



Northern Natural Gas Company

**Financial Statements as of and for the
Quarterly Period Ended June 30, 2014**

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

	As of	
	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 64,118	\$ 122,703
Accounts receivable, net	64,384	73,721
Accounts receivable from affiliates	3,272	7,909
Notes receivable from BHE	150,000	230,000
Transportation and exchange gas receivables	13,516	27,118
Inventories	24,789	24,793
Income taxes receivable	59,312	—
Other current assets	18,465	19,810
Total current assets	397,856	506,054
Property, plant and equipment, net	2,366,111	2,329,798
Regulatory assets	143,664	154,073
Other assets	49,381	47,844
Total assets	\$ 2,957,012	\$ 3,037,769
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 28,531	\$ 32,200
Accounts payable to affiliates	2,381	1,802
Accrued interest	13,114	13,114
Current portion of long-term debt	99,986	—
Accrued property, income and other taxes	42,560	50,670
Transportation and exchange gas payables	13,914	25,112
Derivative contracts	8,744	7,985
Other current liabilities	26,587	22,179
Total current liabilities	235,817	153,062
Regulatory liabilities	25,619	24,222
Derivative contracts	53,355	61,859
Asset retirement obligations	36,072	35,396
Long-term debt	799,432	899,400
Deferred income taxes	515,986	490,738
Other long-term liabilities	13,319	12,953
Total liabilities	1,679,600	1,677,630
Commitments and contingencies (Notes 4 and 6)		
Shareholder's equity:		
Series A preferred stock - 1,000 shares authorized, \$0.01 par value, no shares issued and outstanding	—	—
Common stock - 10,000 shares authorized, \$1.00 par value, 1,002 shares issued and outstanding	1	1
Additional paid-in capital	981,868	981,868
Retained earnings	296,141	378,518
Accumulated other comprehensive loss, net	(598)	(248)
Total shareholder's equity	1,277,412	1,360,139
Total liabilities and shareholder's equity	\$ 2,957,012	\$ 3,037,769

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

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

	Six-Month Periods Ended June 30,	
	2014	2013
Operating revenue:		
Transportation	\$ 313,374	\$ 269,800
Storage	23,330	20,427
Gas, liquids and other sales	100,989	18,712
Total operating revenue	<u>437,693</u>	<u>308,939</u>
Operating costs and expenses:		
Operating and maintenance	93,231	80,545
Cost of gas and liquids sales	101,991	20,404
Depreciation and amortization	35,929	32,802
Taxes, other than income taxes	27,827	26,994
Total operating costs and expenses	<u>258,978</u>	<u>160,745</u>
Operating income	<u>178,715</u>	<u>148,194</u>
Other income (expense):		
Interest expense, net	(21,852)	(22,086)
Interest income	742	775
Other, net	6,508	13,537
Total other income (expense)	<u>(14,602)</u>	<u>(7,774)</u>
Income before income tax expense	164,113	140,420
Income tax expense	65,414	55,962
Net income	<u>\$ 98,699</u>	<u>\$ 84,458</u>

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

	Six-Month Periods Ended June 30,	
	2014	2013
Net income	\$ 98,699	\$ 84,458
Other comprehensive (loss) income -		
Unrealized (losses) gains on cash flow hedges, net of tax of \$(231) and \$24	(350)	36
Comprehensive income	<u>\$ 98,349</u>	<u>\$ 84,494</u>

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

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

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income, net</u>	<u>Total</u>
Balance, December 31, 2012	\$ 1	\$ 981,868	\$ 307,847	\$ (5)	\$ 1,289,711
Net income	—	—	84,458	—	84,458
Other comprehensive income - cash flow hedges	—	—	—	36	36
Dividends on common stock	—	—	(80,000)	—	(80,000)
Balance, June 30, 2013	<u>\$ 1</u>	<u>\$ 981,868</u>	<u>\$ 312,305</u>	<u>\$ 31</u>	<u>\$ 1,294,205</u>
Balance, December 31, 2013	\$ 1	\$ 981,868	\$ 378,518	\$ (248)	\$ 1,360,139
Net income	—	—	98,699	—	98,699
Other comprehensive loss - cash flow hedges	—	—	—	(350)	(350)
Dividends on common stock	—	—	(181,076)	—	(181,076)
Balance, June 30, 2014	<u>\$ 1</u>	<u>\$ 981,868</u>	<u>\$ 296,141</u>	<u>\$ (598)</u>	<u>\$ 1,277,412</u>

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

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

	Six-Month Periods Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 98,699	\$ 84,458
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	35,929	32,802
Amortization of deferred financing costs	160	153
Deferred income taxes	24,996	30,748
Other, net	2,423	4,658
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	39,845	25,243
Inventories	4	(949)
Accounts payable and other accrued liabilities	3,389	1,515
Gas balancing activities	(28,819)	(8,496)
Accrued property, income and other taxes	(67,423)	(13,240)
Net cash flows from operating activities	109,203	156,892
Cash flows from investing activities:		
Capital expenditures	(66,700)	(32,318)
Plant removal costs	(12)	(942)
Net cash flows from investing activities	(66,712)	(33,260)
Cash flows from financing activities:		
Dividends on common stock	(181,076)	(80,000)
Proceeds from redemption of promissory notes from BHE	80,000	—
Other	—	(10)
Net cash flows from financing activities	(101,076)	(80,010)
Net change in cash and cash equivalents	(58,585)	43,622
Cash and cash equivalents at beginning of period	122,703	82,762
Cash and cash equivalents at end of period	\$ 64,118	\$ 126,384

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

Northern Natural Gas Company
Notes to Financial Statements
(Unaudited)

(1) General

Northern Natural Gas Company (the "Company") is an indirect wholly owned subsidiary of Berkshire Hathaway Energy Company ("BHE"), a holding company that owns subsidiaries principally engaged in the energy business. BHE is a consolidated subsidiary of Berkshire Hathaway Inc. ("Berkshire Hathaway"). The Company owns the largest interstate natural gas pipeline system in the United States, as measured by pipeline miles, which reaches from southern Texas to Michigan's Upper Peninsula (the "System"). The System, which is interconnected with many interstate and intrastate pipelines in the national grid system, consists of two operationally integrated systems. Its traditional end-use and distribution market area in the northern part of its system, referred to as the Market Area, includes points in Iowa, Nebraska, Minnesota, Wisconsin, South Dakota, Michigan and Illinois. Its natural gas supply and delivery service area in the southern part of its system, referred to as the Field Area, includes points in Kansas, Texas, Oklahoma and New Mexico. The Company primarily transports and stores natural gas for utilities, municipalities, gas marketing companies, industrial and commercial users and other end-users. The System consists of 14,700 miles of natural gas pipelines, including 6,300 miles of mainline transmission pipelines and 8,400 miles of branch and lateral pipelines, with a Market Area design capacity of 5.5 billion cubic feet ("Bcf") per day and a Field Area delivery capacity of 2.0 Bcf per day to the Market Area. Additionally, the Company has three underground natural gas storage facilities and two liquefied natural gas storage peaking units that have a total firm service and operational storage cycle capacity of over 73 Bcf and over 2.0 Bcf per day of peak delivery capability. The System is configured with approximately 2,300 active receipt and delivery points which are integrated with the facilities of local distribution companies ("LDC"). Many of the Company's LDC customers are part of combined utilities that also use natural gas as a fuel source for electric generation. The Company delivers over 0.9 trillion cubic feet of natural gas to its customers annually.

The Company has no subsidiaries and does not hold a controlling financial interest in any other entity. The unaudited Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the unaudited Financial Statements as of June 30, 2014 and for the six-month periods ended June 30, 2014 and 2013. The results of operations for the six-month period ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through August 25, 2014, which is the date the unaudited Financial Statements were available to be issued.

The preparation of the unaudited Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Financial Statements. Note 2 of Notes to Financial Statements included in the Company's audited Financial Statements for the year ended December 31, 2013 describes the most significant accounting policies used in the preparation of the unaudited Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the six-month period ended June 30, 2014.

(2) 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.

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. 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.

(3) Employee Benefit Plans

The Company is a participant in benefit plans sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly owned subsidiary of BHE. The MidAmerican Energy Company Retirement Plan provides pension benefits for eligible employees ("pension plan") and the MidAmerican Energy Company Welfare Benefit Plan provides certain postretirement health care and life insurance benefits for eligible retirees ("other postretirement plan") on behalf of the Company. The Company's contributions to the pension plan and other postretirement plan totaled \$0.5 million and \$0.6 million for the six-month periods ended June 30, 2014 and 2013, respectively. As of June 30, 2014, the Company recorded in other assets its portion of the over funded status of the pension plan and other postretirement plan of \$0.5 million and \$24.1 million, respectively. As of December 31, 2013, the Company recorded in other assets its portion of the over funded status of the

pension plan and other postretirement plan of \$0.5 million and \$23.4 million, respectively. Amounts attributable to the Company were allocated from MEC to the Company in accordance with the intercompany administrative service agreement. Offsetting regulatory liabilities have been recorded related to the amounts not yet recognized as a component of net periodic benefit costs that will be included in regulated rates.

(4) Risk Management and Hedging Activities

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

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

For certain designated markets, certain customers pay a fixed price of \$0.09 per decatherm ("dth") of volumes delivered to purchase compressor fuel and system use gas from the Company. The Company estimates it will be required to purchase an annual average of 1.3 Bcf of natural gas through October 2022 to meet these requirements based on a projected average system requirements factor of 1.4% of volumes delivered. The Company's contracts with these customers provide service through October 2019, with annual renewal options for one customer to continue service through October 2022. As of June 30, 2014, the Company had entered into swap agreements covering more than the expected contractual requirements through October 2022.

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

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

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

	Derivative Assets		Derivative Liabilities		Total
	Current ⁽¹⁾	Noncurrent	Current	Noncurrent	
As of June 30, 2014					
Not designated as hedging contracts⁽²⁾:					
Commodity assets	\$ 162	\$ —	\$ 6	\$ 405	\$ 573
Commodity liabilities	(79)	—	(7,614)	(53,760)	(61,453)
Total	<u>83</u>	<u>—</u>	<u>(7,608)</u>	<u>(53,355)</u>	<u>(60,880)</u>
Designated as cash flow hedging contracts:					
Commodity assets	141	—	—	—	141
Commodity liabilities	—	—	(1,136)	—	(1,136)
Total	<u>141</u>	<u>—</u>	<u>(1,136)</u>	<u>—</u>	<u>(995)</u>
Total derivatives - net basis⁽³⁾	<u>\$ 224</u>	<u>\$ —</u>	<u>\$ (8,744)</u>	<u>\$ (53,355)</u>	<u>\$ (61,875)</u>
As of December 31, 2013					
Not designated as hedging contracts⁽²⁾:					
Commodity assets	\$ 11	\$ —	\$ 6	\$ —	\$ 17
Commodity liabilities	(18)	—	(7,553)	(61,784)	(69,355)
Total	<u>(7)</u>	<u>—</u>	<u>(7,547)</u>	<u>(61,784)</u>	<u>(69,338)</u>
Designated as cash flow hedging contracts:					
Commodity assets	102	—	—	5	107
Commodity liabilities	—	—	(438)	(80)	(518)
Total	<u>102</u>	<u>—</u>	<u>(438)</u>	<u>(75)</u>	<u>(411)</u>
Total derivatives - net basis⁽³⁾	<u>\$ 95</u>	<u>\$ —</u>	<u>\$ (7,985)</u>	<u>\$ (61,859)</u>	<u>\$ (69,749)</u>

(1) Current derivative assets are included in other current assets on the Balance Sheets.

(2) The Company's commodity derivatives not designated as hedging contracts are generally included in regulated rates, and as of June 30, 2014 and December 31, 2013, a regulatory asset of \$60.9 million and \$69.3 million, respectively, was recorded related to the net derivative liability of \$60.9 million and \$69.3 million, respectively.

(3) The net notional amounts of outstanding commodity derivative contracts with fixed price terms that comprise the mark-to-market values included above are 18 million dth of natural gas purchases as of both June 30, 2014 and December 31, 2013, and 4 million and 6 million gallons of crude oil sales as of June 30, 2014 and December 31, 2013, respectively.

Not Designated as Hedging Contracts

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

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 69,338	\$ 68,825
Changes in fair value recognized in regulatory assets	(5,511)	(248)
Net gains reclassified to operating revenue	83	—
Net losses reclassified to cost of gas and liquids sales	(3,030)	(4,575)
Ending balance	<u>\$ 60,880</u>	<u>\$ 64,002</u>

Designated as Hedging Contracts

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

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 411	\$ 8
Changes in fair value recognized in OCI	715	(35)
Net losses reclassified to operating revenue	(134)	(25)
Ending balance	<u>\$ 992</u>	<u>\$ (52)</u>

Realized gains and losses on hedges and hedge ineffectiveness are recognized on the Statements of Income as operating revenue or cost of gas and liquids sales depending upon the nature of the item being hedged. For each of the six-month periods ended June 30, 2014 and 2013, hedge ineffectiveness was insignificant. As of June 30, 2014, the Company had cash flow hedges with expiration dates extending through March 2015 and the pre-tax net unrealized losses forecasted to be reclassified from accumulated other comprehensive loss into earnings over the next twelve months are \$1.0 million.

Credit Risk

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

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

Collateral and Contingent Features

In accordance with industry practice, certain derivative contracts contain credit support provisions that in part base certain collateral requirements on credit ratings for senior unsecured debt as reported by one or more of the three recognized credit rating agencies. These derivative contracts may either specifically provide bilateral rights to demand cash or other security if credit exposures on a net basis exceed specified rating-dependent threshold levels ("credit-risk-related contingent features") or provide the right for counterparties to demand "adequate assurance," or in some cases terminate the contract, in the event of a material adverse change in creditworthiness. These rights can vary by contract and by counterparty. As of June 30, 2014, the Company's credit ratings from the three recognized credit rating agencies were investment grade.

The aggregate fair value of the Company's derivative contracts in liability positions with specific credit-risk-related contingent features totaled \$62.6 million and \$69.9 million as of June 30, 2014 and December 31, 2013, respectively, for which the Company had not posted collateral. If all credit-risk-related contingent features for derivative contracts in liability positions had been triggered as of June 30, 2014 and December 31, 2013, the Company would have been required to post \$61.9 million and \$69.7 million, respectively, of collateral. The Company's collateral requirements could fluctuate considerably due to market price volatility, changes in credit ratings, changes in legislation or regulation, or other factors.

(5) Fair Value Measurements

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

- Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3 - Unobservable inputs reflect the Company's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. The Company develops these inputs based on the best information available, including its own data.

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

	Input Levels for Fair Value Measurements			Other ⁽¹⁾	Total
	Level 1	Level 2	Level 3		
As of June 30, 2014					
Assets:					
Commodity derivatives	\$ —	\$ 714	\$ —	\$ (489)	\$ 225
Money market mutual funds ⁽²⁾	80,550	—	—	—	80,550
	<u>\$ 80,550</u>	<u>\$ 714</u>	<u>\$ —</u>	<u>\$ (489)</u>	<u>\$ 80,775</u>
Liabilities - commodity derivatives	<u>\$ —</u>	<u>\$ (62,589)</u>	<u>\$ —</u>	<u>\$ 489</u>	<u>\$ (62,100)</u>
As of December 31, 2013					
Assets:					
Commodity derivatives	\$ —	\$ 124	\$ —	\$ (29)	\$ 95
Money market mutual funds ⁽²⁾	143,145	—	—	—	143,145
	<u>\$ 143,145</u>	<u>\$ 124</u>	<u>\$ —</u>	<u>\$ (29)</u>	<u>\$ 143,240</u>
Liabilities - commodity derivatives	<u>\$ —</u>	<u>\$ (69,873)</u>	<u>\$ —</u>	<u>\$ 29</u>	<u>\$ (69,844)</u>

(1) Represents netting under master netting arrangements.

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

Derivative contracts are recorded on the Balance Sheets as either assets or liabilities and are stated at estimated fair value unless they are designated as normal purchases or normal sales and qualify for the exception afforded by GAAP. When available, the fair value of derivative contracts is estimated using unadjusted quoted prices for identical contracts in the market in which the Company transacts. When quoted prices for identical contracts are not available, the Company uses forward price curves. Forward price curves represent the Company's estimates of the prices at which a buyer or seller could contract today for delivery or settlement at future dates. The Company bases its forward price curves upon market price quotations, when available, or internally developed and commercial models, with internal and external fundamental data inputs. Market price quotations are obtained from independent energy brokers, exchanges, direct communication with market participants and actual transactions executed by the Company. Market price quotations for certain major natural gas and crude oil trading hubs are generally readily obtainable for the applicable term of the Company's outstanding derivative contracts; therefore, the Company's forward price curves for those locations and periods reflect observable market quotes. The estimated fair value of these derivative contracts is a function of underlying forward commodity prices, related volatility, counterparty creditworthiness and duration of contracts. Refer to Note 4 for further discussion regarding the Company's risk management and hedging activities.

The Company's investments in money market mutual funds are accounted for as available-for-sale securities and are stated at fair value. A readily observable quoted market price or net asset value of an identical security in an active market is used to record the fair value.

(6) Commitments and Contingencies

Legal Matters

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

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

- In September 2009, the Company filed an application with the FERC to extend the boundaries of the Cunningham natural gas storage facility. In June 2010, FERC issued an order granting the Company certificate authority to extend the boundaries of the Cunningham natural gas storage facility by 12,320 acres. The Company either acquired leases or purchased the property on 3,696 acres, or 30% of the extension area. In July 2010, the Company filed a complaint in federal district court to acquire the remaining necessary interests by eminent domain. In March 2012, the federal district court judge issued an order granting the Company's motion for preliminary injunction seeking access to the extension area to construct the facilities necessary to implement its containment plan to control the migrating storage gas. Pursuant to the order, the Company deposited security in the form of a cash deposit of \$2.7 million and a bond of \$7.8 million with the federal district court. The federal district court established a three-person compensation commission in September 2012, to determine the value of the interests to be taken. In July 2013, the federal district court judge found the date of taking for the purpose of determining compensation to be March 30, 2012, the date the Company acquired access to the property. In March 2014, the federal district court found that the Company must compensate the defendants for all gas in the extension area, including storage gas. The condemnation hearing concluded June 4, 2014. A proposed decision by the condemnation panel will be issued on or before September 2, 2014.
- The Company filed a lawsuit in December 2008 against Nash, LD Drilling and Val Energy in the United States District Court for the District of Kansas ("District Court") for nuisance, conversion and unjust enrichment related to the storage gas losses from the June 2010 FERC order through February 2011 after which the third-party wells in the extension area were shut-in. Discovery has been stayed pending the conclusion of the condemnation action discussed above.
- In December 2009, the Company filed a lawsuit in the 13th Judicial District, District Court, Pratt County, Kansas ("Pratt County State District Court") against ONEOK Field Services Company ("ONEOK") and Lumen Energy Corporation ("Lumen") alleging conversion based on their purchase of the storage gas from the producers. In April 2010, the Pratt County State District Court granted the defendants' motion for summary judgment, finding that the Company does not have title to storage gas that has migrated beyond adjoining property. The Company appealed the decision and in March 2013, the Kansas Supreme Court determined that the Company lost title to storage gas when it migrated and was produced beyond one mile of the storage field certificated boundaries. The case has been remanded for a determination of the Company's recovery of conversion damages from ONEOK and Lumen for storage gas produced after the June 2010 FERC order. In August 2014, the Pratt County State District Court granted the producers' motion for summary judgment, finding the

Company did not have a viable conversion claim related to the gas produced after June 2, 2010. The proceeds from June 2010 through February 2011 when the wells were shut-in will continue to be held in suspense pending appeal with the Kansas Supreme Court. The Company has valued these amounts at approximately \$4.7 million.

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

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

(7) Other Related Party Transactions

The Company provided gas transportation, storage and other services to MEC totaling \$32.4 million and \$31.6 million for the six-month periods ended June 30, 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 \$2.9 million and \$2.7 million for the six-month periods ended June 30, 2014 and 2013, respectively. MEC also provided electricity and other services to the Company of \$0.4 million and \$0.3 million for the six-month periods ended June 30, 2014 and 2013, respectively. The Company reimbursed MEC \$26.8 million and \$26.3 million for the six-month periods ended June 30, 2014 and 2013, respectively, for payroll, healthcare benefits and other benefit payments that MEC processed on behalf of the Company.

BHE provides certain administrative and management services, including executive, financial, legal and tax, to the Company. Expenses incurred by BHE and billed to the Company are based on the individual services and expense items provided and were \$2.3 million and \$1.8 million for the six-month periods ended June 30, 2014 and 2013, respectively. Income tax transactions with BHE resulted in net payments of \$103.6 million and \$33.6 million for the six-month periods ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and December 31, 2013, the Company had net accounts payable to BHE and certain subsidiaries for intercompany transactions totaling \$2.4 million and \$1.8 million, respectively.

The Company provides certain administrative and management services, including executive, financial, commercial, regulatory and legal, to Kern River Gas Transmission Company ("Kern River"), an indirect wholly owned subsidiary of BHE. The Company billed Kern River \$0.6 million for each of the six-month periods ended June 30, 2014 and 2013, for these services.

The Company provides risk management services to Kern River, pursuant to a service agreement dated August 1, 2008. The Company relinquishes all risks, liabilities, losses and profits associated with these risk management services. For the six-month period ended June 30, 2014, the Company did not enter into any specific risk management transactions that settled on behalf of Kern River, and for the six-month period ended June 30, 2013, the Company entered into insignificant specific risk management transactions that settled on behalf of Kern River.

The Company possesses demand promissory notes from BHE. The balance of the demand promissory notes as of June 30, 2014 and December 31, 2013 was \$150.0 million and \$230.0 million, respectively. The notes contain variable interest rates based on 30-day LIBOR plus a fixed spread per annum. Interest income of \$0.6 million and \$0.7 million was recorded for the six-month periods ended June 30, 2014 and 2013, respectively.

(8) Other, Net

In June 2013, the Company restructured a contract covering the period of July 2011 through March 2015 related to the ownership of condensate associated with previously owned assets. As a result, the Company recognized \$3.6 million and \$12.4 million of income for the six-month periods ended June 30, 2014 and 2013, respectively.