



Kern River Gas Transmission Company
Guarantor

Kern River Funding Corporation
Issuer

Financial Statements and Officer's Certificate

As of and for the Quarterly Period Ended March 31, 2014

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OFFICER'S CERTIFICATE

I, the undersigned, Joseph Lillo, Vice President, Finance, 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, 2014 and December 31, 2013, and the statements of income, comprehensive income, changes in partners' capital and cash flows for the three-month periods ended March 31, 2014 and 2013, 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, 2014 and December 31, 2013, 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.



Joseph Lillo
Vice President, Finance

Omaha, Nebraska
May 23, 2014

Kern River Gas Transmission Company

Financial Statements - Regulatory Basis

As of and for the Quarterly Period Ended March 31, 2014

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 2014 and 2013

Operating revenue decreased \$7.6 million for the first quarter of 2014 compared to 2013 primarily due to contract expirations with capacity being sold at lower rates due to the step down expiration of initial contracts.

Operation and maintenance increased \$0.5 million for the first quarter of 2014 compared to 2013 primarily due to higher pipeline inspection and maintenance costs.

Total depreciation and amortization, including regulatory debits and credits, decreased \$1.6 million for the first quarter of 2014 compared to 2013 due to changes in levelized depreciation.

Total income tax expense decreased \$1.8 million for the first quarter of 2014 compared to 2013 due to lower income before income tax expense.

Interest on long-term notes payable to subsidiary decreased \$1.1 million for the first quarter of 2014 compared to 2013 due to the scheduled repayments of the principal outstanding on long-term notes payable to subsidiary.

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 \$23.6 million as of March 31, 2014 and \$9.9 million as of December 31, 2013.

Net cash flows from operating activities for the first quarter of 2014 was \$70.0 million and for the first quarter of 2013 was \$75.0 million. The change was due to lower revenue collections and timing of interest payments, partially offset by lower income tax payments.

Net cash flows from investing activities for the first quarter of 2014 was \$(3.0) million and for the first quarter of 2013 was \$(10.0) million. The change was due to the timing of compressor engine exchanges.

Capital expenditures, net of salvage proceeds and excluding non-cash investing transactions such as allowance for other funds used during construction and payables, are expected to be \$27.6 million for the year ended December 31, 2014. 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 2014 was \$(53.4) million and for the first quarter of 2013 was \$(72.3) million. The change was due to lower distributions to partners of \$26.0 million, partially offset by higher repayments of long-term notes payable to subsidiary of \$7.1 million.

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

| | As of | |
|--|---------------------|----------------------|
| | March 31, 2014 | December 31, 2013 |
| ASSETS | | |
| Utility plant, net | \$ 1,742,206 | \$ 1,758,873 |
| Other property and investments | 44,834 | 44,750 |
| Current and accrued assets: | | |
| Cash and cash equivalents | 23,632 | 9,900 |
| Customer accounts receivable | 29,428 | 30,747 |
| Other accounts receivable, net | 71 | 23 |
| Transportation and exchange gas receivables | 5,839 | 1,633 |
| Plant materials and operating supplies | 10,068 | 10,059 |
| Other current and accrued assets | 2,807 | 2,923 |
| Total current and accrued assets | <u>71,845</u> | <u>55,285</u> |
| Deferred debits: | | |
| Deferred income taxes | 126,580 | 127,810 |
| Regulatory assets | 83,290 | 86,004 |
| Other deferred debits | 4,803 | 5,368 |
| Total assets | <u>\$ 2,073,558</u> | <u>\$ 2,078,090</u> |
| PARTNERS' CAPITAL AND LIABILITIES | | |
| Partners' capital: | | |
| Contributed capital | \$ 897,871 | \$ 897,871 |
| Accumulated deficit | (78,885) | (67,966) |
| Accumulated other comprehensive income (loss), net | 408 | (1,006) |
| Total partners' capital | <u>819,394</u> | <u>828,899</u> |
| Long-term notes payable to subsidiary - less current portion | 445,371 | 466,706 |
| Other non-current liabilities | 16 | 16 |
| Current and accrued liabilities: | | |
| Current portion of long-term notes payable to subsidiary | 82,396 | 81,414 |
| Accounts payable | 5,435 | 3,912 |
| Customer deposits | 41,740 | 41,893 |
| Income taxes payable | 15,260 | 4,623 |
| Accrued interest | 969 | 992 |
| Accrued property and other taxes | 6,612 | 3,405 |
| Other current and accrued liabilities | 8,055 | 4,971 |
| Total current and accrued liabilities | <u>160,467</u> | <u>141,210</u> |
| Deferred credits: | | |
| Deferred income taxes | 506,201 | 503,686 |
| Regulatory liabilities | 142,109 | 136,288 |
| Other deferred credits | — | 1,285 |
| Total liabilities | <u>1,254,164</u> | <u>1,249,191</u> |
| Total partners' capital and liabilities | <u>\$ 2,073,558</u> | <u>\$ 2,078,090</u> |

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, | |
| | 2014 | 2013 |
| Operating revenue - transportation | \$ 86,371 | \$ 94,014 |
| Operating costs and expenses: | | |
| Operation and maintenance | 8,667 | 8,241 |
| Depreciation and amortization | 21,402 | 21,240 |
| Regulatory debits and credits, net | 8,078 | 9,946 |
| Property and other taxes | 4,372 | 4,639 |
| Income tax expense | 13,719 | 15,564 |
| Total operating costs and expenses | <u>56,238</u> | <u>59,630</u> |
| Operating income | <u>30,133</u> | <u>34,384</u> |
| Other income (expense): | | |
| Interest income | 1 | 1 |
| Allowance for other funds used during construction | 25 | 48 |
| Other, net | 173 | (7) |
| Income tax expense | (80) | (21) |
| Total other income (expense) | <u>119</u> | <u>21</u> |
| Interest charges: | | |
| Interest on long-term notes payable to subsidiary | 7,489 | 8,600 |
| Amortization of deferred financing costs | 565 | 652 |
| Miscellaneous interest expense | 126 | 216 |
| Allowance for borrowed funds used during construction | (9) | (19) |
| Total interest charges | <u>8,171</u> | <u>9,449</u> |
| Net income | <u>\$ 22,081</u> | <u>\$ 24,956</u> |

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, | |
| | 2014 | 2013 |
| Net income | \$ 22,081 | \$ 24,956 |
| Other comprehensive income - | | |
| Changes in fair value on cash flow hedges, net of tax of \$882 and \$34 | 1,414 | 52 |
| Comprehensive income | \$ 23,495 | \$ 25,008 |

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)

| | <u>Contributed Capital</u> | <u>Accumulated Deficit</u> | <u>Accumulated Other Comprehensive Income (Loss), Net</u> | <u>Total Partners' Capital</u> |
|---|--------------------------------|--------------------------------|---|--|
| Balance, December 31, 2012 | \$ 893,871 | \$ (14,276) | \$ (31) | \$ 879,564 |
| Net income | — | 24,956 | — | 24,956 |
| Other comprehensive income - cash flow hedges | — | — | 52 | 52 |
| Distributions to partners | — | (59,000) | — | (59,000) |
| Other equity transaction | — | (50) | — | (50) |
| Balance, March 31, 2013 | <u>\$ 893,871</u> | <u>\$ (48,370)</u> | <u>\$ 21</u> | <u>\$ 845,522</u> |
| Balance, December 31, 2013 | \$ 897,871 | \$ (67,966) | \$ (1,006) | \$ 828,899 |
| Net income | — | 22,081 | — | 22,081 |
| Other comprehensive income - cash flow hedges | — | — | 1,414 | 1,414 |
| Distributions to partners | — | (33,000) | — | (33,000) |
| Balance, March 31, 2014 | <u>\$ 897,871</u> | <u>\$ (78,885)</u> | <u>\$ 408</u> | <u>\$ 819,394</u> |

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, | |
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$ 22,081 | \$ 24,956 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and depletion | 21,402 | 21,240 |
| Amortization | 9,077 | 11,153 |
| Allowance for other funds used during construction | (25) | (48) |
| Deferred income taxes, net | 2,855 | 4,775 |
| Receivables | 1,269 | 2,148 |
| Plant materials and operating supplies | (9) | (342) |
| Payables and accrued expenses | 13,129 | 10,771 |
| Other regulatory assets | (21) | (9) |
| Other regulatory liabilities | (31) | (27) |
| Other, net | 313 | 398 |
| Net cash flows from operating activities | <u>70,040</u> | <u>75,015</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (2,955) | (10,005) |
| Net cash flows from investing activities | <u>(2,955)</u> | <u>(10,005)</u> |
| Cash flows from financing activities: | | |
| Repayments of long-term notes payable to subsidiary | (20,353) | (13,290) |
| Distributions to partners | (33,000) | (59,000) |
| Net cash flows from financing activities | <u>(53,353)</u> | <u>(72,290)</u> |
| Net change in cash and cash equivalents | 13,732 | (7,280) |
| Cash and cash equivalents at beginning of period | 9,900 | 45,867 |
| Cash and cash equivalents at end of period | <u>\$ 23,632</u> | <u>\$ 38,587</u> |

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 Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy"), formerly known as MidAmerican Energy Holdings Company, a holding company that owns subsidiaries principally engaged in the energy business. Berkshire Hathaway Energy is a consolidated subsidiary of Berkshire Hathaway Inc. 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") 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 unaudited 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 ("GAAP"), 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 unaudited 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, 2014 and for the three-month periods ended March 31, 2014 and 2013. The results of operations for the three-month period ended March 31, 2014 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through May 23, 2014, which is the date the unaudited 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 unaudited 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, 2013 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, 2014.

(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 adopted this guidance on January 1, 2014. 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 initial long-term contracts ("Period One rates") and required that rates be established based on a levelized rate design for eligible customers that elect to take service following the expiration of their initial contracts ("Period Two rates"). In November 2010, the FERC issued an order that established the Company is entitled to base its Period Two rates on a 100% equity capital structure.

In July 2011, the FERC issued an order requiring, among other things, that Period Two rates be based on a return on equity of 11.55% and a levelization period that coincides with a contract length of 10 or 15 years. The Company filed 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 filing. In February 2013, the FERC issued an order that denied the requests for rehearing regarding its previous orders on Period Two rates.

In December 2013, the Company filed its notice of appeal with the United States Court of Appeals for the District of Columbia. The Company appealed the effective date of the final order for purposes of refunds and the denial of allowing a modification to Period One rates related to the rolled in shipper group rate credit. The shipper group has appealed the appropriate rate of return to be utilized in designing Period Two rates in conjunction with the use of a 100% equity capital structure. The court has established a briefing schedule and oral argument is expected to be in the second quarter of 2015.

(4) Employee Benefit Plans

The Company is a participant in benefit plans sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly owned subsidiary of Berkshire Hathaway Energy. 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 \$0.2 million and \$0.3 million for the three-month periods ended March 31, 2014 and 2013, respectively. As of March 31, 2014 and December 31, 2013, the Company recorded in other property and investments its portion of the over funded status of the pension and other postretirement plans of \$3.4 million. Amounts attributable to the Company were allocated from MEC to the Company in accordance with the intercompany administrative service agreement. Offsetting regulatory liabilities have been recorded related to the amounts not yet recognized as a component of net periodic benefit costs that will be included in regulated rates.

(5) Fair Value Measurements

The carrying value of cash, certain cash equivalents, receivables, payables and accrued liabilities approximates fair value because of the short-term maturity of these instruments. 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 \$65.7 million and \$52.0 million as of March 31, 2014 and December 31, 2013, 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.

(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

Berkshire Hathaway Energy provides certain administrative and management services, including executive, financial, legal, and tax, to the Company. Expenses incurred by Berkshire Hathaway Energy and billed to the Company are based on the individual services and expense items provided and were \$- million and \$0.1 million for the three-month periods ended March 31, 2014 and 2013, respectively. Income tax transactions with Berkshire Hathaway Energy resulted in net payments of \$- million and \$5.6 million for the

three-month periods ended March 31, 2014 and 2013, 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 \$0.4 million and \$0.1 million for the three-month periods ended March 31, 2014 and 2013, respectively.

Northern Natural Gas Company ("Northern"), an indirect wholly owned subsidiary of Berkshire Hathaway Energy, provides certain administrative and management services, including executive, financial, regulatory, legal, commercial and tax, to the Company. The Company was billed \$0.3 million for each of the three-month periods ended March 31, 2014 and 2013 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, 2014 and 2013, Northern did not enter into any specific risk management transactions that settled on behalf of the Company.

As of March 31, 2014 and December 31, 2013, the Company had net accounts payable to Berkshire Hathaway Energy and certain subsidiaries for intercompany transactions totaling \$0.4 million and \$0.6 million, respectively, which is reflected in accounts payable on the Balance Sheets - Regulatory Basis.

The Company provided natural gas transportation and other services to PacifiCorp, an indirect subsidiary of Berkshire Hathaway Energy, of \$0.8 million for each of the three-month periods ended March 31, 2014 and 2013. PacifiCorp provided electricity and other services to the Company of \$0.2 million for each of the three-month periods ended March 31, 2014 and 2013. 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 insignificant for each of the three-month periods ended March 31, 2014 and 2013. As of March 31, 2014 and December 31, 2013, 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.

The Company provided natural gas transportation and other services to Nevada Power Company ("Nevada Power"), an indirect wholly owned subsidiary of Berkshire Hathaway Energy, of \$15.4 million for each of the three-month periods ended March 31, 2014 and 2013. Nevada Power provided electricity and other services to the Company, which were insignificant for each of the three-month periods ended March 31, 2014 and 2013. As of March 31, 2014 and December 31, 2013, the Company had net accounts receivable from Nevada Power for intercompany transactions totaling \$5.3 million, which is reflected in customer accounts receivable on the Balance Sheets - Regulatory Basis.

(8) Subsequent Event

Subsequent to March 31, 2014, the Company distributed to its partners \$14.0 million in April 2014.

Kern River Funding Corporation

Financial Statements

As of and for the Quarterly Period Ended March 31, 2014

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

| | As of | |
|--|-------------------|----------------------|
| | March 31, 2014 | December 31, 2013 |
| ASSETS | | |
| Current assets: | | |
| Receivable due from parent | \$ 1 | \$ 1 |
| Current portion of long-term notes receivable from parent | 82,396 | 81,414 |
| Total current assets | 82,397 | 81,415 |
| Long-term notes receivable from parent | 445,371 | 466,706 |
| Total assets | \$ 527,768 | \$ 548,121 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| Current liabilities- | | |
| Current portion of long-term notes payable | \$ 82,396 | \$ 81,414 |
| Long-term notes payable | 445,371 | 466,706 |
| Total liabilities | 527,767 | 548,120 |
| Shareholder's equity- | | |
| Common stock, \$1 par value, 1,000 shares authorized, issued and outstanding | 1 | 1 |
| Total liabilities and shareholder's equity | \$ 527,768 | \$ 548,121 |

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, | |
|---|--|--------------|
| | 2014 | 2013 |
| Revenues from long-term note receivable from parent | \$ 7,489 | \$ 8,600 |
| Interest expense on long-term notes payable | <u>7,489</u> | <u>8,600</u> |
| Net income | <u>\$ —</u> | <u>\$ —</u> |

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, | |
|--|--|----------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$ — | \$ — |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Net change in receivable due from parent | — | (2,836) |
| Net change in accrued interest | — | 2,836 |
| Net cash flows from operating activities | — | — |
| Cash flows from financing activities: | | |
| Proceeds received on long-term notes receivable from parent | 20,353 | 13,290 |
| Repayments of long-term notes payable | (20,353) | (13,290) |
| 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 unaudited Financial Statements as of March 31, 2014 and for the three-month periods ended March 31, 2014 and 2013. Funding has evaluated subsequent events through May 23, 2014, 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, 2013.