nonperformance by counterparties on their contractual obligations to make or take delivery of natural gas and to make financial settlements of these obligations. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances involving other market participants that have a direct or indirect relationship with the counterparty.

The Company analyzes the financial condition of each counterparty before entering into any transactions, 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 mitigate exposure to the financial risks of counterparties, the Company enters into netting arrangements that may include margining and may obtain third-party guarantees, letters of credit and cash deposits. Counterparties may be assessed fees for delayed payments. If required, the Company exercises rights under these arrangements, including calling on the counterparty's credit support arrangement.

Collateral and Contingent Features

In accordance with industry practice, certain derivative contracts contain provisions that require the Company to maintain specific credit ratings from one or more of the major credit rating agencies on its unsecured debt. These derivative contracts may either specifically provide bilateral rights to demand cash or other security if credit exposures on a net basis exceed specified rating-dependent threshold levels ("credit-risk-related contingent features"). These rights can vary by contract and by counterparty. As of June 30, 2013, the Company's credit ratings from the three recognized credit rating agencies were investment grade.

The aggregate fair value of the Company's derivative contracts in liability positions with specific credit-risk-related contingent features totaled \$64.8 million and \$69.7 million as of June 30, 2013 and December 31, 2012, respectively, for which the Company had not posted collateral. If all credit-risk-related contingent features for derivative contracts in liability positions had been triggered as of June 30, 2013 and December 31, 2012, the Company would have been required to post \$64.1 million and \$69.0 million, respectively, of collateral. The Company's collateral requirements could fluctuate considerably due to market price volatility, changes in credit ratings, changes in legislation or regulation, or other factors.

(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 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			Other ⁽¹⁾	Total
	Level 1	Level 2	Level 3		
<u>As of June 30, 2013</u>					
Assets:					
Commodity derivatives	\$ —	\$ 862	\$ —	\$ (697)	\$ 165
Money market mutual funds ⁽²⁾	142,224	—	—	—	142,224
	<u>\$ 142,224</u>	<u>\$ 862</u>	<u>\$ —</u>	<u>\$ (697)</u>	<u>\$ 142,389</u>
Liabilities - commodity derivatives	<u>\$ —</u>	<u>\$ (64,812)</u>	<u>\$ —</u>	<u>\$ 697</u>	<u>\$ (64,115)</u>
<u>As of December 31, 2012</u>					
Assets:					
Commodity derivatives	\$ —	\$ 870	\$ —	\$ (654)	\$ 216
Money market mutual funds ⁽²⁾	103,323	—	—	—	103,323
	<u>\$ 103,323</u>	<u>\$ 870</u>	<u>\$ —</u>	<u>\$ (654)</u>	<u>\$ 103,539</u>
Liabilities - commodity derivatives	<u>\$ —</u>	<u>\$ (69,703)</u>	<u>\$ —</u>	<u>\$ 654</u>	<u>\$ (69,049)</u>

- (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.

Derivative contracts are recorded on the Balance Sheets as either assets or liabilities and are stated at 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. Refer to Note 4 for further discussion regarding the Company's risk management and hedging activities.

The Company's investments in money market mutual funds are accounted for as available-for-sale securities and 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

In September 2012, an unplanned interruption of the Company's service occurred at a customer's location. The Company has received a draft report from the customer's third-party consultant alleging a potential loss of approximately \$20.0 million. The Company has accrued an estimated liability as of June 30, 2013 and believes the ultimate outcome will not be material to the Company's financial results.

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 has migrated from its former certificated storage field boundaries near Cunningham, Kansas and has been 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 has 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 has either acquired leases or purchased the property on 3,580 acres, or 29% 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. In June 2011, the Company filed a motion for preliminary injunction seeking access to the extension area to construct the facilities necessary to implement its containment plan to control the migrating storage gas. In March 2012, the federal district court judge issued an order granting the Company's motion for the preliminary injunction and required security in the form of a cash deposit of \$2.7 million and a bond of \$7.8 million, both of which were deposited with the federal district court by the Company. The federal district court established a three-person compensation commission in September 2012, to determine the value of the interests to be taken. In July 2013, the federal district court judge found the date of taking for the purpose of determining compensation to be March 30, 2012, the date the Company acquired access to the property. The Company and the defendants are in discovery and deposing witnesses.
- 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 ("District Court") for conversion, nuisance 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. Discovery has been stayed pending the outcome of the Kansas Supreme Court appeal discussed below.
- 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. In April 2010, the Pratt County State District Court granted the defendants' motion for summary judgment, finding that the Company does not have title to storage gas that has migrated beyond adjoining property. The Company appealed the decision to the Kansas Court of Appeals in April 2010, and the appeal was transferred to the Kansas Supreme Court at the Company's request. In March 2013, the Kansas Supreme Court determined that the Company lost

title to storage gas when it migrated and was produced beyond one mile of the storage field certificated boundaries. The case has been remanded for a determination of the Company's recovery of conversion damages from ONEOK and Lumen for storage gas produced after the June 2010 FERC order. In April 2013, the Company requested the Pratt County State District Court stay the matter pending further related proceedings. Also in April 2013, Nash and LD Drilling requested that proceeds held in suspense by ONEOK and Lumen for production before June 2010 be released. The Company has resisted the motion to release funds held in suspense. The Company filed an appeal with the United States Supreme Court in June 2013. A decision on the appeal is expected by October 2013.

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 on December 27, 2011, at the request of the Company. The actions had been stayed pending the outcome of the Kansas Supreme Court appeal discussed above. The case will likely remain stayed pending the outcome of the District Court action against the producers.

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.

(7) Other Related Party Transactions

The Company provided gas transportation, storage and other services to MEC totaling \$31.6 million and \$30.3 million for the six-month periods ended June 30, 2013 and 2012, 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 \$2.7 million and \$3.1 million for the six-month periods ended June 30, 2013 and 2012, respectively. MEC also provided electricity and other services to the Company of \$0.3 million and \$0.2 million for the six-month periods ended June 30, 2013 and 2012, respectively. The Company reimbursed MEC \$26.3 million and \$26.6 million for the six-month periods ended June 30, 2013 and 2012, respectively, for payroll, healthcare benefits and other benefit payments that MEC processed on behalf of the Company.

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 \$1.8 million and \$0.9 million for the six-month periods ended June 30, 2013 and 2012, respectively. Income tax transactions with MEHC resulted in net payments of \$33.6 million and \$53.2 million for the six-month periods ended June 30, 2013 and 2012, respectively.

As of June 30, 2013 and December 31, 2012, the Company had net accounts payable to MEHC and certain subsidiaries for intercompany transactions totaling \$1.3 million and \$0.5 million, respectively.

The Company provides certain administrative and management services, including executive, financial, commercial, regulatory and legal, to Kern River Gas Transmission Company ("Kern River"), an indirect wholly owned subsidiary of MEHC. The Company billed Kern River \$0.6 million for each of the six-month periods ended June 30, 2013 and 2012 for these services.

The Company provides risk management services to Kern River, pursuant to a service agreement dated August 1, 2008. The Company relinquishes all risks, liabilities, losses and profits associated with these risk

management services. For the six-month periods ended June 30, 2013 and 2012, the Company entered into insignificant risk management transactions that settled on behalf of Kern River.

BNSF Railway Company, an affiliate of the Company, provided contributions in aid of construction totaling \$- million and \$3.9 million for the six-month periods ended June 30, 2013 and 2012, respectively.

The Company possesses demand promissory notes from MEHC. The balance of the demand promissory notes as of both June 30, 2013 and December 31, 2012 was \$230.0 million. The notes bear interest rates at 30-day LIBOR plus a fixed per annum. Interest income of \$0.7 million and \$0.8 million was recorded for the six-month periods ended June 30, 2013 and 2012, respectively.

(8) Other, Net

The Company restructured a contract covering the period of July 2011 through March 2015 related to the ownership of condensate associated with previously owned assets. As a result, the Company recognized \$12.4 million of other income in the second quarter 2013.