

Statement of Mark Hewett, President of Northern Natural Gas Company

Teleconference with Customers Responding to the Order Issued by the Federal Energy Regulatory Commission Issued in Docket RP10-148

(This statement is substantially similar to the comments delivered by Mark Hewett during the customer teleconference call conducted November 24, 2009.)

First of all, I appreciate your time and interest in attending today's teleconference.

The purpose of this call is to communicate Northern Natural Gas' initial thoughts regarding the events of the FERC meeting on November 19, and specifically of the order issued, which initiated an investigation into rates currently charged by Northern Natural Gas. I believe it is important for me to share our thoughts on this matter concurrently with all of our customers and interested parties in an open and transparent manner. Doing so will allow all parties, many of whom will have significant differences of opinion on key issues, to receive information in a fashion that does not give an advantage to one party over another.

Before I get into the substance of our discussion today, I'd like to share a few thoughts on how this call has been organized and how I see our discussion progressing this afternoon.

I have prepared comments that I will make shortly.

Following these comments, I will open the meeting up for any questions or comments that participants may desire to pose to me. Many of you know of my preference to address issues and opportunities in a direct and commercially reasonable manner. That is the approach Northern Natural Gas is going to take in today's meeting.

You are welcome to ask anything you would like, but please realize as a result of the Commissions' decision to begin litigation, answers to certain questions may not be appropriate to share at this point in time.

Finally, to the extent this meeting was not convenient for any members of your team, or in the event that participants who planned to attend were unable to timely join the call, please remind them that customers are always welcome to contact their Account Manager or any member of Northern Natural Gas' executive team, including myself, to discuss the substance of this call or, for that matter, any issue of interest to them.

Allow me now to transition into the substance of the topic at hand.

To say the least, Northern Natural Gas was completely surprised by the events of last Thursday. We had absolutely no indication of any work that was going on in isolation in Washington D.C. that led to the formation of conclusions about what may or may not be appropriate with respect to the sharing of risk and rewards between Northern Natural Gas and its customers.

I'd further note that we were added to the Thursday meeting agenda on Wednesday afternoon. Even then, we were not informed of the topic to be addressed by the Commission.

I viewed the FERC meeting on Thursday via a live internet connection and I can tell you, despite assurances to the Commissioners, and by the Commissioners themselves, that the process the FERC engaged in and relied upon was diligent, methodical, fair and extensive, Northern Natural Gas is thoroughly unimpressed. Our team has worked day and night since last Thursday to review the FERC's order in this docket and to begin to prepare our response. I will tell you today, and will commit to prove through this process, that the FERC's basis for this order is fundamentally flawed.

As flawed, superficial and incomplete as the FERC's analysis is, I am not here this afternoon to attempt to convince you that Northern Natural Gas did not have a financially successful year in 2008. The fact is that we did.

My focus today and going forward is to look at the entirety of our mutual business and to make judgments regarding the appropriateness of rates based on the risks and rewards each of us assumes and the level of service Northern Natural Gas provides to our customers. Today, our customers have the lowest transportation rates in the upper Midwest and Northern Natural Gas assumes significant risk in our current service structure. The FERC's analysis seems to imply that it is inappropriate for both our customers and Northern Natural Gas to do well, even in times of very favorable and short-term market conditions. If it is the FERC's position that Northern Natural Gas does not have the fundamental opportunity for financial upside during favorable commercial periods, then their stance is as flawed as their analysis in this docket.

I believe the FERC's inflammatory determinations, which were paraded in the press for political gain, were based on a snapshot of incomplete data and are entirely inappropriate.

For example, any participant in today's call who is the least bit familiar with our mutual business can recall the utilization of the field area of our system at this time last year and can compare that utilization level to volumes of field area capacity being used today, as shown on our company electronic bulletin board, which is available for all to see.

Also, anyone in attendance today can verify for themselves the value of storage capacity a year ago versus current and traded forward values.

A minimal level of diligence will reveal the Midwest marketplace has changed dramatically over the last year in each of these areas. The FERC's simplistic analysis makes no effort to acknowledge or value these changes. Further, the FERC made no attempt to contact Northern Natural Gas, and to my knowledge, any of its customers to better understand the relevant circumstances of our business or to cross-check their findings and conclusions.

Unlike the two other interstate pipelines that were included in the FERC's crosshairs, rates currently charged by Northern Natural Gas were effective November 1, 2006, and result from a 2005 rate case settlement. Natural Gas Pipeline Company of America and Great Lakes Gas Transmission have not been in a rate proceeding for 14 years and 18 years, respectively.

Furthermore, Northern Natural Gas is extremely proud to have the lowest transportation rates in the upper Midwest. I am also proud of the fact our team has managed our business through hundreds of millions of dollars of non-revenue generating capital expenditure programs, as well as through growth opportunities, contract turn-backs and extensive competitive issues while avoiding a 2007 rate case. Honest reflection will reveal to each of us that this is not an achievement anyone thought was possible when we settled our last rate case in 2005. Together, we have favorably exceeded our mutual expectations regarding rate levels and rate stability at Northern Natural Gas. This is an accomplishment with Midwest roots. Nothing was done in Washington to assist with this achievement.

The Commission appears to be sending the signal that had Northern Natural Gas not been aggressive in managing its cost structure, and retaining and restructuring its business, higher rates for our customers would have been acceptable. However, since we were aggressive and successful in these regards, our government regulator seems to conclude that a cherry-picking approach to rate review is in order. I fundamentally disagree with this line of thinking.

In its order, the Commission seems to indicate its desire, or at a minimum, its receptiveness to a settlement in this docket. Northern Natural Gas is willing and eager to work with the Commission staff and its customers to attempt to rebalance its rate and service framework to best fit the needs of the Midwest marketplace. The concept of trading lower customer flexibility and shifting risks taken by Northern Natural Gas to our customers in exchange for a lower revenue level is a fair discussion to have and I look

forward to personally engaging in the debate. However, to be clear at the onset, Northern Natural Gas has no interest in wasting our time or yours on the notion that existing services should be provided by Northern Natural Gas, and that existing risks should be retained by Northern Natural Gas, at rates below those implemented in late 2006.

The Commission has imposed a very tight schedule on Northern Natural Gas and our customers. To give you an idea, preparing a rate case would typically take six months. Obviously, we have a fraction of that time in this proceeding. Accordingly, the Northern Natural Gas team will be working very hard over the coming months to prepare our case. As always, we welcome our customers' input regarding this pending proceeding. To the extent you have ideas that you would like to share with Northern Natural Gas, I encourage you to contact your account manager, or either Gary Hoogeveen or Kent Miller who will be leading our efforts to reshape our business to meet the FERC's apparent direction of reducing opportunities for the pipeline, which also means shifting commercial risks away from the pipeline. As you all likely know, Mary Kay Miller and Greg Porter will be leading our litigation efforts and are the appropriate contacts for such issues. Additionally, Northern Natural Gas has retained the law firms of Skadden - Arps and Gallagher, Boland and Meiberger as outside co-counsel for this proceeding.

In my opinion, interested parties should not expect this exercise to be completed within 47 weeks, as the FERC suggests. It is clear to me that this process will play out over several years. For example, our affiliated pipeline, Kern River Gas Transmission, is closing in on the six-year mark related to their outstanding rate proceeding.

As we proceed over what is going to be a very long and difficult road, I would ask you all to remember that Northern Natural Gas did not ask for this exercise; in fact, we don't even think it is a wise course for us or for our customers. Equally, I realize that our customers did not ask for this process and I sincerely empathize with the unplanned disruption to your business and the unplanned expenses that will result because of the efforts required for this rate proceeding. Unfortunately, the FERC, in its "government

knows best” approach, has determined that Northern Natural Gas and its customers are not capable of determining what is best for our respective businesses.

I have had the opportunity to be involved in business on Northern Natural Gas’ system for a long time. For 13 years, I was a customer of Northern Natural Gas, both as a relatively small customer, when I was with Iowa Illinois Gas & Electric, and as a large customer, as an employee of MidAmerican Energy Company. I also have had the privilege of leading Northern Natural Gas for the last seven years and therefore have a degree of familiarity with Northern Natural Gas’ past, present and future commercial positions. In addition, I count many of Northern Natural Gas’ customers among my friends. I’ll tell you I am very much concerned that when the dust settles in this docket, after thousands of hours and millions of dollars are expended on this effort, the FERC’s sound-bite approach to regulation will result in an unfavorable outcome for our customers and for Northern Natural Gas. On behalf of the 900 Northern Natural Gas employees who have worked very hard to deliver balanced outcomes for all constituents, I believe this outcome will be a tragic result.

*(Question and Answer Period)*

Thank you for your time today. I appreciate your business and wish everyone on the call a happy Thanksgiving holiday.