Kern River Gas Transmission Company

Guarantor

Kern River Funding Corporation

Issuer

Financial Statements and Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

TABLE OF CONTENTS

Kern River Gas Transmission Company

Kern River Funding Corporation

Kern River Gas Transmission Company

Financial Statements - Regulatory Basis

As of and for the Years Ended December 31, 2014 and 2013

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 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 Years Ended December 31, 2014 and 2013

Operating revenue decreased $4.8 million for 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, partially offset by higher market-oriented rates.

Operation and maintenance increased $8.2 million for 2014 compared to 2013 primarily due to higher in-line inspection costs and higher salaries and wages.

Total depreciation and amortization, including regulatory debits and credits, increased $4.0 million for 2014 compared to 2013 due to changes in levelized depreciation.

Property and other taxes decreased $1.1 million for 2014 compared to 2013 due to lower property tax assessments.

Total income tax expense decreased $3.8 million for 2014 compared to 2013 due to lower income before income tax expense.

Interest on long-term notes payable to subsidiary decreased $4.4 million for 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 $26.2 million as of December 31, 2014 and $9.9 million as of December 31, 2013.

Net cash flows from operating activities for the year ended December 31, 2014 was $214.0 million and for the year ended December 31, 2013 was $219.9 million. The decrease was due to higher operations and maintenance payments, lower revenue collections and higher affiliate and benefit costs, partially offset by lower income tax payments, lower interest payments due to declining principal balances and lower property tax payments.

Net cash flows from investing activities for the year ended December 31, 2014 was $(18.3) million and for the year ended December 31, 2013 was $(34.1) million. The change was due to lower capital expenditures on compressor engine exchanges, the Apex Expansion project, the 2010 Expansion project and other operating projects, partially offset by higher pipeline integrity projects.

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 $35.7 million for the year ended December 31, 2015. 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 year ended December 31, 2014 was $(179.4) million and for the year ended December 31, 2013 was $(221.7) million. The change was due to lower distributions to partners of $48.0 million, partially offset by a contribution from partners of $4.0 million in 2013 and higher repayments of long-term notes payable to subsidiary of $1.7 million.

Deloitte & Touche LLP
First National Tower
1601 Dodge Street, Ste. 3100
Omaha, NE 68102-1649
USA

Tel: +1 402 346 7788
Fax: +1 402 997 7875
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Partners of
Kern River Gas Transmission Company
Salt Lake City, Utah

We have audited the accompanying financial statements of Kern River Gas Transmission Company (the "Company"), which comprise of the balance sheets — regulatory basis as of December 31, 2014 and 2013, and the related statements of income – regulatory basis, comprehensive income – regulatory basis, changes in partners' capital – regulatory basis and cash flows – regulatory basis for the years then ended, and the related notes to the financial statements – regulatory basis.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the regulatory-basis financial statements referred to above present fairly, in all material respects, the assets, liabilities and partners' capital of Kern River Gas Transmission Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

Basis of Accounting

As discussed in Note 2 to the financial statements, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

April 17, 2015

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

	As of December 31, 2014	As of December 31, 2013
ASSETS		
Utility plant, net	$ 1,691,899	$ 1,758,873
Other property and investments	35,744	44,750
Current and accrued assets:		
Cash and cash equivalents	26,238	9,900
Customer accounts receivable	32,733	30,747
Other accounts receivable, net	233	23
Transportation and exchange gas receivables	1,694	1,633
Plant materials and operating supplies	10,396	10,059
Other current and accrued assets	3,363	2,923
Total current and accrued assets	74,657	55,285
Deferred debits:		
Deferred income taxes	119,998	127,810
Regulatory assets	76,021	86,004
Other deferred debits	5,380	5,368
Total assets	$ 2,003,699	$ 2,078,090
PARTNERS' CAPITAL AND LIABILITIES		
Partners' capital:		
Accumulated capital	$ 817,502	$ 829,905
Accumulated other comprehensive income (loss), net	377	(1,006)
Total partners' capital	817,879	828,899
Long-term notes payable to subsidiary - less current portion	381,366	466,706
Other non-current liabilities	471	16
Current and accrued liabilities:		
Current portion of long-term notes payable to subsidiary	85,340	81,414
Accounts payable	7,381	3,912
Customer deposits	33,203	41,893
Income taxes payable	692	4,623
Accrued interest	91	992
Accrued property and other taxes	3,333	3,405
Other current and accrued liabilities	3,583	4,971
Total current and accrued liabilities	133,623	141,210
Deferred credits:		
Deferred income taxes	510,660	503,686
Regulatory liabilities	159,700	136,288
Other deferred credits	—	1,285
Total liabilities	1,185,820	1,249,191
Total partners' capital and liabilities	$ 2,003,699	$ 2,078,090

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

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

	Years Ended December 31, 2014	Years Ended December 31, 2013
Operating revenue - transportation	$ 354,256	$ 359,057
Operating costs and expenses:		
Operation and maintenance	48,356	40,169
Depreciation and amortization	85,857	84,828
Regulatory debits and credits, net	34,065	31,216
Property and other taxes	16,240	17,326
Income tax expense	53,737	57,384
Total operating costs and expenses	238,255	230,923
Operating income	116,001	128,134
Other income (expense):		
Interest income	893	11
Allowance for other funds used during construction	79	110
Other, net	185	292
Income tax expense	(123)	(183)
Total other income (expense)	1,034	230
Interest charges:		
Interest on long-term notes payable to subsidiary	28,261	32,735
Amortization of deferred financing costs	2,132	2,478
Miscellaneous interest expense	1,074	835
Allowance for borrowed funds used during construction	(29)	(44)
Total interest charges	31,438	36,004
Net income	$ 85,597	$ 92,360

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

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

	Years Ended December 31,	
	2014	**2013**
Net income	$ 85,597	$ 92,360
Other comprehensive income (loss) -		
Unrealized gains (losses) on cash flow hedges, net of tax of $863 and $(608)	1,383	(975)
Comprehensive income	$ 86,980	$ 91,385

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

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

	Accumulated Capital	Accumulated Other Comprehensive (Loss) Income, Net	Total Partners' Capital
Balance, December 31, 2012	$ 879,595	$ (31)	$ 879,564
Net income	92,360	—	92,360
Other comprehensive loss, net - cash flow hedges	—	(975)	(975)
Distributions to partners	(146,000)	—	(146,000)
Contributions from partners	4,000	—	4,000
Other equity transaction	(50)	—	(50)
Balance, December 31, 2013	829,905	(1,006)	828,899
Net income	85,597	—	85,597
Other comprehensive income, net - cash flow hedges	—	1,383	1,383
Distributions to partners	(98,000)	—	(98,000)
Balance, December 31, 2014	$ 817,502	$ 377	$ 817,879

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

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

	Years Ended December 31, 2014	Years Ended December 31, 2013
Cash flows from operating activities:		
Net income	$ 85,597	$ 92,360
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and depletion	85,857	84,828
Amortization	37,932	35,806
Allowance for other funds used during construction	(79)	(110)
Deferred income taxes, net	13,945	10,305
Receivables	(2,181)	3,065
Plant materials and operating supplies	(337)	(227)
Payables and accrued expenses	(5,376)	(5,041)
Other regulatory assets	(806)	(553)
Other regulatory liabilities	(125)	(172)
Other, net	(402)	(396)
Net cash flows from operating activities	214,025	219,865
Cash flows from investing activities:		
Capital expenditures	(18,273)	(34,522)
Decrease in restricted cash	—	432
Net cash flows from investing activities	(18,273)	(34,090)
Cash flows from financing activities:		
Repayments of long-term notes payable to subsidiary	(81,414)	(79,742)
Distributions to partners	(98,000)	(146,000)
Contributions from partners	—	4,000
Net cash flows from financing activities	(179,414)	(221,742)
Net change in cash and cash equivalents	16,338	(35,967)
Cash and cash equivalents at beginning of period	9,900	45,867
Cash and cash equivalents at end of period	$ 26,238	$ 9,900
Supplemental disclosures:		
Interest paid, net of amounts capitalized	$ 28,232	$ 32,691
Income taxes paid	$ 46,946	$ 52,712
Non-cash investing transactions - accruals related to utility plant additions	$ 3,189	$ 2,658

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

(1) Organization and Operations

Kern River Gas Transmission Company (the "Company") is an indirect wholly owned subsidiary of Berkshire Hathaway Energy Company ("BHE"), a holding company that owns subsidiaries principally engaged in the energy business. BHE 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") 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.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The 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 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 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 amounts in the prior year Statements of Changes in Partners' Capital - Regulatory Basis have been combined to conform to the current period presentation. These changes did not impact the total of previously reported retained deficit and partners' capital. The Company has evaluated subsequent events through April 17, 2015, which is the date the Financial Statements - Regulatory Basis were available to be issued.

Use of Estimates in Preparation of Financial Statements

The preparation of the 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. These estimates include, but are not limited to, the effects of regulation; income taxes; the recovery of long-lived assets; and accounting for contingencies. Actual results may differ from the estimates used in preparing the Financial Statements - Regulatory Basis.

Accounting for the Effects of Certain Types of Regulation

The Company prepares its Financial Statements in accordance with authoritative guidance for regulated operations, which recognizes the economic effects of regulation. Accordingly, the Company is required to defer the recognition of certain costs or income if it is probable that, through the ratemaking process, there will be a corresponding increase or decrease in future regulated rates. Regulatory assets and liabilities are established to reflect the impacts of these deferrals and are recognized in earnings as they are recovered in regulated rates.

The Company's rates for transportation service are primarily derived on the basis of a levelized cost-of-service. In the FERC orders certificating the Company's original system and subsequent expansions, the FERC approved depreciation expense schedules designed to maintain a constant total cost-of-service over the initial contract terms ("Period One") or the period eligible customers elect to take service upon the expiration of the Period One contracts ("Period Two"). Rather than recovering plant costs through the depreciation allowance in rates on a straight-line basis, the Company's annual depreciation recovery in rates increases as the return on equity, interest expense and income taxes decrease, to obtain a constant or level cost-of-service. Because application of a straight-line depreciation rate to the Company's plant investment would result in substantial depreciation expense in the Company's early years of service, the effect of levelization has been to transfer some portion of the Company's cost recovery from the early years to the later years of the customers' initial contract terms. The cumulative difference between the composite or straight-line method described above and the plant cost recovered through levelized depreciation is recorded as a regulatory asset or liability to be recovered or returned in future years. Refer to Note 4 of Notes to Financial Statements - Regulatory Basis for additional information regarding regulatory matters and the Company's levelized rates.

The Company continually evaluates the applicability of the guidance for regulated operations and whether its regulatory assets and liabilities are probable of inclusion in future regulated rates by considering factors such as a change in the regulator's approach to setting regulated rates from cost-based ratemaking to another form of regulation, other regulatory actions or the impact of competition that could limit the Company's ability to recover its costs. The Company believes the application of the guidance for regulated operations is appropriate and its existing regulatory assets and liabilities are probable of inclusion in future regulated rates. The evaluation reflects the current political and regulatory climate at the federal level. If it becomes no longer probable that the deferred costs or income will be included in future regulated rates, the related regulatory assets and liabilities will be written-off to net income, returned to customers, or re-established as accumulated other comprehensive (loss) income ("AOCI").

Cash Equivalents and Restricted Cash

Cash equivalents consist of funds invested in securities with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by legal requirements, loan agreements or other contractual provisions. Restricted amounts are included in other property and investments and other current and accrued assets on the Balance Sheets - Regulatory Basis.

Allowance for Doubtful Accounts

Receivables are stated at the outstanding principal amount, net of an estimated allowance for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectability of amounts owed to the Company by its customers. This assessment requires judgment regarding the ability of customers to pay or the outcome of any pending disputes. As of December 31, 2014 and 2013, there was no significant allowance for doubtful accounts.

Transportation Imbalances

Shippers schedule their volumes into the Company's system with subsequent deliveries to various markets. Imbalance receivables and payables are created when shipper's receipts to the system vary from shipper's deliveries off the system, excluding quantities retained by the pipeline for compressor fuel and lost and unaccounted for gas. Receipts and deliveries from third parties in connection with operational balancing contracts also result in imbalances. At the end of each month, imbalances are valued at current market prices and recorded as transportation and exchange gas receivables or liabilities within other current and accrued liabilities on the Balance Sheets - Regulatory Basis with offsetting entries to operation and maintenance on the Statements of Income - Regulatory Basis. Settlement of imbalances occurs in accordance with the Company's FERC tariff, the terms of the contracts and the timing of natural gas deliveries based on the Company's operational conditions.

Plant Materials and Supplies

Plant materials and supplies consist mainly of replacement parts used in the periodic overhaul of gas compressor units and materials for construction, operation and maintenance and are stated at average cost, except for compressor engines which are stated at historical cost.

Utility Plant, Net

General

Additions to utility plant are recorded at cost. The Company capitalizes all construction-related material, direct labor and contract services, as well as indirect construction costs, which include debt and equity allowance for funds used during construction ("AFUDC") on rate base assets. The cost of additions and betterments are capitalized, while costs incurred that do not improve or extend the useful lives of the related assets are generally expensed. The Company is permitted to earn a return on the cost of its rate base assets as well as recover these costs through depreciation expense over the useful lives of the assets.

Depreciation and amortization are generally computed by applying the composite or straight-line method based on either estimated useful lives or mandated recovery periods as prescribed by the FERC. Under the composite method when utility plant is retired, the original cost of the property retired is charged to accumulated depreciation and amortization, net of salvage and removal costs. For general plant, the original cost of the property retired is charged to accumulated depreciation and amortization at the end of the depreciable lives of the asset vintages. Retirement gains or losses are not included in income except in the case of sales of operating units.

The Company capitalizes AFUDC, which represents the cost of debt and equity funds necessary to finance the construction of regulated facilities, as a component of utility plant, with offsetting credits to the Statements of Income - Regulatory Basis. AFUDC is computed based on guidelines set forth by the FERC.

Line Pack Gas

Line pack gas is accounted for utilizing the fixed asset accounting method as prescribed by the FERC. Under this approach, line pack gas volumes are classified as utility plant, net and valued at cost. In addition, line pack is classified as either recoverable or non-recoverable. Non-recoverable line pack is depreciated while recoverable line pack is not depreciated.

Asset Retirement Obligations

The Company recognizes asset retirement obligations ("AROs") when it has a legal obligation to remove or abandon-in-place an asset upon retirement. The Company's AROs are primarily related to the retirement of long-lived assets that result from the acquisition, construction, development or normal use of assets. The fair value of an ARO liability is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made, and is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset. The Company has concluded that it is legally obligated to remove, or abandon-in-place, its pipeline and related equipment upon the final retirement of the pipeline. While interim removal or abandonment-in-place and replacement of such equipment is probable, the final retirement dates of these assets are not determinable, and therefore, the liabilities for their removal cannot be reasonably estimated.

Negative Salvage

Negative salvage is the amount recovered in transportation rates for the estimated removal cost after salvage proceeds at the time the asset is removed from service. The Company recognizes a negative salvage reserve for final abandonment and removal of its gas transmission system in accumulated depreciation and amortization and, as of December 31, 2014 and 2013, the balance of this reserve was $28.6 million and $25.5 million, respectively. The annual negative salvage allowance, which is 0.12% of transmission plant and is reflected in depreciation and amortization on the Statements of Income - Regulatory Basis, was $3.1 million for each of the years ended December 31, 2014 and 2013.

Impairment

The Company evaluates long-lived assets for impairment, including utility plant, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable, or the assets are being held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus the residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated fair value and any resulting impairment loss is reflected on the Statements of Income - Regulatory Basis. The impacts of regulation are considered when evaluating rate base assets. There were no impairments for the years ended December 31, 2014 and 2013.

Revenue Recognition

Revenue from customers is recognized as natural gas is delivered or transportation services are provided. Approximately 94% of the Company's transportation revenue is from fixed reservation charges based on contractual quantities and rates regulated by the FERC. The remaining revenue is from market-oriented transportation charges, commodity charges, or facility charges. Market-oriented transportation is sold at market-indexed, discounted or negotiated rates. The rates are applied to scheduled quantities for commodity and market-oriented transportation. Differences between scheduled quantities and actual measured quantities are reflected on transportation or balancing agreements during the month in which transportation service is provided and are not material.

The Company is subject to FERC regulations and, accordingly, certain revenue collected may be subject to refund upon final FERC orders in pending regulated rate proceedings. The Company may record revenue that is subject to refund based on its best estimates of the final outcomes of such proceedings and other third party regulatory proceedings, advice of counsel and estimated total exposure, as well as collection and other risks. Estimates of any refunds are included as provision for rate refunds on the Balance Sheets - Regulatory Basis.

Unamortized Financing Costs

Financing costs incurred for the issuance of long-term debt are included as a component of approved rates and are amortized over the term of the related financing based on the percentage of debt principal retired each year, as prescribed by the FERC. The unamortized balance of debt issuance costs as of December 31, 2014 and 2013 was $2.9 million and $5.0 million, respectively, and is included in other deferred debits on the Balance Sheets - Regulatory Basis.

Income Taxes

Berkshire Hathaway includes BHE and its subsidiaries in its United States federal income tax return. Consistent with established regulatory practice, the Company's provision for income taxes has been computed for each of the shipper groups comprising the Company as if each were a distinct entity not included as a member of a consolidated tax return. Substantially all of the Company's respective currently payable or receivable income taxes are remitted to or received from BHE.

Deferred income tax assets and liabilities are based on differences between the financial statement and income tax basis of assets and liabilities by shipper group using estimated income tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in deferred income tax assets and liabilities that are associated with the components of other comprehensive income are charged or credited directly to other comprehensive income. Other changes in deferred income tax assets and liabilities are included as a component of income tax expense. Valuation allowances are established for certain deferred income tax assets where realization is not likely.

In determining the Company's income taxes, management is required to interpret complex income tax laws and regulations. The Company's income tax returns are subject to continuous examinations by federal, state and local income tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Company recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Financial Statements - Regulatory Basis from such a position are measured based on the largest benefit that is more-likely-than-not of being realized upon ultimate settlement. Although the ultimate resolution of the Company's federal, state and local income tax examinations is uncertain, the Company believes it has made adequate provisions for these income tax positions. The aggregate amount of any additional income tax liabilities that may result from these examinations, if any, is not expected to have a material adverse impact on the Company's financial results. The Company's unrecognized tax benefits are included in income taxes payable on the Balance Sheets - Regulatory Basis. Estimated interest and penalties, if any, related to uncertain tax positions are included as miscellaneous interest expense on the Statements of Income - Regulatory Basis.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, which creates FASB Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" and supersedes ASC Topic 605, "Revenue Recognition." The guidance replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires the entity to disclose further quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016. Early application is not permitted. This guidance may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Company is currently evaluating the impact of adopting this guidance on its Financial Statements and disclosures included within Notes to Financial Statements - Regulatory Basis.

In December 2013, the FASB issued ASU No. 2013-12, which clarifies which entities qualify for accounting and reporting relief under the Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies. Beginning in 2014, one definition of public business entity will be applicable for new accounting guidance issued by the FASB. ASU 2013-12 does not eliminate the use of multiple definitions in the Accounting Standards Codification Master Glossary, as they will continue to be effective for accounting guidance issued prior to 2014. The Company adopted this guidance on January 1, 2014 and has elected to report as a public business entity. The adoption of this guidance did not impact the Company's Financial Statements and disclosures included within Notes to Financial Statements - Regulatory Basis.

In February 2013, the FASB issued ASU No. 2013-04, which amends FASB 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. The Company adopted this guidance on January 1, 2014. The adoption of this guidance did not impact the Company's disclosures included within Notes to Financial Statements - Regulatory Basis.

(3) Utility Plant, Net

Utility plant, net consists of the following as of December 31 (in thousands):

	Depreciation Rates	**2014**	**2013**
Transmission plant - Original and 2002 Expansion ("Rolled-in") system (1)	1.95%	$ 1,101,629	$ 1,097,317
Transmission plant - 2003 and 2010 Expansion ("Incremental") system (1)	3.00%	1,204,367	1,203,648
Transmission plant - Apex Expansion system (1)	3.00%	304,328	302,068
Transmission plant - other	4.76% to 6.67%	53,262	53,150
Compressor engines	9.92%	116,517	115,287
Intangible plant (2)	1.95% to 20.00%	26,224	25,930
General plant	4.00% to 33.33%	13,935	13,313
Total operating assets		2,820,262	2,810,713
Accumulated depreciation and amortization		(1,132,273)	(1,052,478)
Net operating assets		1,687,989	1,758,235
Construction work-in-progress		3,910	638
Utility plant, net		$ 1,691,899	$ 1,758,873

(1) Includes recoverable line pack gas of $3.6 million, $7.3 million and $0.4 million for the Rolled-in, Incremental and Apex Expansion systems, respectively, as of December 31, 2014 and 2013. Recoverable line pack gas is not depreciated.

(2) Includes costs for capitalized software development, contributions in aid of construction, and leasehold improvements.

The Company had gross costs for capitalized right of use or right of way of $72.1 million and $72.0 million as of December 31, 2014 and 2013, respectively, and accumulated amortization of $30.3 million and $28.4 million as of December 31, 2014 and 2013, respectively, which is reflected in utility plant, net on the Balance Sheets - Regulatory Basis. Capitalized right of use or right of way costs are amortized at rates ranging from 1.95% to 6.67%.

For the years ended December 31, 2014 and 2013, depreciation expense of $82.6 million and $81.6 million, respectively, and amortization expense of $3.3 million and $3.2 million, respectively, were included in depreciation and amortization on the Statements of Income - Regulatory Basis. The Company expects amortization expense to be $2.4 million for each of 2015 and 2016, $2.1 million for 2017 and $1.6 million for each of 2018 and 2019.

(4) Regulatory Matters

Regulatory assets represent costs that are expected to be recovered in future regulated rates. The Company's regulatory assets reflected on the Balance Sheets - Regulatory Basis consist of the following as of December 31 (in thousands):

	Weighted Average Remaining Life	2014	2013
Levelized depreciation on utility plant [1]	25 years	$ 46,524	$ 54,978
Deferred income taxes associated with equity AFUDC	25 years	24,533	26,225
Other	Various	4,964	4,801
Total		$ 76,021	$ 86,004

(1) Levelized depreciation on utility plant is in a net asset position for the Rolled-in, Apex Expansion and High Desert systems.

The Company had regulatory assets not earning a return on investment of $29.2 million and $30.5 million as of December 31, 2014 and 2013, respectively.

Regulatory liabilities represent income to be recognized or amounts to be returned to eligible customers in future periods. The Company's regulatory liabilities reflected on the Balance Sheets - Regulatory Basis consists of the following as of December 31 (in thousands):

	Weighted Average Remaining Life	2014	2013
Levelized depreciation on utility plant [1]	25 years	$ 155,784	$ 132,017
Other	Various	3,916	4,271
Total		$ 159,700	$ 136,288

(1) Levelized depreciation on utility plant is in a net liability position for the Incremental system.

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. Oral argument was held in February 2015 and a ruling is expected in the second quarter of 2015.

(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 $59.5 million and $52.0 million as of December 31, 2014 and 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.

The Company's long-term notes payable to subsidiary is carried at cost on the Balance Sheets - Regulatory Basis. The fair value of the Company's long-term notes payable to subsidiary is a Level 2 fair value measurement and has been estimated based upon quoted market prices. The following table presents the carrying value and estimated fair value of the Company's long-term notes payable to subsidiary as of December 31 (in thousands):

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term notes payable to subsidiary	$ 466,706	$ 497,173	$ 548,120	$ 606,060

(6) Long-Term Notes Payable to Subsidiary

The Company's long-term notes payable to subsidiary, which amortize monthly, consist of the following as of December 31 (in thousands):

	2014	2013
6.676% Senior Notes, due 2016	$ 167,000	$ 197,000
4.893% Senior Notes, due 2018	299,706	351,120
Total long-term notes payable to subsidiary	466,706	548,120
Less - current portion	(85,340)	(81,414)
Long-term portion	$ 381,366	$ 466,706

The Company provides a debt service reserve letter of credit in amounts that approximate the next six months of principal and interest payments due on the loans, which were equal to $55.5 million as of December 31, 2014 and 2013.

The annual repayments of the Company's long-term notes payable to subsidiary for the years beginning January 1, 2015 and thereafter are as follows (in thousands):

2015	$ 85,340
2016	190,340
2017	61,864
2018	129,162
Total	$ 466,706

Both the 6.676% Senior Notes and the 4.893% Senior Notes are secured equally and ratably by a collateral assignment of the long-term gas transportation agreements of the Company.

The terms of Funding's debt indentures to which the Company is guarantor preclude the issuance of mortgage bonds by Funding and the Company. The indentures contain provisions for the acceleration of repayment under certain conditions. The indentures also contain restrictions which, under certain circumstances, limit Funding and the Company's ability to issue additional debt, pay cash distributions, and dispose of a major portion of the Company's natural gas pipeline system. As of December 31, 2014 and 2013, Funding is in compliance with all debt covenants.

(7) Income Taxes

Income tax expense consists of the following for the years ended December 31 (in thousands):

	2014	2013
Current:		
Federal	$ 34,234	$ 40,297
State	5,681	6,965
	39,915	47,262
Deferred:		
Federal	12,207	9,346
State	1,738	959
	13,945	10,305
Total	$ 53,860	$ 57,567

A reconciliation of the federal statutory income tax rate to the effective income tax rate applicable to income before income tax expense is as follows for the years ended December 31:

	2014	2013
Federal statutory income tax rate	35.0%	35.0%
State income tax, net of federal income tax benefit	3.5	3.4
Other, net	0.1	—
Effective income tax rate	38.6%	38.4%

The net deferred income tax liability consists of the following as of December 31 (in thousands):

	2014	2013
Deferred income tax assets:		
Federal and state carryforwards	$ 54,383	$ 70,015
Regulatory liabilities	61,402	52,410
Unamortized deferred debt costs	2,367	3,000
Contribution in aid of construction	1,384	2,113
Other	462	272
Total deferred income tax assets	119,998	127,810
Deferred income tax liabilities:		
Utility plant, net	(485,999)	(478,397)
Regulatory assets	(22,764)	(24,129)
Other	(1,897)	(1,160)
Total deferred income tax liabilities	(510,660)	(503,686)
Net deferred income tax liability	$ (390,662)	$ (375,876)

The following table provides the Company's net operating loss carryforwards and expiration dates as of December 31, 2014 (in thousands):

	Federal	State
Net operating loss carryforwards	$ 147,944	$ 80,071
Deferred income taxes on net operating loss carryforwards	51,780	2,603
Expiration dates	2031-2033	2026-2033

The Company does not consider a valuation allowance on these amounts necessary, as they are expected to be utilized prior to their expiration.

The United States Internal Revenue Service has effectively settled examinations of BHE's income tax returns through December 31, 2009, including components related to the Company. In addition, state jurisdictions have closed examination of BHE's income tax returns through at least February 9, 2006.

(8) Employee Benefit Plans

The Company is a participant in benefit plans sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly owned subsidiary of BHE. The MidAmerican Energy Company Retirement Plan provides pension benefits for eligible employees ("pension plan") and the MidAmerican Energy Company Welfare Benefit Plan provides certain postretirement health care and life insurance benefits for eligible retirees ("other postretirement plan") on behalf of the Company. Benefit obligations under the pension plan are based on a cash balance arrangement for salaried employees and certain union employees and final average pay formulas for other union employees. Under the other postretirement plan, a majority of all employees may become eligible for these benefits if they reach retirement age. New employees are not eligible for benefits under the other postretirement plan.

Net Periodic Benefit Cost

For purposes of calculating the expected return on pension plan assets, a market-related value is used. The market-related value of plan assets is calculated by spreading the difference between expected and actual investment returns on equity investments over a five-year period beginning after the first year in which they occur.

Net periodic benefit cost for the plans of MEC and its participating affiliates included the following components for the years ended December 31 (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Service cost	$ 14	$ 18	$ 6	$ 5
Interest cost	35	33	10	8
Expected return on plan assets	(45)	(45)	(15)	(13)
Net amortization	1	11	(3)	(3)
Net periodic benefit cost (benefit)	$ 5	$ 17	$ (2)	$ (3)

The Company's share of pension cost totaled $0.3 million and $0.4 million for the years ended December 31, 2014 and 2013, respectively. The Company's share of other postretirement cost totaled $- million for each of the years ended December 31, 2014 and 2013.

Funded Status

The following table is a reconciliation of the fair value of plan assets for MEC and its participating affiliates for the years ended December 31 (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Plan assets at fair value, beginning of year	$ 722	$ 643	$ 256	$ 226
Employer contributions	7	7	1	1
Participant contributions	—	—	1	1
Actual return on assets	52	142	13	40
Benefits paid	(51)	(70)	(12)	(12)
Plan assets at fair value, end of year	$ 730	$ 722	$ 259	$ 256

The Company's contributions to the pension plan and other postretirement plan totaled $0.9 million for each of the years ended December 31, 2014 and 2013. As of December 31, 2014 and 2013, the fair value of plan assets attributable to the Company in the pension plan was $14.7 million and $14.1 million, respectively, and the other postretirement plan was $8.3 million and $7.6 million, respectively. Amounts attributable to the Company were allocated from MEC to the Company in accordance with the intercompany administrative services agreement.

The following table is a reconciliation of the benefit obligations for MEC and its participating affiliates for the years ended December 31 (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Benefit obligation, beginning of year	$ 768	$ 846	$ 235	$ 213
Service cost	14	18	6	5
Interest cost	35	33	10	8
Participant contributions	—	—	1	1
Actuarial loss (gain)	74	(59)	9	20
Benefits paid	(51)	(70)	(12)	(12)
Benefit obligation, end of year	$ 840	$ 768	$ 249	$ 235
Accumulated benefit obligation, end of year	$ 825	$ 751		

MEC paid benefits from the plans to the Company's participants totaling $1.0 million and $1.4 million for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the benefit obligation attributable to the Company for the pension plan was $13.6 million and $12.3 million, respectively, and for the other postretirement plan was $6.2 million and $6.1 million, respectively.

The funded status of the plans for MEC and its participating affiliates as of December 31 is as follows (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Plan assets at fair value, end of year	$ 730	$ 722	$ 259	$ 256
Less - benefit obligation, end of year	840	768	249	235
Funded Status	$ (110)	$ (46)	$ 10	$ 21

As of December 31, 2014 and 2013, the Company recorded an affiliate company receivable included in other property and investments relating to the pension and other postretirement plans of $3.1 million and $3.4 million, respectively. Amounts attributable to the Company were allocated from MEC to the Company in accordance with the intercompany administrative services 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.

Unrecognized Amounts

The portion of the funded status of the plans for MEC and its participating affiliates not yet recognized in net periodic benefit cost as of December 31 is as follows (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Net loss (gain)	$ 21	$ (44)	$ 49	$ 41
Prior service cost (credit)	3	3	(42)	(47)
Total	$ 24	$ (41)	$ 7	$ (6)

A reconciliation of the amounts not yet recognized as components of net periodic benefit cost for MEC and its participating affiliates for the years ended December 31, 2014 and 2013 is as follows (in millions):

	Regulatory Asset	Regulatory Liability	Receivables (Payables) with Affiliates	Total
Pension				
Balance, December 31, 2012	$ 110	$ —	$ 15	$ 125
Net gain arising during the year	(91)	(49)	(15)	(155)
Net amortization	(3)	(6)	(2)	(11)
Total	(94)	(55)	(17)	(166)
Balance, December 31, 2013	16	(55)	(2)	(41)
Net loss arising during the year	6	51	9	66
Net amortization	—	(1)	—	(1)
Total	6	50	9	65
Balance, December 31, 2014	$ 22	$ (5)	$ 7	$ 24

	Regulatory Asset	Regulatory Liability	Receivables (Payables) with Affiliates	Total
Other postretirement				
Balance, December 31, 2012	$ 11	$ —	$ (13)	$ (2)
Net gain arising during the year	(3)	—	(4)	(7)
Net amortization	2	—	1	3
Total	(1)	—	(3)	(4)
Balance, December 31, 2013	10	—	(16)	(6)
Net loss arising during the year	8	—	2	10
Net amortization	2	—	1	3
Total	10	—	3	13
Balance, December 31, 2014	$ 20	$ —	$ (13)	$ 7

The net loss and prior service cost (credit) for MEC and its participating affiliates that will be amortized in 2015 into net periodic benefit cost are estimated to be as follows (in millions):

	Net Loss	Prior Service Cost (Credit)	Total
Pension	$ 1	$ 1	$ 2
Other postretirement	2	(5)	(3)
Total	$ 3	$ (4)	$ (1)

The net loss and prior service cost amounts expected to be recognized by the Company for the year ended December 31, 2015 for the pension plan and other postretirement plan are insignificant.

Plan Assumptions

Assumptions used to determine benefit obligations and net periodic benefit cost for MEC and its participating affiliates were as follows:

	Pension		Other Postretirement	
	2014	2013	2014	2013
Benefit obligations as of December 31,				
Discount rate	4.00%	4.75%	3.75%	4.50%
Rate of compensation increase	2.75%	3.00%	N/A	N/A
Net periodic benefit cost for the years ended December 31:				
Discount rate	4.75%	4.00%	4.50%	3.75%
Expected return on plan assets (1)	7.50%	7.50%	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

(1) Amounts reflected are pre-tax values. Assumed after-tax returns for a taxable, non-union other postretirement plan were 5.37% for 2014 and 5.56% for 2013.

In establishing MEC's assumption as to the expected return on plan assets, MEC utilizes the expected asset allocation and return assumptions for each asset class based on historical performance and forward-looking views of the financial markets.

	2014	2013
Assumed healthcare cost trend rates as of December 31:		
Healthcare cost trend rate assumed for next year	8.00%	8.00%
Rate that the cost trend rate gradually declines to	5.00%	5.00%
Year that the rate reaches the rate it is assumed to remain at	2025	2019

A one percentage-point change in assumed healthcare cost trend rates would have the following effects for MEC and its participating affiliates (in millions):

	One Percentage-Point	
Increase (decrease) in:	Increase	Decrease
Total service and interest cost for the year ended December 31, 2014	$ 1	$ —
Other postretirement benefit obligation as of December 31, 2014	5	(4)

Contributions and Benefit Payments

MEC's contributions to its pension and other postretirement benefit plans are expected to be $8 million and $1 million, respectively, during 2015. Funding to MEC's pension benefit plan trust is based upon the actuarially determined costs of the plan and the requirements of the Internal Revenue Code, the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006, as amended. MEC considers contributing additional amounts from time to time in order to achieve certain funding levels specified under the Pension Protection Act of 2006, as amended. MEC's funding policy for its other postretirement benefit plan is to generally contribute amounts consistent with rate regulatory arrangements. The Company's contributions to the pension plan and the other postretirement plan are expected to be $0.4 million and $0.5 million, respectively, during 2015.

Net periodic benefit costs assigned to MEC affiliates are reimbursed currently in accordance with the intercompany administrative services agreement. The expected benefit payments to participants in MEC's pension and other postretirement benefit plans for 2015 through 2019 and for the five years thereafter are summarized below (in millions):

	Projected Benefit Payments	
	Pension	Other Postretirement
2015	$ 54	$ 16
2016	58	17
2017	59	19
2018	59	20
2019	60	21
2020-2024	298	109

Plan Assets

Investment Policy and Asset Allocations

MEC's investment policy for its pension and other postretirement benefit plans is to balance risk and return through a diversified portfolio of debt securities, equity securities, and other alternative investments. Maturities for debt securities are managed to targets consistent with prudent risk tolerances. The plans retain outside investment advisors to manage plan investments within the parameters outlined by the MidAmerican Energy Pension and Employee Benefits Plans Administrative Committee. The investment portfolio is managed in line with the investment policy with sufficient liquidity to meet near-term benefit payments. The return on assets assumption for each plan is based on a weighted-average of the expected historical performance for the types of assets in which the plans invest.

The target allocations (percentage of plan assets) for MEC's pension and other postretirement benefit plan assets are as follows as of December 31, 2014:

	Pension	**Other Postretirement**
	%	%
Debt securities [(1)]	20-40	25-45
Equity securities [(1)]	60-80	50-80
Real estate funds	2-8	—
Other	0-5	0-5

(1) For purposes of target allocation percentages and consistent with the plans' investment policy, investment funds are allocated based on the underlying investments in debt and equity securities.

Fair Value Measurements

A financial asset or liability classification within the three levels of the fair value 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 an entity 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 an entity's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. An entity develops these inputs based on the best information available, including its own data.

The following table presents the fair value of plan assets for MEC and its participating affiliates, by major category, for the defined benefit pension plan (in millions):

	Input Levels for Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
As of December 31, 2014				
Cash equivalents	$ —	$ 24	$ —	$ 24
Debt securities:				
United States government obligations	8	—	—	8
Corporate obligations	—	29	—	29
Municipal obligations	—	4	—	4
Agency, asset and mortgage-backed obligations	—	33	—	33
Equity securities:				
United States companies	149	—	—	149
International equity securities	40	—	—	40
Investment funds (1)	84	319	—	403
Real estate funds	—	—	40	40
Total	$ 281	$ 409	$ 40	$ 730
As of December 31, 2013				
Cash equivalents	$ —	$ 10	$ —	$ 10
Debt securities:				
United States government obligations	10	—	—	10
Corporate obligations	—	30	—	30
Municipal obligations	—	5	—	5
Agency, asset and mortgage-backed obligations	—	31	—	31
Equity securities:				
United States companies	163	—	—	163
International equity securities	52	—	—	52
Investment funds (1)	105	285	—	390
Real estate funds	—	—	31	31
Total	$ 330	$ 361	$ 31	$ 722

(1) Investment funds are comprised of mutual funds and collective trust funds. These funds consist of equity and debt securities of approximately 68% and 32%, respectively, for 2014 and 78% and 22%, respectively, for 2013. Additionally, these funds are invested in United States and international securities of approximately 74% and 26%, respectively, for 2014 and 80% and 20%, respectively, for 2013.

The following table presents the fair value of plan assets for MEC and its participating affiliates, by major category, for the defined benefit other postretirement plans (in millions):

	Input Levels for Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2014</u>				
Cash equivalents	$ 4	$ —	$ —	$ 4
Debt securities:				
United States government obligations	5	—	—	5
Corporate obligations	—	11	—	11
Municipal obligations	—	40	—	40
Agency, asset and mortgage-backed obligations	—	15	—	15
Equity securities:				
United States companies	128	—	—	128
Investment funds (1)	56	—	—	56
Total	$ 193	$ 66	$ —	$ 259
<u>As of December 31, 2013</u>				
Cash equivalents	$ 1	$ —	$ —	$ 1
Debt securities:				
United States government obligations	7	—	—	7
Corporate obligations	—	9	—	9
Municipal obligations	—	37	—	37
Agency, asset and mortgage-backed obligations	—	13	—	13
Equity securities:				
United States companies	125	—	—	125
Investment funds (1)	64	—	—	64
Total	$ 197	$ 59	$ —	$ 256

(1) Investment funds are comprised of mutual funds and collective trust funds. These funds consist of equity and debt securities of approximately 69% and 31%, respectively, for 2014 and 86% and 14%, respectively, for 2013. Additionally, these funds are invested in United States and international securities of approximately 31% and 69%, respectively, for 2014 and 43% and 57%, respectively, for 2013.

When available, 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. In the absence of a quoted market price or net asset value of an identical security, the fair value is determined using pricing models or net asset values based on observable market inputs and quoted market prices of securities with similar characteristics. When observable market data is not available, the fair value is determined using unobservable inputs, such as estimated future cash flows, purchase multiples paid in other comparable third-party transactions or other information. The real estate funds determine fair value of their underlying assets using independent appraisals given there is no current liquid market for the underlying assets. The following table reconciles the beginning and ending balances of MEC's pension plan assets measured at fair value using significant Level 3 inputs for the years ended December 31 (in millions):

	Real Estate Funds	
	2014	**2013**
Beginning balance	$ 31	$ 26
Actual return on plan assets still held at period end	4	5
Purchases and sales	5	—
Ending Balance	$ 40	$ 31

The Company participates in the MEC sponsored defined contribution plan and contributed $0.5 million for each of the years ended December 31, 2014 and 2013.

(9) Credit Risk

The Company has a concentration of customers, which includes utilities, marketers and major oil and natural gas companies in California, Nevada, and Utah. This concentration of customers may impact the Company's overall exposure to credit risk in that the customer base may be similarly affected by changes in economic, industry, weather or other conditions.

The following customers accounted for 10% or more of the Company's total revenues for the years ended December 31 or accounts receivable as of December 31:

	Revenue		Accounts Receivable	
	2014	**2013**	**2014**	**2013**
Nevada Power Company	19%	19%	17%	17%
Southwest Gas Corporation	7%	7%	15%	14%

As a general policy, collateral is not required for receivables from creditworthy customers. Customers' financial condition and creditworthiness are regularly evaluated, and historical losses have been minimal. In order to provide protection against credit risk, and as permitted by the terms of the Company's tariff, the Company has, among other alternatives, required customers that lack creditworthiness, as defined by the tariff, to provide letters of credit, cash security deposits or to establish separate legally restricted escrow funds to be held until these customers' creditworthiness can be demonstrated. As of December 31, 2014 and 2013, the Company has reflected escrow funds of $0.6 million and $0.3 million, respectively, in other current and accrued assets and $32.6 million and $41.4 million, respectively, in other property and investments. The Company also had offsetting cash security deposit and escrow fund obligations of $33.2 million and $41.7 million as of December 31, 2014 and 2013, respectively, in customer deposits on the Balance Sheets - Regulatory Basis. Letters of credit, not reflected on the Balance Sheets - Regulatory Basis, were $96.7 million and $125.1 million as of December 31, 2014 and 2013, respectively.

(10) Commitments and Contingencies

Legal Matters

The Company is party to a variety of legal actions arising out of the normal course of business. Plaintiffs occasionally seek punitive or exemplary damages. The Company does not believe that such normal and routine litigation will have a material effect on its financial results.

Operating Leases

The Company has non-cancelable operating leases primarily for computer equipment, office space and land. These leases generally require the Company to pay for insurance, taxes and maintenance applicable to the leased property. Certain leases contain renewal options for varying periods and escalation clauses for adjusting rent to reflect changes in price indices. The minimum payments under these leases as of December 31, 2014 were $1.5 million for each of the years 2015 through 2017, $1.6 million for the year 2018, $0.3 million for the year 2019 and $1.0 million for the years thereafter. These amounts are not reflected on the Balance Sheets - Regulatory Basis. Rent expense on non-cancelable operating leases totaled $1.3 million for each of the years ended December 31, 2014 and 2013 and was included in operation and maintenance on the Statements of Income - Regulatory Basis.

(11) Other Related Party Transactions

BHE provides certain administrative and management services, including executive, financial, legal, and tax, to the Company. Expenses incurred by BHE and billed to the Company are based on the individual services and expense items provided and were $0.7 million and $1.8 million for the years ended December 31, 2014 and 2013, respectively. Income tax transactions with BHE resulted in net payments of $46.9 million and $52.7 million for the years ended December 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 $1.3 million and $0.8 million for the years ended December 31, 2014 and 2013, respectively.

Northern Natural Gas Company ("Northern"), an indirect wholly owned subsidiary of BHE, provides certain administrative and management services, including executive, financial, regulatory, legal, commercial, and tax to the Company. The Company was billed $1.3 million and $1.1 million for the years ended December 31, 2014 and 2013, respectively, 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. Northern did not enter into any specific risk management transactions that settled on behalf of the Company for the year ended December 31, 2014. Northern entered into specific risk management transactions that settled on behalf of the Company totaling $0.1 million for the year ended December 31, 2013.

As of December 31, 2014 and 2013, the Company had accounts payable to affiliates of $0.8 million and $0.6 million, respectively, which are reflected in accounts payable on the Balance Sheets - Regulatory Basis. The Company also had accounts receivable from affiliates of $0.7 million and $0.1 million as of December 31, 2014 and 2013, respectively, which are included in customer accounts receivable on the Balance Sheets - Regulatory Basis.

The Company provided natural gas transportation and other services to PacifiCorp, an indirect subsidiary of BHE, of $3.2 million and $3.3 million for the years ended December 31, 2014 and 2013, respectively. PacifiCorp provided electricity and other services to the Company of $0.8 million for each of the years ended December 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 $0.6 million and $0.2 million for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 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 BHE, of $67.8 million and $67.7 million for the years ended December 31, 2014 and 2013, respectively. Nevada Power provided electricity and other services to the Company of $0.2 million for each of the years ended December 31, 2014 and 2013. As of December 31, 2014 and 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.

For the years ended December 31, 2014 and 2013, the Company distributed to its partners $98.0 million and $146.0 million, respectively.

(12) Subsequent Event

Subsequent to December 31, 2014, the Company distributed to its partners $48.0 million.

Kern River Funding Corporation

Financial Statements

As of and for the Years Ended December 31, 2014 and 2013

Deloitte.

Deloitte & Touche LLP
First National Tower
1601 Dodge Street, Ste. 3100
Omaha, NE 68102-1649
USA

Tel: +1 402 346 7788
Fax: +1 402 997 7875
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
Kern River Funding Corporation
Salt Lake City, Utah

We have audited the accompanying financial statements of Kern River Funding Corporation (the "Company"), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kern River Funding Corporation as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 17, 2015

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

	As of December 31,	
	2014	**2013**
ASSETS		
Current assets:		
Receivable due from parent	$ 1	$ 1
Current portion of long-term notes receivable from parent	85,340	81,414
Total current assets	85,341	81,415
Long-term notes receivable from parent	381,366	466,706
Total assets	$ 466,707	$ 548,121
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Current portion of long-term notes payable	$ 85,340	$ 81,414
Long-term notes payable	381,366	466,706
Total liabilities	466,706	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	$ 466,707	$ 548,121

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

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

	Years Ended December 31,	
	2014	**2013**
Revenues from long-term note receivable from parent	$ 28,261	$ 32,735
Interest expense on long-term notes payable	28,261	32,735
Net income	$ —	$ —

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

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

	Years Ended December 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	—	—
Net change in accrued interest	—	—
Net cash flows from operating activities	—	—
Cash flows from financing activities:		
Proceeds received on long-term notes receivable from parent	81,414	79,742
Repayments of long-term notes payable	(81,414)	(79,742)
Net cash flows from financing activities	—	—
Net change in cash	—	—
Cash at beginning of period	—	—
Cash at end of period	$ —	$ —
Supplemental disclosure - interest paid	$ 28,261	$ 32,735

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

KERN RIVER FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS

(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. Funding's Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America. Funding has evaluated subsequent events through April 17, 2015, which is the date the Financial Statements were available to be issued.

(2) Revenue Recognition

Funding recognizes revenues based on the interest costs that are passed through to Kern River. For the years ended December 31, 2014 and 2013, Funding's reported revenues include $28.3 million and $32.7 million, respectively, of interest income on notes receivable from Kern River.

(3) Fair Value Measurements

The carrying value of receivable due from parent approximates fair value because of the short-term maturity of these instruments. Funding's long-term notes receivable and payable are carried at cost in the Financial Statements. The fair value of Funding's long-term notes receivable and payable are a Level 2 fair value measurement and have been estimated based upon quoted market prices. The following table presents the carrying value and estimated fair value of Funding's long-term notes receivable from parent and long-term notes payable as of December 31 (in thousands):

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Long-term notes receivable from parent	$ 466,706	$ 497,173	$ 548,120	$ 606,060
Liabilities:				
Long-term notes payable	$ 466,706	$ 497,173	$ 548,120	$ 606,060

(4) Long-Term Notes Payable

Funding's long-term notes payable, which amortize monthly, consist of the following as of December 31 (in thousands):

	2014	2013
6.676% Senior Notes, due 2016	$ 167,000	$ 197,000
4.893% Senior Notes, due 2018	299,706	351,120
Total long-term notes payable	466,706	548,120
Less - current portion	(85,340)	(81,414)
Long-term portion	$ 381,366	$ 466,706

Kern River provides a debt service reserve letter of credit in amounts that approximate the next six months of principal and interest payments due on the loans, which were equal to $55.5 million as of December 31, 2014 and 2013.

The annual repayments of Funding's long-term notes payable for the years beginning January 1, 2015 and thereafter are as follows (in thousands):

2015	$ 85,340
2016	190,340
2017	61,864
2018	129,162
Total	$ 466,706

Both the 6.676% Senior Notes and the 4.893% Senior Notes are secured equally and ratably by a collateral assignment of the long-term gas transportation agreements of Kern River.

The terms of Funding's debt indentures to which Kern River is guarantor preclude the issuance of mortgage bonds by Funding and Kern River. The indentures contain provisions for the acceleration of repayment under certain conditions. The indentures also contain restrictions which, under certain circumstances, limit Funding and Kern River's ability to issue additional debt, pay cash distributions, and dispose of a major portion of Kern River's natural gas pipeline system. As of December 31, 2014 and 2013, Funding is in compliance with all debt covenants.

(5) Income Taxes

Funding is included in Berkshire Hathaway Inc.'s consolidated United States federal income tax return. Funding computes an income tax provision for income taxes payable to represent Funding's liability as if it filed on a stand-alone basis. For the years ended December 31, 2014 and 2013, there was no current income tax expense and there were no temporary differences.