



NV Energy, Inc. and Subsidiaries

**Consolidated Financial Statements
as of and for the
Quarterly Period Ended March 31, 2014**

and

**Management's Discussion and Analysis
of Financial Condition and Results of Operations**

NV ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Amounts in millions, except share amounts)

| | As of | |
|---|---------------------------|------------------------------|
| | March 31, 2014 | December 31, 2013 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 289 | \$ 287 |
| Accounts receivable, net | 349 | 383 |
| Inventories | 118 | 116 |
| Regulatory assets | 101 | 96 |
| Deferred income taxes | 160 | 189 |
| Other current assets | 67 | 52 |
| Total current assets | 1,084 | 1,123 |
| Property, plant and equipment, net | 9,550 | 9,544 |
| Regulatory assets | 1,443 | 1,471 |
| Other assets | 131 | 134 |
| | 12,208 | 12,272 |
| Total assets | \$ 12,208 | \$ 12,272 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 272 | \$ 314 |
| Accrued interest | 65 | 79 |
| Accrued property, income and other taxes | 37 | 50 |
| Accrued employee expenses | 27 | 24 |
| Regulatory liabilities | 115 | 111 |
| Current portion of long-term debt | 455 | 217 |
| Customer deposits and other | 97 | 92 |
| Total current liabilities | 1,068 | 887 |
| NV Energy long-term debt | 315 | 315 |
| Subsidiary long-term debt | 4,506 | 4,755 |
| Regulatory liabilities | 562 | 555 |
| Deferred income taxes | 1,690 | 1,706 |
| Other long-term liabilities | 411 | 421 |
| Total liabilities | 8,552 | 8,639 |
| Commitments and contingencies (Note 7) | | |
| Shareholder's equity: | | |
| Common stock - 1,000 shares authorized, \$.01 par value, 1 share issued and outstanding | — | — |
| Additional paid-in capital | 3,023 | 3,023 |
| Retained earnings | 641 | 619 |
| Accumulated other comprehensive loss, net | (8) | (9) |
| Total shareholder's equity | 3,656 | 3,633 |
| Total liabilities and shareholder's equity | \$ 12,208 | \$ 12,272 |

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

NV ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(Amounts in millions)

| | Three-Month Periods | |
|---|----------------------------|--------------|
| | Ended March 31, | |
| | 2014 | 2013 |
| Operating revenue: | | |
| Electric | \$ 594 | \$ 543 |
| Natural gas | 44 | 34 |
| Total operating revenue | <u>638</u> | <u>577</u> |
| Operating costs and expenses: | | |
| Cost of fuel, energy and capacity | 283 | 204 |
| Natural gas purchased for resale | 29 | 18 |
| Operating and maintenance expense | 119 | 149 |
| Depreciation and amortization | 92 | 90 |
| Property and other taxes | 17 | 17 |
| Total operating costs and expenses | <u>540</u> | <u>478</u> |
| Operating income | <u>98</u> | <u>99</u> |
| Other income (expense): | | |
| Interest expense, net of allowance for debt funds | (72) | (76) |
| Allowance for equity funds | 1 | 3 |
| Other, net | 8 | 7 |
| Total other income (expense) | <u>(63)</u> | <u>(66)</u> |
| Income before income tax expense | 35 | 33 |
| Income tax expense | 13 | 12 |
| Net income | <u>\$ 22</u> | <u>\$ 21</u> |

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

NV ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (Unaudited)
(Amounts in millions, except per share data)

| | Common Stock | | Treasury Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss, Net | Total Shareholder's Equity |
|---|--------------|---------------|----------------|---------------|----------------------------------|----------------------|--|----------------------------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2012 | 236 | \$ 236 | (1) | \$ (17) | \$ 2,713 | \$ 635 | \$ (10) | \$ 3,557 |
| Net income | — | — | — | — | — | 21 | — | 21 |
| Employee benefits | — | — | 1 | 12 | 1 | — | — | 13 |
| Repurchased common stock, \$1 par value | — | — | — | (4) | — | — | — | (4) |
| Dividends declared | — | — | — | — | — | (44) | — | (44) |
| Other | — | — | — | — | — | — | 1 | 1 |
| Balance at March 31, 2013 | <u>236</u> | <u>\$ 236</u> | <u>—</u> | <u>\$ (9)</u> | <u>\$ 2,714</u> | <u>\$ 612</u> | <u>\$ (9)</u> | <u>\$ 3,544</u> |
| Balance at December 31, 2013 | — | \$ — | — | \$ — | \$ 3,023 | \$ 619 | \$ (9) | \$ 3,633 |
| Net income | — | — | — | — | — | 22 | — | 22 |
| Other | — | — | — | — | — | — | 1 | 1 |
| Balance at March 31, 2014 | <u>—</u> | <u>\$ —</u> | <u>—</u> | <u>\$ —</u> | <u>\$ 3,023</u> | <u>\$ 641</u> | <u>\$ (8)</u> | <u>\$ 3,656</u> |

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

NV ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Amounts in millions)

| | Three-Month Periods | |
|--|----------------------------|---------------|
| | Ended March 31, | |
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$ 22 | \$ 21 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 92 | 90 |
| Deferred income taxes and amortization of investment tax credits | 13 | 12 |
| Allowance for equity funds | (1) | (3) |
| Amortization of deferred energy | 15 | (52) |
| Deferred energy | (24) | (26) |
| Amortization of other regulatory assets | 23 | 42 |
| Other, net | 10 | 8 |
| Changes in other operating assets and liabilities: | | |
| Accounts receivable and other assets | (1) | 51 |
| Inventories | (2) | 5 |
| Accounts payable and other liabilities | (32) | (59) |
| Net cash flows from operating activities | <u>115</u> | <u>89</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (114) | (98) |
| Contributions in aid of construction and customer advances | 12 | 13 |
| Net cash flows from investing activities | <u>(102)</u> | <u>(85)</u> |
| Cash flows from financing activities: | | |
| Repayments of subsidiary long-term debt | (11) | (4) |
| Issuance of common stock | — | 1 |
| Common stock repurchased | — | (4) |
| Dividends paid | — | (44) |
| Net cash flows from financing activities | <u>(11)</u> | <u>(51)</u> |
| Net change in cash and cash equivalents | 2 | (47) |
| Cash and cash equivalents at beginning of period | 287 | 298 |
| Cash and cash equivalents at end of period | <u>\$ 289</u> | <u>\$ 251</u> |

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

NV ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Organization and Operations

NV Energy, Inc. ("NV Energy") is a holding company that owns Nevada Power Company ("Nevada Power") and Sierra Pacific Power Company ("Sierra Pacific") (collectively, the "Nevada Utilities") and certain other subsidiaries (collectively, the "Company"). The Nevada Utilities are United States utility companies serving electric retail customers, including residential, commercial and industrial customers in Nevada. Sierra Pacific also serves retail natural gas to customers in northern Nevada. NV Energy is an indirect wholly owned subsidiary of Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy"), formerly known as MidAmerican Energy Holdings Company. Berkshire Hathaway Energy is a holding company based in Des Moines, Iowa that owns subsidiaries principally engaged in energy businesses. Berkshire Hathaway Energy is a consolidated subsidiary of Berkshire Hathaway Inc.

The unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the Consolidated Financial Statements as of March 31, 2014 and for the three-month periods ended March 31, 2014 and 2013. Certain amounts in the prior period Consolidated Statement of Operations have been reclassified to conform to the current period presentation. Such reclassifications did not impact previously reported net income. The results of operations for the three-month period ended March 31, 2014 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through May 12, 2014, which is the date the unaudited Consolidated Financial Statements were available to be issued.

The preparation of the unaudited Consolidated 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 Consolidated 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 Consolidated Financial Statements. Note 2 of Notes to Consolidated Financial Statements included in the Company's audited Consolidated Financial Statements for the year ended December 31, 2013 describes the most significant accounting policies used in the preparation of the unaudited Consolidated Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the three-month period ended March 31, 2014.

(2) Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following (in millions):

| | As of | |
|---|---------------------------|------------------------------|
| | March 31, 2014 | December 31, 2013 |
| Utility plant in-service: | | |
| Electric generation, distribution and transmission | \$ 12,388 | \$ 12,295 |
| Natural gas distribution | 371 | 370 |
| Other | 218 | 213 |
| Utility plant in-service | 12,977 | 12,878 |
| Accumulated depreciation and amortization | (3,602) | (3,519) |
| Utility plant in-service, net | 9,375 | 9,359 |
| Other non-regulated, net of accumulated depreciation and amortization | 4 | 3 |
| | 9,379 | 9,362 |
| Construction work-in-progress | 171 | 182 |
| Property, plant and equipment, net | <u>\$ 9,550</u> | <u>\$ 9,544</u> |

(3) Regulatory Matters

Energy Efficiency Implementation Rates

The Public Utilities Commission of Nevada's ("PUCN") final order approving the merger between Berkshire Hathaway Energy and NV Energy stipulated that the Nevada Utilities will not seek recovery of any lost revenue for calendar year 2014 in an amount that exceeds 50% of the lost revenue that the Nevada Utilities could otherwise request. As a result, the Nevada Utilities have deferred revenue recognition for energy efficiency implementation rates collected and have recorded a liability of \$5 million on the Consolidated Balance Sheets as of March 31, 2014. In February 2014, the Nevada Utilities filed an application with the PUCN to reset the energy efficiency implementation rate. The Nevada Utilities proposed to suspend collection of the energy efficiency implementation rate on October 1, 2014, and defer implementation of a new energy efficiency implementation rate until January 1, 2015.

2013 FERC Transmission Rate Case

In May 2013, the Nevada Utilities filed an application with the Federal Energy Regulatory Commission ("FERC") to establish single system transmission and ancillary service rates. The combined filing requested incremental rate relief of \$17 million annually to be effective January 1, 2014. On August 5, 2013, the FERC granted the Nevada Utilities' request for a rate effective date of January 1, 2014 subject to refund, and set the case for hearing or settlement discussions. On January 1, 2014, the Nevada Utilities implemented the filed rates in this case subject to refund as set forth in the FERC's order. As of March 31, 2014, the Nevada Utilities accrued \$4 million for amounts subject to rate refund, which is included in customer deposits and other on the Consolidated Balance Sheets. At this time management is unable to determine the final revenue impact of the case.

(4) Employee Benefit Plans

Net periodic benefit cost for the pension and other postretirement benefit plans included the following components (in millions):

| | Three-Month Periods | |
|--------------------------------|----------------------------|-------------|
| | Ended March 31, | |
| | 2014 | 2013 |
| Pension: | | |
| Service cost | \$ 4 | \$ 5 |
| Interest cost | 10 | 9 |
| Expected return on plan assets | (11) | (12) |
| Net amortization | 2 | 4 |
| Net periodic benefit cost | <u>\$ 5</u> | <u>\$ 6</u> |
| Other postretirement: | | |
| Service cost | \$ 1 | \$ 1 |
| Interest cost | 2 | 2 |
| Expected return on plan assets | (2) | (2) |
| Net amortization | (1) | — |
| Net periodic benefit cost | <u>\$ —</u> | <u>\$ 1</u> |

Employer contributions to the pension and other postretirement benefit plans are expected to be \$30 million and \$ - million, respectively, during 2014. As of March 31, 2014, no contributions have been made to the pension and other postretirement plans.

(5) Risk Management and Hedging Activities

The Company is exposed to the impact of market fluctuations in commodity prices and interest rates. The Company is principally exposed to electricity, natural gas, coal and other commodity price risk as it has an obligation to serve retail customer load in the Nevada Utilities' service territories. The Nevada Utilities' load and generating facilities represent substantial underlying commodity positions. Exposures to commodity prices consist mainly of variations in the price of fuel required to generate electricity, wholesale electricity that is purchased and sold, and natural gas supply for retail customers. Commodity prices are subject to wide price swings as supply and demand are impacted by, among many other unpredictable items, weather, market liquidity, generating facility availability, customer usage, storage, and transmission and transportation constraints. The actual cost of fuel and purchased power are recoverable through the deferred energy mechanism. Interest rate risk exists on variable-rate debt and future debt issuances. The Company does not engage in proprietary trading activities.

The Nevada Utilities have 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 commodity price risk, the Company uses commodity derivative contracts, which may include forwards, options, swaps and other agreements, to effectively secure future supply or sell future production, generally at fixed prices. 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 6 for additional information on derivative contracts.

The following table, which 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 Consolidated Balance Sheets (in millions):

| | Customer Deposits and Other | Other Long-term Liabilities | Total |
|--|--|--|----------------|
| <u>As of March 31, 2014</u> | | | |
| Commodity liabilities ⁽¹⁾⁽²⁾ | \$ (8) | \$ (27) | \$ (35) |
| Interest rate liabilities ⁽²⁾ | (1) | — | (1) |
| Total | <u>\$ (9)</u> | <u>\$ (27)</u> | <u>\$ (36)</u> |
| <u>As of December 31, 2013</u> | | | |
| Commodity liabilities ⁽¹⁾⁽²⁾ | \$ (9) | \$ (38) | \$ (47) |
| Interest rate liabilities ⁽²⁾ | (1) | — | (1) |
| Total | <u>\$ (10)</u> | <u>\$ (38)</u> | <u>\$ (48)</u> |

(1) The Company's commodity derivatives not designated as hedging contracts are included in regulated rates, and as of March 31, 2014 and December 31, 2013, a regulatory asset of \$35 million and \$47 million, respectively, was recorded related to the derivative liability of \$35 million and \$47 million, respectively.

(2) The Company's commodity derivatives are not designated as hedging contracts and the Company's interest rate derivative is designated as a cash flow hedge.

Derivative Contract Volumes

The following table summarizes the net notional amounts of outstanding derivative contracts with indexed and fixed price terms that comprise the mark-to-market values as of (in millions):

| | Unit of Measure | March 31, 2014 | December 31, 2013 |
|-----------------------|----------------------------|---------------------------|------------------------------|
| Electricity sales | Megawatt hours | (4) | (4) |
| Natural gas purchases | Decatherms | 182 | 163 |
| Interest rate swap | US\$ | 195 | 195 |

Credit Risk

The Company extends unsecured credit to other utilities, energy marketing companies, financial institutions and other market participants in conjunction with its wholesale energy supply and marketing activities. 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 electricity, natural gas or other commodities 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 significant wholesale 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 wholesale counterparties, the Company enters into netting and collateral arrangements that may include margining and cross-product netting agreements and obtains 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 wholesale derivative contracts contain credit support provisions that in part base certain collateral requirements on credit ratings for unsecured debt as reported by one or more of the three recognized credit rating agencies. These derivative contracts may either specifically provide rights to demand cash or other security in the event of a credit rating downgrade ("credit-risk-related contingent features") or provide the right for counterparties to demand "adequate assurance" in the event of a material adverse change in creditworthiness. These rights can vary by contract and by counterparty. As of March 31, 2014, the applicable 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 was \$5 million and \$1 million as of March 31, 2014 and December 31, 2013, respectively. If all credit-risk-related contingent features for derivative contracts in liability positions had been triggered as of March 31, 2014 and December 31, 2013, the Company would have been required to post \$5 million and \$1 million, respectively, of additional 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.

(6) Fair Value Measurements

The carrying value of the Company's cash, certain cash equivalents, receivables, investments held in Rabbi trusts, payables, accrued liabilities and short-term borrowings 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 Consolidated 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 Company's commodity derivative contracts are valued using a market approach that uses quoted forward commodity prices for similar assets and liabilities, which incorporates a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical expedient for valuing its assets and liabilities measured and reported at fair value. Interest rate swaps are valued using a financial model that utilizes observable inputs for similar instruments based primarily on market price curves, which the Company considers to be valued using Level 2 inputs. The determination of the fair value for derivative instruments not only includes counterparty risk, but also the impact of the Company's nonperformance risk on its liabilities, which as of March 31, 2014 and December 31, 2013, had an immaterial impact to the fair value of its derivative instruments. As such, the Company considers its commodity derivative contracts to be valued using Level 3 inputs.

The following table reconciles the beginning and ending balances of the Company's commodity liabilities measured at fair value on a recurring basis using significant Level 3 inputs for the three-month period ended March 31 (in millions):

| | <u>2014</u> |
|---|-----------------------|
| Beginning balance | \$ (47) |
| Changes in fair value recognized in regulatory assets | 12 |
| Ending balance | <u><u>\$ (35)</u></u> |

The Company's long-term debt is carried at cost on the Consolidated Financial Statements. The fair value of the Company's long-term debt is a Level 2 fair value measurement and has been estimated based upon quoted market prices, where available, or at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risks. The carrying value of the Company's variable-rate long-term debt approximates fair value because of the frequent repricing of these instruments at market rates. The following table presents the carrying value and estimated fair value of the Company's long-term debt (in millions):

| | <u>As of March 31, 2014</u> | | <u>As of December 31, 2013</u> | |
|----------------|-----------------------------|-------------------|--------------------------------|-------------------|
| | <u>Carrying Value</u> | <u>Fair Value</u> | <u>Carrying Value</u> | <u>Fair Value</u> |
| Long-term debt | <u>\$ 4,752</u> | <u>\$ 5,510</u> | <u>\$ 4,757</u> | <u>\$ 5,430</u> |

(7) Commitments and Contingencies

Environmental Laws and Regulations

The Company is subject to federal, state and local laws and regulations regarding air and water quality, renewable portfolio standards, emissions performance standards, climate change, coal combustion byproduct disposal, hazardous and solid waste disposal, protected species and other environmental matters that have the potential to impact the Company's current and future operations. The Company believes it is in material compliance with all applicable laws and regulations.

In June 2013, the Nevada State Legislature passed Senate Bill No. 123, which included, in significant part:

- Accelerating the plan to retire 800 MWs of coal plants, starting as soon as December 31, 2014;
- Replacement of such coal plants by issuing requests for proposals for the procurement of 300 MWs from renewable facilities;
- Construction or acquisition and ownership of 50 MWs of electric generating capacity from renewable facilities;
- Construction or acquisition and ownership of 550 MWs of additional electric generating capacity; and
- Assuring regulatory procedures that protect reliability and supply and address financial impacts on customer and utility.

In February 2014, the PUCN issued a final order approving draft regulations, subject to review by a Nevada Legislative commission and which must be filed with the Secretary of State, and the regulations became effective March 2014. In May 2014, Nevada Power filed its Emission Reduction and Capacity Replacement Plan proposing, among other items, the retirement of Reid Gardner Generating Station units 1, 2 and 3 in 2014 and unit 4 in 2017; the elimination of Nevada Power's ownership interest in Navajo Generating Station in 2019; and a plan to replace the generating capacity being retired, as required by Senate Bill No. 123. The Emissions Reduction and Capacity Replacement Plan includes the issuance of requests for proposals for 300 MW of renewable energy to be issued between 2014 and 2016; the acquisition of a 274-MW natural gas co-generating facility in 2014; the acquisition of a 222-MW natural gas peaking facility in 2014; the construction of a 15-MW solar photovoltaic facility expected to be placed in-service in 2015; and the construction of a 200-MW solar photovoltaic facility expected to be placed in-service in 2016. In the second quarter of 2014, Nevada Power executed various contractual agreements to fulfill the proposed Emissions Reduction and Capacity Replacement Plan, which are subject to PUCN approval.

Nevada Power - Reid Gardner Generating Station

In October 2011, Nevada Power received a request for information from the Environmental Protection Agency Region 9 under Section 114 of the Clean Air Act requesting current and historical operations and capital project information for Nevada Power's Reid Gardner Generating Station located near Moapa, Nevada. The Environmental Protection Agency's Section 114 information request does not allege any incidents of non-compliance at the plant, and there have been no other new enforcement-related proceedings that have been initiated by the Environmental Protection Agency relating to the plant. Nevada Power completed its responses to the Environmental Protection Agency during the first quarter of 2012 and will continue to monitor developments relating to this Section 114 request. At this time, the Company cannot predict the impact, if any, associated with this information request.

Sierra Pacific - Valmy Generating Station

In June 2009, Sierra Pacific received a request for information from the Environmental Protection Agency Region 9 under Section 114 of the Clean Air Act requesting current and historical operations and capital project information for the Sierra Pacific's Valmy Generating Station, a 522-megawatt generating facility located in Valmy, Nevada. Sierra Pacific co-owns and operates this coal-fueled generating facility. Idaho Power Company owns the remaining 50%. The Environmental Protection Agency's Section 114 information request does not allege any incidents of non-compliance at the plant, and there have been no other new enforcement-related proceedings that have been initiated by the Environmental Protection Agency relating to the plant. Sierra Pacific completed its response to the Environmental Protection Agency in December 2009 and will continue to monitor developments relating to this Section 114 request. At this time, the Company cannot predict the impact, if any, associated with this information request.

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 consolidated 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.

Nevada Power - November 2005 Land Investors

In 2006, November 2005 Land Investors, LLC ("NLI") purchased from the United States through the Bureau of Land Management 2,675 acres of land located in North Las Vegas, Nevada. A small portion of the land is traversed by a 500 kilovolt transmission line owned by Nevada Power and sited pursuant to a pre-existing right-of-way grant from the Bureau of Land Management. Subsequent to NLI's purchase, a dispute arose as to whether Nevada Power owed rent and, if it did, the amount owed to NLI under the right-of-way grant. NLI eventually "terminated" the right-of-way grant and brought claims against Nevada Power for breach of contract, inverse condemnation and trespass. Nevada Power counterclaimed for express condemnation of a perpetual easement over the right-of-way corridor. The matter proceeded to trial in the Eighth Judicial District Court, Clark County, Nevada ("Eighth District Court"). In September 2013, the Eighth District Court awarded NLI \$1 million for unpaid rent and \$5 million for inverse condemnation, plus interest and attorneys' fees, bringing the total judgment to \$12 million. The Eighth District Court also found Nevada Power was entitled to judgment in its favor on its counterclaim for condemnation of the right-of-way corridor. Nevada Power has appealed to the Nevada Supreme Court. The Company cannot assess or predict the outcome of the case at this time.

Nevada Power - Sierra Club and Moapa Band of Paiute Indians

In August 2013, the Sierra Club and Moapa Band of Paiute Indians filed a complaint in federal district court in Nevada against Nevada Power and the California Department of Water Resources, alleging that activities at the Reid Gardner Generating Station are causing imminent and substantial harm to the environment and that placement of coal combustion residuals at the on-site landfill constitute "open dumping" in violation of the Resource Conservation and Recovery Act. The complaint also alleges that the Reid Gardner Generating Station is engaged in the unlawful discharge of pollutants in violation of the Clean Water Act. The notice was issued pursuant to the citizen suit provisions of the Resource Conservation and Recovery Act and the Clean Water Act. The California Department of Water Resources was named as a co-defendant in the litigation due to its prior co-ownership in Reid Gardner Generating Station unit 4. The complaint seeks various injunctive remedies, assessment of civil penalties, and reimbursement of plaintiffs' attorney and legal fees and costs. Nevada Power answered the complaint and intends to vigorously defend the suit. Given the stage of the proceeding, the Company cannot predict the impact or estimate the range of loss.

Sierra Pacific - Newmont Nevada Energy Investments - TS Power Plant

Newmont Nevada Energy Investment, LLC ("Newmont") owns a 203 megawatt coal-fueled power plant facility located in Eureka County, NV (the "TS Power Plant") that is interconnected to Sierra Pacific's transmission system. As a result of system modifications required for a 500-kilovolt transmission line connecting the Nevada Utilities ("ON Line"), Newmont will need to install certain protection equipment at its TS Power Plant. Newmont brought suit against Sierra Pacific in the Second Judicial District of Nevada seeking declaratory relief and to enjoin the operation at full capacity of certain equipment to be installed by Sierra Pacific for the ON Line project, until such time as Newmont completes the design, fabrication and installation of protection equipment at its power plant to protect its generator from potential adverse effects caused by the operation of Sierra Pacific's equipment at full capacity. In addition, Newmont's complaint asserted a claim under the parties' interconnection agreement seeking to recover the cost of making the necessary modifications to the TS Power Plant.

A hearing on Newmont's motion for a preliminary injunction was held during the week of August 12, 2013, after which the trial court concluded that it would enter an order enjoining Sierra Pacific from operating its equipment at full capacity from January 1, 2014 until approximately April 8, 2014, and from approximately June 1, 2014 to June 30, 2014 (or the time Newmont has completed the installation of its protection equipment), so as to allow installation and testing of protection equipment at the TS Power Plant. The district court issued the order in December 2013. Newmont posted the required \$1 million bond and subsequently filed a complaint with the FERC to address the issue of who will pay for the protection equipment and its installation at the TS Power Plant. In April 2014, the FERC issued an order directing Sierra Pacific to pay the costs of studies relating to subsynchronous resonance conducted by Newmont and the installation of the protection equipment at the TS Power Plant, which are estimated to be \$1 million and \$11 million, respectively. The costs are a component of the ON Line construction costs and are shared between Nevada Power and Sierra Pacific at 95% and 5%, respectively.

Sierra Pacific - Caughlin Fire

On November 18, 2011, a fire was reported in the hills near Reno, Nevada (the "Caughlin Fire"). In January 2012, the Reno Fire Department issued a report in which they opined that "this fire was most likely the result of an electrical event in the area," and that "something such as a tree branch hitting the power-line" was a likely cause of the fire. Sierra Pacific is continuing its investigation in the matter.

To date, six subrogation lawsuits and two individual claimant lawsuits have been filed against Sierra Pacific in relation to the Caughlin Fire. The subrogation lawsuits have been brought by various insurance companies, and involve similar causes of action (negligence, inverse condemnation, trespass, nuisance, subrogation and strict liability). One of the individual claimant lawsuits identifies six plaintiffs, while the other individual claimant lawsuit purports to be brought on behalf of a class of similarly affected individuals within the fire perimeter who suffered damage or loss of use of their property as a result of the Caughlin Fire and the evacuation order associated with it.

All of the cases have been consolidated before a single judge in Washoe County, Nevada. The court has not yet entered a scheduling order in this case. At this time, the Company cannot assess or predict what the impact or outcome of this litigation may be, or what, if any, other litigation may be brought on this matter.

**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 consolidated financial condition and results of operations of NV Energy, Inc. ("NV Energy"), a holding company that owns Nevada Power Company ("Nevada Power") and Sierra Pacific Power Company ("Sierra Pacific") (collectively, the "Nevada Utilities") and certain other subsidiaries (collectively, the "Company") during the periods included herein. Explanations include management's best estimate of the impact of weather, customer growth and other factors. This discussion should be read in conjunction with the Company's historical unaudited Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this Quarterly 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 review of factors should not be construed as exclusive.

Results of Operations for the First Quarter of 2014 and 2013

Net income for 2014 was \$22 million, an increase of \$1 million, or 5%, as compared to 2013.

Operating revenue, cost of fuel, energy and capacity and natural gas purchased for resale are key drivers of the Company's results of operations as they encompass retail and wholesale electricity and natural gas revenue and the direct costs associated with providing electricity and natural gas to customers. The Company believes that a discussion of gross margin, representing operating revenue less cost of fuel, energy and capacity and natural gas purchased for resale, is therefore meaningful. A comparison of the Company's key operating results is as follows (in millions):

| | First Quarter | | | |
|-----------------------------------|----------------------|---------------|----------------|-----|
| | 2014 | 2013 | Change | |
| Operating revenue | \$ 638 | \$ 577 | \$ 61 | 11% |
| Cost of fuel, energy and capacity | 283 | 204 | 79 | 39 |
| Natural gas purchased for resale | 29 | 18 | 11 | 61 |
| Gross margin | <u>\$ 326</u> | <u>\$ 355</u> | <u>\$ (29)</u> | (8) |

Gross margin decreased \$29 million, or 8%, for 2014 compared to 2013 primarily due to:

- a decrease in net residential usage of \$14 million, primarily due to a decrease in heating degree days during the winter;
- a decrease in revenues of \$10 million as a result of Sierra Pacific's 2013 general rate case effective January 1, 2014;
- a decrease in energy efficiency program rate revenues of \$6 million, which are offset in operating and maintenance expense; and
- a decrease of \$4 million in energy efficiency implementation rate revenues.

The decrease in gross margin was partially offset by:

- an increase in transmission rate revenues of \$3 million; and
- an increase in customer growth of \$2 million.

Operating and maintenance expense decreased \$30 million, or 20%, for 2014 compared to 2013 primarily due to:

- stock compensation costs in 2013 of \$7 million;
- decreased outages and planned maintenance costs at the Higgins, Lenzie and Ft. Churchill natural gas-fueled generating stations and other general maintenance totaling \$7 million;
- a decrease in energy efficiency program costs of \$6 million, which are fully recovered in operating revenue;
- an increase in regulatory credits related to NV Energize and retirement of meters of \$3 million;
- a decrease in costs associated with outside consulting services of \$3 million;
- a decrease in demand side management program amortizations of \$2 million; and
- a decrease in advertising, lobbying and other miscellaneous deductions of \$2 million.

Depreciation and amortization increased \$2 million, or 2%, for 2014 compared to 2013 primarily due to higher plant-in-service.

Interest expense decreased \$4 million, or 5%, for 2014 compared to 2013 primarily due to the redemption of Nevada Power's \$125 million Series U 7.375% General and Refunding Mortgage Notes in December 2013 and the redemption of Sierra Pacific's \$250 million 5.45% Series Q General and Refunding Securities in September 2013, partially offset by the issuance of Sierra Pacific's \$250 million 3.375% Series T General and Refunding Securities in August 2013.

Allowance for equity funds decreased \$2 million, or 67%, primarily due to a decrease in construction activity, including ON Line being placed in service in December 2013.

Income tax expense increased \$1 million, or 8%, for 2014 compared to 2013 primarily due to higher income before income tax expense.