



NV Energy, Inc. and Subsidiaries

**Consolidated Financial Statements
as of and for the
Quarterly Periods Ended June 30, 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	
	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 350	\$ 287
Accounts receivable, net	485	383
Inventories	119	116
Regulatory assets	108	96
Deferred income taxes	151	189
Other current assets	58	52
Total current assets	1,271	1,123
Property, plant and equipment, net	9,548	9,544
Regulatory assets	1,431	1,471
Other assets	125	134
	\$ 12,375	\$ 12,272
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 290	\$ 314
Accrued interest	78	79
Accrued property, income and other taxes	38	50
Accrued employee expenses	36	24
Regulatory liabilities	116	111
Current portion of long-term debt	455	217
Customer deposits and other	106	92
Total current liabilities	1,119	887
NV Energy long-term debt	315	315
Subsidiary long-term debt	4,516	4,755
Regulatory liabilities	571	555
Deferred income taxes	1,721	1,706
Other long-term liabilities	404	421
Total liabilities	8,646	8,639
Commitments and contingencies (Note 9)		
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	714	619
Accumulated other comprehensive loss, net	(8)	(9)
Total shareholder's equity	3,729	3,633
Total liabilities and shareholder's equity	\$ 12,375	\$ 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		Six-Month Periods	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
Operating revenue:				
Electric	\$ 774	\$ 709	\$ 1,368	\$ 1,251
Natural gas	21	15	65	49
Total operating revenue	<u>795</u>	<u>724</u>	<u>1,433</u>	<u>1,300</u>
Operating costs and expenses:				
Cost of fuel, energy and capacity	370	279	653	483
Natural gas purchased for resale	12	6	41	24
Operating and maintenance expense	124	155	243	302
Depreciation and amortization	95	91	187	182
Property and other taxes	17	16	34	32
Merger-related expenses	—	14	—	14
Total operating costs and expenses	<u>618</u>	<u>561</u>	<u>1,158</u>	<u>1,037</u>
Operating income	<u>177</u>	<u>163</u>	<u>275</u>	<u>263</u>
Other income (expense):				
Interest expense, net of allowance for debt funds	(73)	(75)	(145)	(151)
Allowance for equity funds	1	2	2	5
Other, net	9	8	17	15
Total other income (expense)	<u>(63)</u>	<u>(65)</u>	<u>(126)</u>	<u>(131)</u>
Income before income tax expense	114	98	149	132
Income tax expense	41	35	54	47
Net income	<u>\$ 73</u>	<u>\$ 63</u>	<u>\$ 95</u>	<u>\$ 85</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	—	—	—	—	—	85	—	85
Employee benefits	—	—	1	14	2	—	—	16
Repurchased common stock, \$1 par value	—	—	—	(6)	—	—	—	(6)
Dividends declared	—	—	—	—	—	(89)	—	(89)
Other	—	—	—	—	—	—	1	1
Balance at June 30, 2013	<u>236</u>	<u>\$ 236</u>	<u>—</u>	<u>\$ (9)</u>	<u>\$ 2,715</u>	<u>\$ 631</u>	<u>\$ (9)</u>	<u>\$ 3,564</u>
Balance at December 31, 2013	—	\$ —	—	\$ —	\$ 3,023	\$ 619	\$ (9)	\$ 3,633
Net income	—	—	—	—	—	95	—	95
Other	—	—	—	—	—	—	1	1
Balance at June 30, 2014	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 3,023</u>	<u>\$ 714</u>	<u>\$ (8)</u>	<u>\$ 3,729</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)

	Six-Month Periods	
	Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 95	\$ 85
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	187	182
Allowance for equity funds	(2)	(5)
Deferred income taxes and amortization of investment tax credits	54	47
Amortization of other regulatory assets	96	(1)
Other, net	6	22
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	(190)	(145)
Inventories	(3)	8
Accounts payable and other liabilities	15	29
Net cash flows from operating activities	<u>258</u>	<u>222</u>
Cash flows from investing activities:		
Capital expenditures	(185)	(164)
Net cash flows from investing activities	<u>(185)</u>	<u>(164)</u>
Cash flows from financing activities:		
Repayments of subsidiary long-term debt	(9)	(2)
Issuance of common stock	—	2
Common stock repurchased	—	(6)
Dividends paid	—	(89)
Other	(1)	—
Net cash flows from financing activities	<u>(10)</u>	<u>(95)</u>
Net change in cash and cash equivalents	63	(37)
Cash and cash equivalents at beginning of period	287	298
Cash and cash equivalents at end of period	<u>\$ 350</u>	<u>\$ 261</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 customers in northern Nevada. NV Energy is an indirect wholly owned subsidiary of Berkshire Hathaway Energy Company ("BHE"). BHE is a holding company based in Des Moines, Iowa that owns subsidiaries principally engaged in energy businesses. BHE 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 unaudited Consolidated Financial Statements as of June 30, 2014 and for the three- and six-month periods ended June 30, 2014 and 2013. Certain amounts in the prior periods' Consolidated Statements of Operations have been reclassified to conform to the current periods' presentation. Such reclassifications did not impact previously reported net income. The results of operations for the three- and six-month periods 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 13, 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 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 Consolidated Financial Statements and disclosures included within Notes to Consolidated 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 Consolidated Financial Statements.

(3) Property, Plant and Equipment, Net

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

	As of	
	June 30, 2014	December 31, 2013
Utility plant in-service:		
Electric generation, distribution and transmission	\$ 12,472	\$ 12,295
Natural gas distribution	373	370
Other	232	213
Utility plant in-service	13,077	12,878
Accumulated depreciation and amortization	(3,653)	(3,519)
Utility plant in-service, net	9,424	9,359
Other non-regulated, net of accumulated depreciation and amortization	4	3
	9,428	9,362
Construction work-in-progress	120	182
Property, plant and equipment, net	\$ 9,548	\$ 9,544

(4) Regulatory Matters

Energy Efficiency Implementation Rates

The Public Utilities Commission of Nevada's ("PUCN") final order approving the merger between BHE 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. In February 2014, the Nevada Utilities filed an application with the PUCN to reset the energy efficiency implementation rate. In June 2014, the PUCN accepted a stipulation to adjust the energy efficiency implementation rate, as of July 1, 2014, to collect 50% of the estimated lost revenue that the Nevada Utilities would otherwise be allowed to recover for the 2014 calendar year. The energy efficiency implementation rate will be effective from July through December 2014 and will reset on January 1, 2015 and remain in effect through September 2015. To the extent the Nevada Utilities' earned rate of return exceeds the rate of return used to set base general rates, the Nevada Utilities are required to refund to customers energy efficiency implementation rate revenue collected. As a result, the Nevada Utilities have deferred recognition of energy efficiency implementation rate revenue collected and have recorded a liability of \$10 million on the Consolidated Balance Sheets as of June 30, 2014.

General Rate Case

In May 2014, Nevada Power filed a general rate case with the PUCN. In July 2014, Nevada Power made its certification filing, which requests incremental annual revenue relief in the amount of \$38 million, or an average price increase of 2%. An order is expected by the end of 2014 and, if approved, the new rates would be effective 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 June 30, 2014, the Nevada Utilities accrued \$8 million for amounts subject to rate refund, which is included in customer deposits and other on the Consolidated Balance Sheets. At this time the Company is unable to determine the final revenue impact of the case.

(5) Recent Financing Transactions

Long-Term Debt

In July 2014, NV Energy redeemed its \$195 million variable-rate term loan and unwound the associated interest rate swap that was originally due October 2014 with \$90 million of available cash on hand plus a \$105 million equity contribution from BHE.

Credit Facilities

In June 2014, Nevada Power amended its \$500 million secured credit facility expiring in March 2017, reducing the amount available to \$400 million and extending the maturity date to March 2018. The amended facility has a variable interest rate based on the London Interbank Offered Rate ("LIBOR") or a base rate, at Nevada Power's option, plus a spread that varies based on Nevada Power's secured debt credit rating. The amended facility requires that Nevada Power's ratio of consolidated debt, including current maturities, to total capitalization not exceed 0.68 to 1.0 as of the last day of each quarter.

In June 2014, Sierra Pacific amended its \$250 million secured credit facility expiring in March 2017, extending the maturity date to March 2018. The amended facility has a variable interest rate based on LIBOR or a base rate, at Sierra Pacific's option, plus a spread that varies based on Sierra Pacific's secured debt credit rating. The amended facility requires that Sierra Pacific's ratio of consolidated debt, including current maturities, to total capitalization not exceed 0.68 to 1.0 as of the last day of each quarter.

(6) Employee Benefit Plans

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

	Three-Month Periods		Six-Month Periods	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
Pension:				
Service cost	\$ 4	\$ 5	\$ 8	\$ 10
Interest cost	10	9	20	19
Expected return on plan assets	(10)	(13)	(21)	(25)
Net amortization	2	4	4	8
Net periodic benefit cost	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 11</u>	<u>\$ 12</u>
Other postretirement:				
Service cost	\$ —	\$ 1	\$ 1	\$ 1
Interest cost	2	2	4	3
Expected return on plan assets	(1)	(2)	(3)	(3)
Net amortization	—	—	(1)	—
Net periodic benefit cost	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 1</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 June 30, 2014, no contributions have been made to the pension and other postretirement plans.

(7) 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 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 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 8 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 June 30, 2014</u>			
Commodity liabilities ⁽¹⁾	\$ (9)	\$ (24)	\$ (33)
Total	<u>\$ (9)</u>	<u>\$ (24)</u>	<u>\$ (33)</u>
<u>As of December 31, 2013</u>			
Commodity liabilities ⁽¹⁾	\$ (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 June 30, 2014 and December 31, 2013, a regulatory asset of \$33 million and \$47 million, respectively, was recorded related to the derivative liability of \$33 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	June 30, 2014	December 31, 2013
Electricity sales	Megawatt hours	(4)	(4)
Natural gas purchases	Decatherms	151	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 June 30, 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 \$4 million and \$1 million, which represent the amounts of collateral to be posted if all credit-risk-related contingent features for derivative contracts in liability positions had been triggered. 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.

(8) 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 believes 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 June 30, 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 (in millions):

	Three-Month Period	Six-Month Period
	Ended June 30, 2014	Ended June 30, 2014
Beginning balance	\$ (35)	\$ (47)
Changes in fair value recognized in regulatory assets	—	12
Purchases	—	(1)
Settlements	2	3
Ending balance	\$ (33)	\$ (33)

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):

	As of June 30, 2014		As of December 31, 2013	
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
Long-term debt	\$ 4,802	\$ 5,558	\$ 4,757	\$ 5,430

(9) 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 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. The PUCN has scheduled a hearing on the application beginning in September 2014 and an order is expected in the fourth quarter of 2014.

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 owns 50% and operates this coal-fueled generating facility while Idaho Power Company owns the other 50% interest. 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 posted the required bond of \$6 million and has subsequently 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 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, Nevada (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. The Company has estimated the costs to be \$11 million and recorded the related accruals as of June 30, 2014. 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. The protection equipment has been installed at the TS Power Plant and the Sierra Pacific facilities are now operating at full capacity. Accordingly, the \$1 million bond posted by Newmont has been released. Newmont is also seeking recovery of legal fees associated with litigating this matter. At this time, the Company does not have sufficient information to assess the impact of the legal fees Newmont is seeking.

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. In July 2014, the Company reached a settlement with the Plaintiffs in the six subrogation lawsuits identified above, which did not have a material impact to the Company. At this time, the Company cannot assess or predict what the impact or outcome of the two individual claimant lawsuits 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 Second Quarter and First Six Months of 2014 and 2013

Net income for the second quarter of 2014 was \$73 million, an increase of \$10 million, or 16%, and for the first six months of 2014 was \$95 million, an increase of \$10 million, or 12%, 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):

	Second Quarter				First Six Months			
	2014	2013	Change		2014	2013	Change	
Operating revenue:								
Electric	\$ 774	\$ 709	\$ 65	9%	\$ 1,368	\$ 1,251	\$ 117	9%
Natural gas	21	15	6	40	65	49	16	33
Total operating revenue	795	724	71	10	1,433	1,300	133	10
Cost of fuel, energy and capacity	370	279	91	33	653	483	170	35
Natural gas purchased for resale	12	6	6	100	41	24	17	71
Gross margin	<u>\$ 413</u>	<u>\$ 439</u>	<u>\$ (26)</u>	(6)	<u>\$ 739</u>	<u>\$ 793</u>	<u>\$ (54)</u>	(7)

Gross margin decreased \$26 million, or 6%, for the second quarter of 2014 compared to 2013 due to:

- \$11 million in lower revenue as a result of Sierra Pacific's 2013 general rate case effective January 1, 2014;
- \$9 million in lower usage primarily due to weather;
- \$8 million in lower energy efficiency program rate revenue, which is offset in operating and maintenance expense;
- \$4 million in lower volume driven demand charges to Nevada Power industrial customers due to lower cooling degree days; and
- \$4 million in lower energy efficiency implementation rate revenue.

The decrease in gross margin was partially offset by:

- \$4 million in higher transmission rate revenue;
- \$3 million due to customer growth; and
- \$2 million in higher wholesale revenue due to higher natural gas prices.

Gross margin decreased \$54 million, or 7%, for the first six-months of 2014 compared to 2013 due to:

- \$24 million in lower usage primarily due to weather;
- \$21 million in lower revenue as a result of Sierra Pacific's 2013 general rate case effective January 1, 2014;
- \$14 million in lower energy efficiency program rate revenue, which is offset in operating and maintenance expense;
- \$9 million in lower energy efficiency implementation rate revenue; and
- \$3 million in lower volume driven demand charges to Nevada Power industrial customers due to lower cooling degree days.

The decrease in gross margin was partially offset by:

- \$7 million in higher transmission rate revenue;
- \$6 million due to customer growth; and
- \$3 million in higher wholesale revenue due to higher natural gas prices.

Operating and maintenance expense decreased \$31 million, or 20%, for the second quarter of 2014 compared to 2013 due to:

- \$8 million in lower energy efficiency program costs, which are fully recovered in operating revenue;
- \$7 million in lower regulatory expense and amortization;
- \$6 million in lower compensation and employee benefit costs;
- \$5 million in decreased major outages and planned maintenance expense at the Higgins, Silverhawk, Harry Allen and Tracy Generating Stations;
- \$3 million in lower demand side management program amortization;
- \$3 million in lower investor relation, bad debt and insurance costs; and
- \$3 million in lower sales taxes related to a long-term service agreement settlement.

The decrease in operating and maintenance expense was partially offset by:

- \$3 million in higher costs related to relinquishing an insurance claim for a previously sold asset; and
- \$2 million in higher operating costs for Reid Gardner Unit 4 that was previously shared with the former partner.

Operating and maintenance expense decreased \$59 million, or 20%, for the first six months of 2014 compared to 2013 due to:

- \$15 million in lower compensation, employee benefits, stock compensation and office costs;
- \$14 million in lower energy efficiency program costs, which are fully recovered in operating revenue;
- \$12 million in decreased major outages and planned maintenance expense at the Higgins, Lenzie, Silverhawk, Harry Allen, Tracy and Fort Churchill Generating Stations;
- \$7 million in higher regulatory credits related to NV Energize and retirement of meters;
- \$5 million in lower demand side management program amortization;
- \$5 million in lower investor relation, bad debt and insurance costs;
- \$4 million in lower costs associated with outside consulting services;
- \$4 million in lower regulatory expense and amortization; and
- \$3 million in lower sales taxes related to a long-term service agreement settlement.

The decrease in operating and maintenance expense was partially offset by:

- \$5 million in higher operating costs for Reid Gardner Unit 4 previously shared with the former partner;
- \$3 million in higher costs related to relinquishing an insurance claim for a previously sold asset; and
- \$2 million in ON Line lease payments.

Depreciation and amortization increased \$4 million, or 4%, for the second quarter and \$5 million, or 3%, for the first six months of 2014 compared to 2013 primarily due to higher plant-in-service, including ON Line being placed in-service in December 2013.

Merger-related expenses decreased \$14 million for both the second quarter and for the first six months of 2014 compared to 2013 due to costs incurred related to the merger of BHE and NV Energy in 2013.

Interest expense, net of allowance for debt funds decreased \$2 million, or 3%, for the second quarter and \$6 million, or 4%, for the first six months of 2014 compared to 2013 as a result of Nevada Power using cash on hand to repay existing debt in July and December 2013, Sierra Pacific using the proceeds from issuing lower cost debt in August 2013 to repay higher cost debt and lower amortization of debt expense, partially offset by lower debt AFUDC due to lower construction activity and higher interest expense on regulatory items.

Allowance for equity funds decreased \$1 million, or 50%, for the second quarter and \$3 million, or 60%, for the first six months of 2014 compared to 2013 due to assets placed in-service, including ON Line being placed in-service in December 2013.

Income tax expense increased \$6 million, or 17%, for the second quarter and \$7 million, or 15%, for the first six months of 2014 compared to 2013 and the effective tax rates were 36% for the second quarter and first six months of 2014 and 2013. The increase in income tax expense is primarily due to higher income before income tax expense.