Northern Natural Gas
A MIDAMERICAN ENERGY HOLDINGS COMPANY

SECTION 5 UPDATE

February 15, 2010

Northern Section 5 Filing

- Northern's cost and revenue study demonstrates a $63 million shortfall in revenue which equates to an 8% return on equity
- The shortfall would be larger if Northern had not controlled costs on an annual basis to avoid a rate case
- Costs were updated; no adjustments were made to cost factors such as capital structure, return or depreciation

Section 5 Cost and Revenue Studies

	Northern	NGPL Base Case	NGPL App. B	Great Lakes
	($millions)			
Cost of Service	$597	$928	$2,000	$263
Underrecovery	$63	$316*	$1,400*	$20
Cost-of-Service Factors				
Equity Ratio	53.73%	100%	100%	48.43%
Return	12%	13.47% (increased)	13.47% (increased)	13.225%
Transmission Depreciation Rates	1.5%	2.26% (increased from 1.8%)	2.26% (increased from1.8%)	2.59%
Onshore Negative Salvage	0%	3.37% (increased from 0%)	3.37% (increased from 0%)	1.35% (increased from 0%)
Acquisition Adjustment	-	-	+$1,100	-

*Exclusive of NGPL's fuel benefit

Potential Section 4

- Cost of Service Factor Increments
  - Depreciation Increase
    transmission (0.5%), storage (1%) $16 million
  - Negative Salvage (1%) $28 million
  - Return Increase (1%) $16 million
- Service Structure
- Rate Design

Cost Management

Northern has managed costs in an effort to avoid a rate case

– Staffing has been reduced from 1,086 employees in 2003 to 935 employees in the test period (14% reduction)

– Executed on two significant asset sales

  - Beaver – total rate base reduction of $20 million and O&M reduction of $8 million
  - Hugoton – total rate base reduction of $55 million and O&M reduction of $9 million. Loss on sale of $29 million

Cost Increases

Northern has been able to avoid a rate case despite incremental investments and cost increases

– Non-revenue generating capital expenditures in excess of depreciation expense from the last rate case through 2009 was over $200 million

– Underground storage expense for gas loss for the last two years was $16 million annually

– Asset retirement obligations have increased from $24 million to $108 million and are projected to be spent by 2015 (last rate case assumed 2022)

Northern has Managed Risks

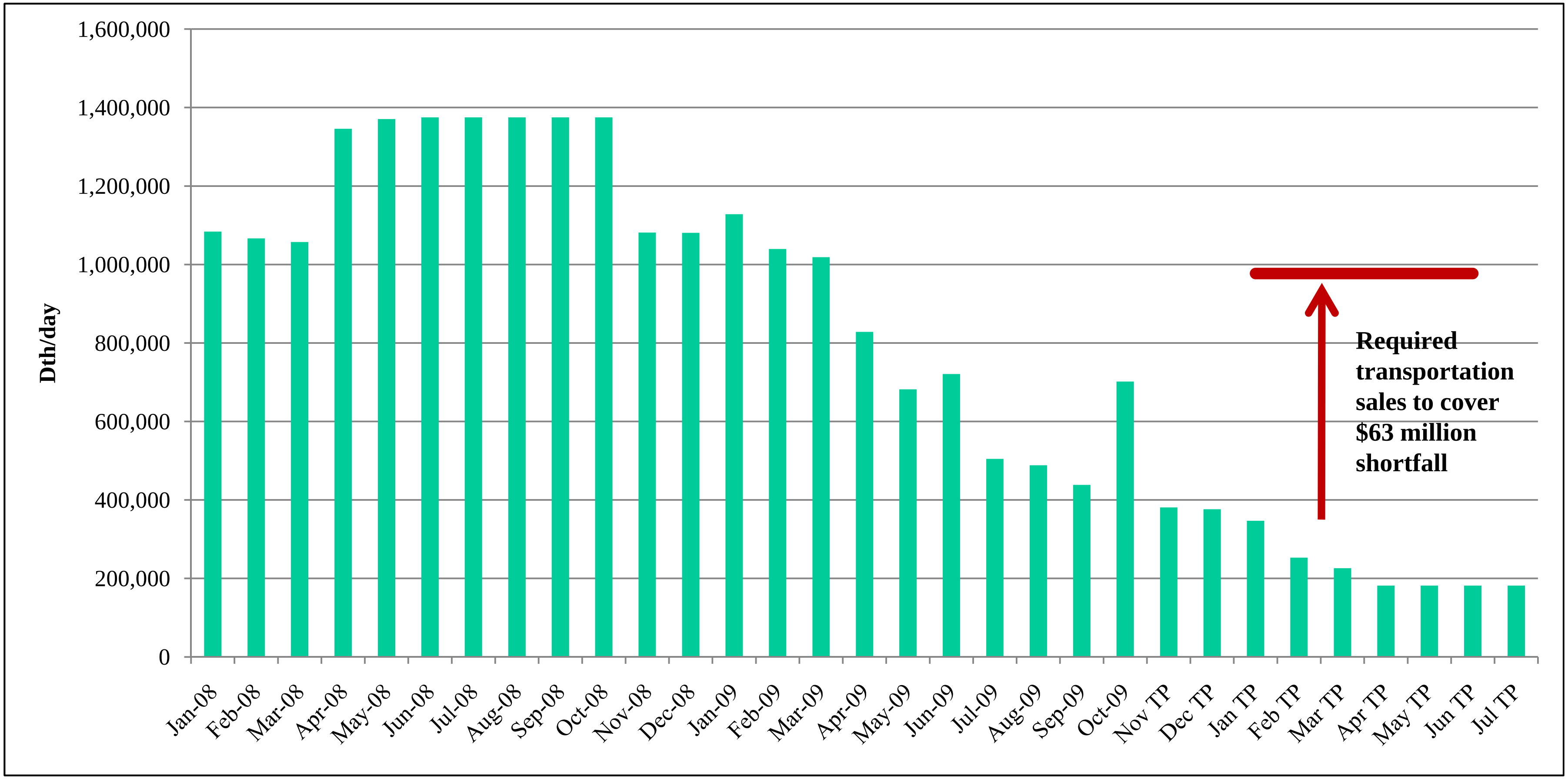
- Northern's last rate case included long-term Field Area to Demarc contracts. Currently, the Field Area is virtually unsold on a long-term basis
- Since the last rate case, Northern has absorbed all competitive discounts within existing rates
- Market growth has helped limit the current underrecovery
- Northern has managed operational storage price risk within existing rates

Market Changes

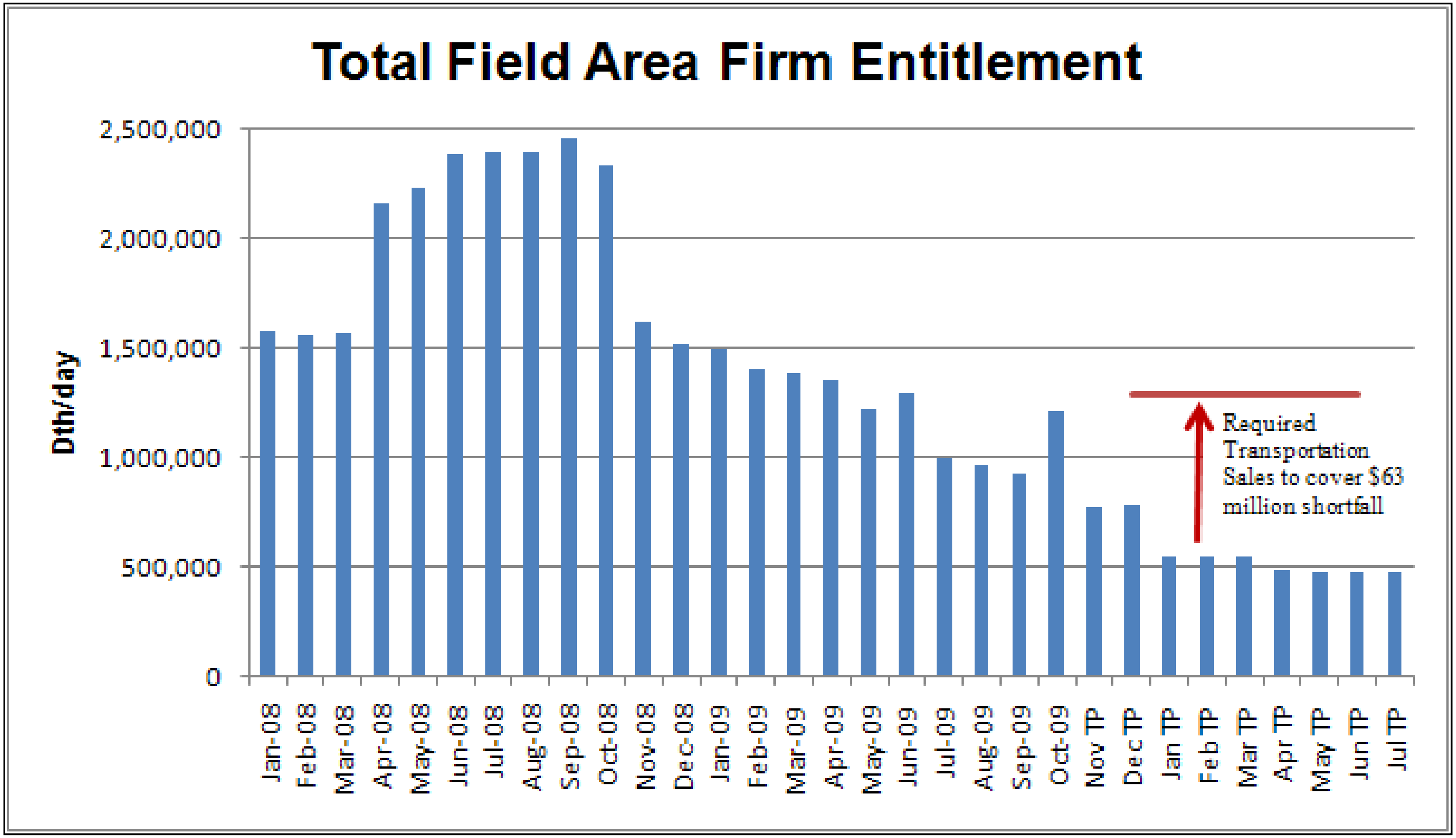
Market drivers and the lack of Field Area long-term contracts negatively impacted revenue causing Northern's $63 million underrecovery

	Base Period vs. 2008 ($million)	Test Period vs. Base Period ($million)
Field Area	$(53)	$(78)
REX/TBPL	$(4)	$(20)
Storage	$(6)	$(19)
Market Area Short Term	$(7)	$(6)
Market Area Long Term	$10	$9

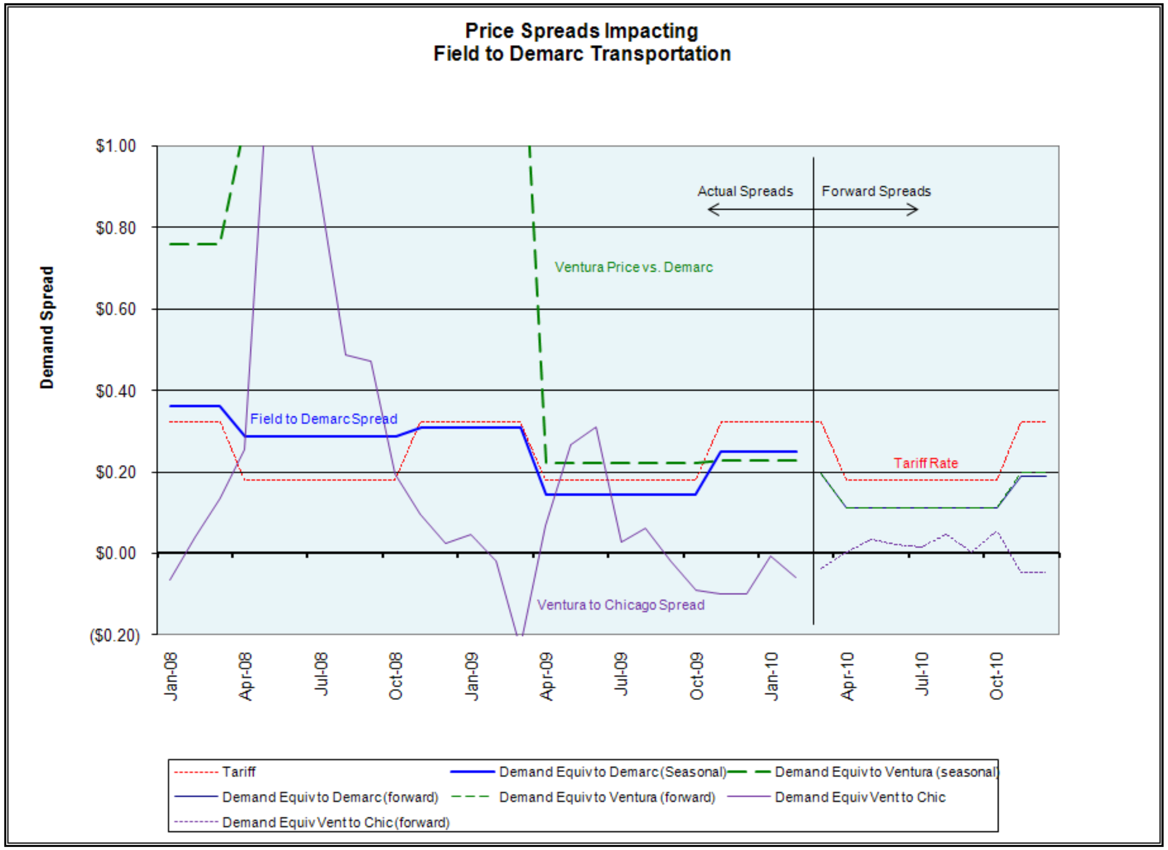
Field Area to Demarc Firm Entitlement



Total Field Area Business



Price Spreads



- In 2008, Field Area transportation sales were strong due to the wide Field-to-Demarc price spread coupled with the attractiveness of Demarc as a Market Area supply point
- Beginning in July 2009, the Midwest price spreads narrowed significantly. This resulted in increases in the receipt of NBPL supplies and decreased Field Area transportation

Conclusion

- No basis for a Section 5 proceeding
- Northern and its customers will be forced to prosecute a case which would increase rates and cause service changes
- Is this what customers want